

ADI F2Q Earnings Disappoint

ADI		Analog Devices	
Qtr:	F2Q	Grade:	<i>E</i>
Rev:	659.3	Rev:	-
GM:	64.0%	EPS:	o
EPS:	\$0.52	Fcst:	---
		Growth(qtr-qtr)	
		Rev:	+6.0%
		Fcst:	-1+4%
		Div:	\$0.34

ADI April-ended F2Q EPS met expectations, but revenue was light and revenue guidance was below the low-end of the range of expectations. The good news is that ADI remains highly profitable, revenue is growing, and it raised its free-cash-flow investor pay-out ratio to 80% from 60%. But the bad news is that it largely missed expectations, is trading over 20-times earnings and 5-times sales, and is one of the few stocks in the Tokeneke Universe that is trading above its average trailing 12-month price-sales ratio since 1990 of (a relatively robust) 4.3-times. I currently rate ADI as Hold/Not Compelling, but frankly it is running at the rich end of that category.

Revenue grew by +6.0% sequentially on strength from industrial and automotive markets, as well as converter, DSP and power management products. Orders increased across all geographies ‘but customers remain cautious given the uncertain macroeconomic environment.’ Utilization increased to 60% from the mid-50% range, and is expected to improve into the low-60% range this quarter. Growth this quarter is expected from industrial markets while the other three are expected to remain flat. ADI has returned approximately 60% of free cash flow to investors over the last 3-years in a combination of dividends and share repurchases and will raise it to 80% over the next 5-years.

Industrial markets accounted for 47% of sales and grew by +11% sequentially on strength from instrumentation and industrial automation primarily via distribution; automotive at 19% up by +14% on strength from North America and China primarily in high-end models; consumer at 15% down by -6% on seasonal weakness from portable applications, although digital imaging and prosumer audio/visual increased; and communications at 19% down by -2% pending expected technological transitions in wireless markets to 4G from 3G, and in networking to 40/100-gigabit transfer speeds. Converter products accounted for 46% of revenue that grew by +9%; amplifiers/RF at 25% up by +4%; other analog at 14% down by -4%; power management at 7% up by +11%; and DSP at 9% up by +11%.

—Dan K. Scovel
Semiconductor Analyst

LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

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