

**Analog Devices, Inc. Equity Research Report**

**Executive Summary**

Investment Thesis: My valuation calculations have given us multiple different ratings on Analog Devices Inc. (ADI). My Multiple valuation recommends that the stock is overweight and should be bought and my DDM strongly recommends to sell. I valued ADI’s cash flow in three separate scenarios, a bull, moderate, and bear scenario. My bull assumptions left us with an overweight intrinsic value of $297.87, suggesting a buy. My moderate and bear assumptions left us with underweight intrinsic values of $202.05 and $170.81 respectively, suggesting I sell the stock. My overall recommendation is that the stock is underweight and I suggest to sell on the stock. Even though some of my valuation methods suggest a buy, I trust that my cash flow models are the most accurate. In order for intrinsic value to exceed the stock price, sales needs to be predicted very aggressively, too aggressive for a buy rating, in my opinions.

**Key Investment Points**

Analog Devices Inc. (ADI) is a leader in the design and manufacturing of high-performance analog, mixed-signal, and digital signal processing (DSP) integrated circuits used in virtually all types of electronic equipment. ADI's solutions are integral to diverse industries, including automotive, communications, industrial, and healthcare, solidifying its role as a cornerstone in global technological advancement. They offer more than just products, positioning themselves as a strategic partner for innovation. By enabling advanced technologies like autonomous driving, 5G, and smart manufacturing, ADI expands its addressable markets and strengthens its customer relationships through highly customized solutions.

* Broad market exposure ensures diversified revenue streams, reducing reliance on any single sector.
* Significant investment in R&D fosters cutting-edge innovation, maintaining a competitive edge in high-growth markets.
* Positioned to benefit from macro trends, such as the electrification of vehicles and the proliferation of IoT (Internet of Things) devices.

**Risks to Key Investment Points**

* **Intense Competition**: The semiconductor industry is highly competitive, with key players like Texas Instruments and NXP Semiconductors vying for market share. ADI must continuously innovate to maintain its leadership position.
* **Supply Chain Challenges**: As a semiconductor manufacturer, ADI is exposed to risks related to supply chain disruptions, including shortages of raw materials or political tensions impacting chip production.
* **Economic Cyclicality:** The semiconductor market is cyclical and sensitive to economic downturns. Reduced capital expenditure by customers during a recession could adversely affect ADI's revenues.

**Company Overview**

Analog Devices Inc. (ADI) is a global leader known for creating, producing, and marketing advanced analog, mixed-signal, and digital signal processing (DSP) chips that power a wide variety of electronic devices. ADI’s strong focus on R&D is one of its biggest assets. By investing heavily in in-house research, ADI has been able to innovate and stay ahead of the competition. ADI is known for its innovation in analog and mixed-signal technologies, which form the backbone of its high-performance, precision products used in various industries like automotive, healthcare, aerospace, and industrial automation. (Analog Reports) With products ranging from sensors, amplifiers, data converters, to power management systems, ADI serves multiple high-growth markets, reducing its dependence on a single sector and increasing revenue stability. (Analog) Their approach to R&D allows them to release new products faster than competitors and consistently deliver advanced solutions. In FY2023, they invested $1.66 billion, or 13% of their revenue, in R&D. With over 4,800 U.S. patents, ADI’s focus on innovation positions them well to face challenges in various industries like medical imaging, automotive, and defense. (SWOT Report) ADI’s strategic partnerships and acquisitions allow them to extend their reach across different industries. By partnering with companies such as Boston Engineering and Indesign LLC, ADI can offer advanced design solutions to customers in aerospace, automotive, and healthcare. (SWOT Report) To add on, ADI also has a history of successful acquisitions, like the acquisition of Maxim Integrated in 2021, which has expanded its customer base and strengthened its position in key markets like automotive, communications, and industrial solutions. (Analog Devices) These collaborations give them a competitive advantage and help them deliver more comprehensive solutions to their clients. ADI’s financial performance has been strong, which is key to their growth. In FY2023, they saw a 2% increase in revenue, bringing in $12.31 billion, driven by demand in aerospace, defense, and automotive products like battery management systems. Their operating income also increased to $3.82 billion, reflecting their ability to manage costs effectively. This financial stability gives ADI the flexibility to reinvest in innovation and strategic initiatives. (SWOT Report)

One of ADI’s biggest weaknesses is their reliance on a small number of industrial customers. Over 50% of their revenue comes from this segment, which makes them vulnerable if they lose a key client. (SWOT) While their products are diverse, losing a major customer could have a significant impact on their financial performance. ADI must work to assure that their cash reserves get back to a stable level, to ensure that the company doesn’t limit their ability to make quick strategic moves. In FY2023, their cash opportunities reserves dropped by over 53%, leaving them with $958 million compared to $1.47 billion the previous year. (SWOT) Despite strong revenue, this decline could impact their short-term ability to respond to new opportunities or deal with challenges.

A major opportunity for ADI consists of the ability to focus on establishing strategic agreements and collaborations presents a significant opportunity for growth. By partnering with global technology leaders, ADI can expand its product offerings, especially in emerging technologies like AI and 5G. (SWOT Report) Further opportunity comes with the fact that the global semiconductor industry is expected to grow, meaning ADI is well-positioned to benefit from this. The increasing demand for electronics in sectors such as automotive and communications offers a promising opportunity for ADI to expand its market share. Most recently, the growth of electric vehicles (EVs) and autonomous driving technologies, notably Tesla, can be viewed as a big opportunity for ADI. ADIs experience with battery management systems and cabin electronics, put them in a much better spot to be a key supplier for the automotive industry as it continues to grow and expand. One thing to note is that a significant portion of its portfolio is tied in with the industrial and automotive sectors, leaving ADI exposed to possible downturns in these industries. The semiconductor industry is, and always will be, cyclical which tends to leave ADI vulnerable in certain situations where there are fluctuating demand and pricing pressures. This is even more evident during periods of economic downturn. (Deloitte) The global rollout of 5G networks provides opportunities for ADI, particularly in supplying components for communications infrastructure and IoT devices. The rise of the Internet of Things (IoT) and smart factory automation (Industry 4.0) presents significant growth potential, especially in industrial automation where ADI’s high-performance components are essential. (Gupta)

ADI faces its main threat when it comes to dealing with competitive pressure. The semiconductor industry is extremely competitive, facing pressure from companies such as Texas Instruments, NXP, and Broadcom. (SWOT Report) In order to stay atop the sector, ADI must contribute to innovating and investing in its Research and Development department. Maintaining a good R&D department is very challenging in a fast-paced culture like the semiconductor industry. ADI also runs the risk of running into the problem that includes foreign exchange risks. Like many global companies, ADI is exposed to currency fluctuations, which can negatively impact their financial performance. (SWOT Report) The fact that ADI operates across many regions, specifically with its suppliers, the risk of volatility in exchanges can restrict its profit. Any disruptions, whether due to price increases or delays, could affect ADI’s ability to meet customer demands and hurt their overall performance. The dependence ADI has on third party suppliers presents an unwanted risk of issues with the global supply chain. ADI’s reliance on global supply chains poses challenges, especially during periods of geopolitical instability or supply chain disruptions, like the ones I experienced during the Covid pandemic. Like many companies, Analog Devices Inc. has several key strengths that include a strong R&D focus, beneficial partnerships, and solid financial performance. However, the company faces challenges, particularly in its dependence on a small number of customers and recent declines in cash reserves. Being able to leverage opportunities in high-growth industries like automotive and telecommunications, while actively addressing threats from competition and supply chain dependencies, will lead to ADI maintaining their presence in the semiconductor industry.

Porter’s Five Force Analysis is a framework used by many in the business world to highlight and understand the competitive forces in an industry. Looking at the semiconductor industry through the lens of the Analysis, I see that the threat of new entrants is low, while the bargaining power of suppliers and threat of substitutes are moderate. Furthermore, the bargaining power of buyers and industry rivalry seem to be high. The threat of new entrants is low due to the fact that the semiconductor industry is capital-intensive. Companies within this wide industry must have a significant amount of capital assets in order to grow and deal with high barriers to entry, due to the need for significant investments in technology, manufacturing, and research and development. Notable firms like ADI have a good grip on customer relationships and economies of scale, which in turn makes it very difficult for new entrants to compete effectively. The bargaining powers of suppliers would be considered moderate, due to the fact that ADI is known for its work with various suppliers for raw materials and components. (Analog Sus.) The semiconductor industry has a relatively concentrated base of suppliers for specialized materials (e.g., silicon wafers, photomasks) mainly from Japan and Taiwan.(Boston Consulting) Certain disruptions in the supply chain, or maybe even sudden price increases for key materials, will more often than not impact ADI’s production costs. On the bright side, its scale and relationships have the possibility to mitigate this risk. On the other hand, the bargaining power of buyers would be considered high because ADI’s customers are often large corporations. These buyers can be linked to the automotive, telecommunications, and industrial automation sectors. These companies have the ability to put significant pressure on pricing and demand. Luckily, ADI’s diversified product offerings and its high-performing technologies reduce customer-switching tendencies, balancing a true power swing.

The threat of substitutes in the semiconductor industry is moderate, as there are alternative technologies like digital signal processing (DSP) solutions that can sometimes replace analog solutions. However, the precision and performance required in sectors like automotive and industrial automation often require ADI’s specific technologies, reducing the threat of substitutes. The semiconductor industry is highly competitive with key players constantly vying for market share. (HBR) I can attribute this level of competition to newfound pricing pressures, rapid technological advancements, and product differentiation. Apple is one of the main companies that utilize product differentiation to its advantage, constantly creating new products. ADI is able to be as competitive in the industry as they are because of their focus on high-performance. Additionally, ADI maintains a steady focus on small markets that require specialized analog and mixed-signal technologies, all while dealing with a competitive landscape. (Deloitte) The opportunities and challenges facing Analog Devices Inc. and the Industry include market growth, technological innovation, supply chain volatility, competition and pricing pressure, and economic sensitivity. Markets in automotive electronics, 5G infrastructure, and IoT have recently started to offer significant growth opportunities. ADI’s experience in analog solutions will position them well to capitalize on these trends. This could drive the compound annual growth rate (CAGR) up by single digits over the next several years. Increased demand for more efficient and energy-conscious solutions, is the byproduct of the recent revolution of industries such as healthcare, automotive, and industrial automation. ADI’s continued focus on R&D and technological innovation presents strong opportunities for sustained growth. (Analog Sus.) Some downfalls that may come with any disruptions in the global semiconductor supply chain, may pose challenges. These challenges can range from geopolitical tensions and raw material shortages, something I see with third world countries. (HBR) The competitive nature of the semiconductor industry could also lead to price erosion, especially in commoditized product segments like standardized chips. ADI must continue to innovate and differentiate its products to maintain premium pricing.

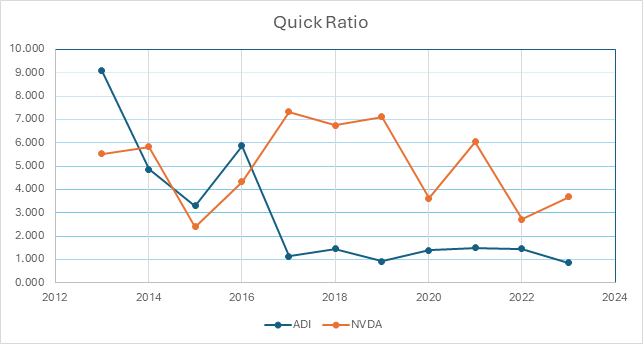
Given the cyclical nature of the semiconductor industry, ADI’s performance may be impacted by broader economic conditions, including global recessions or downturns in key end markets such as automotive and industrial sectors. Based on the competitive landscape and the opportunities within its key markets, ADI is positioned for steady growth in the coming years. In simpler terms, the expansion of 5G, the rise of IoT, and increasing demand for automotive electronics and industrial automation solutions will likely lead to the growth of the company. Hopefully the possible challenges of supply chain volatility and competitive pressures can be managed in an effective way, keeping sustained momentum. Based on the back and forth dynamics, a moderate growth rate estimate of 5% to 8% CAGR over the next 3-5 years seems reasonable for Analog Devices Inc.

After analyzing ratios in the semiconductor industry and comparing them with my company ADI, I have come to several conclusions about ADI. For certain ratios (Quick, Current Ratio, Total Asset turnover, Inventory Turnover, and Du Pont ROE) I could not locate the required data for the industry as a whole. Instead, I compared ADI’s ratios to the industry leader, Nvidia. The rest of the ratios are compared to the industry as a whole.

**Ratio Analysis**

**Quick ratio**

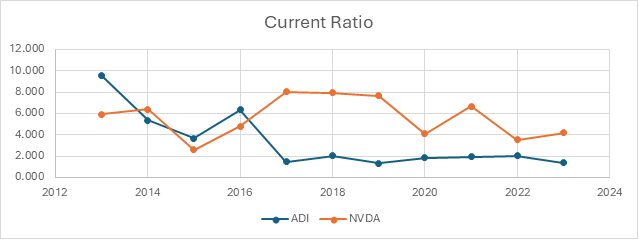




ADI has a consistently lower quick ratio compared to NVIDIA. This indicates that ADI has less liquidity in terms of immediately available assets to cover its current liabilities, which may suggest tighter short-term financial management or more efficient use of working capital whereas NVIDIA has maintained higher ratios, implying better short-term financial stability.

**Current ratio**

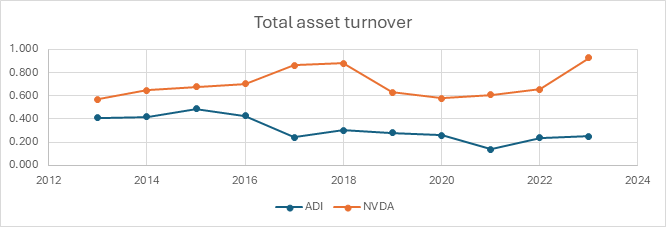




ADI also has a lower current ratio compared to NVIDIA and the industry average, implying that ADI may be less able to meet its short-term obligations. However, this does not necessarily indicate risk, as it could also suggest ADI’s efficient use of current assets.

**Total Asset Turnover**

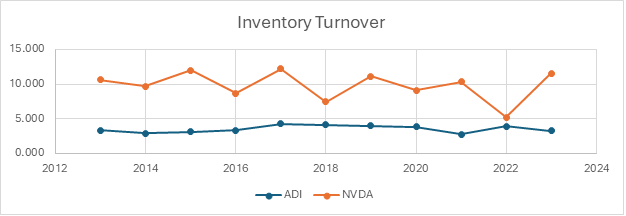




ADI boasts a lower asset turnover than NVDA showing that it is less efficient in turning its assets into profits, whereas NVDA is significantly better at utilizing its asset base for revenue generation.

**Inventory Turnover**

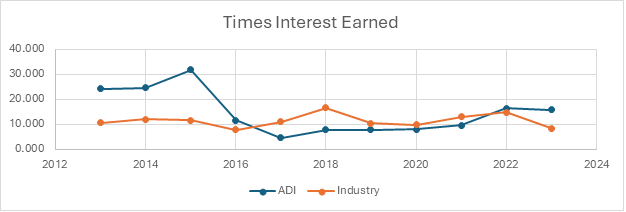




Nvidia consistently has a higher inventory turnover compared to ADI, suggesting more effective inventory management and faster conversion of inventory into sales. ADI’s lower turnover may indicate slower inventory movement, which could impact operational efficiency.

**Times Interest Earned**

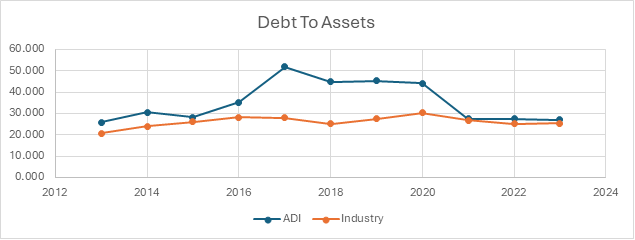




ADI's times interest earned ratio fluctuates more compared to the industry, indicating less stable earnings relative to interest expenses. This could signal potential risk in covering interest payments during periods of lower earnings.

**Debts to Assets (x100)**

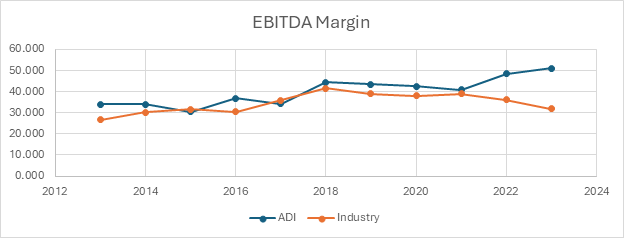




ADI has periods where it is significantly more levered than the industry followed by stages of deleveraging. This could indicate periods of aggressive expansion, in order to grow the company needs capital. That capital is acquired through debt rather than dilution of ownership. This strategic approach to financing shows intuitive leadership that believes in the future of the company.

**EBITDA Margin**

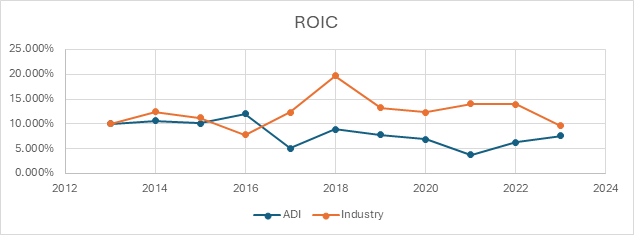




ADI’s EBITDA margin is consistently above the industry’s. This indicates that ADI is turning its operations into capital. EBITDA gives us a glimpse at the company’s earnings before it is impacted by costs that are not directly related to the product. The semiconductor industry has a generally high EBITDA margin, indicating that the process of making their products are not expensive in comparison to what they sell the product for. ADI has managed to edge my their opponents in this category denoting efficiency in the process of making their product in contrast to their competitors.

**Return On Invested Capital**

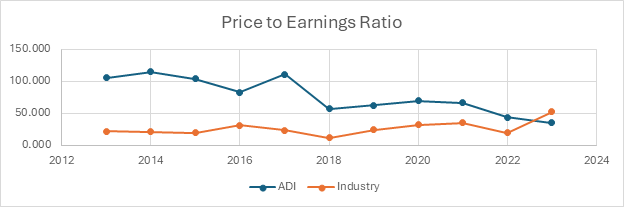




ROIC ADI is lower than the industry average, implying that ADI is not as efficient in generating returns on the capital it has invested. This is a divergence from my assumptions about the EBITDA margin. If ADI’s ROIC is less than the weighted average cost of their capital, then they will be losing money on the leverage that they borrowed. Lower ROIC also means less value for shareholders as well.

**Price to Earnings**

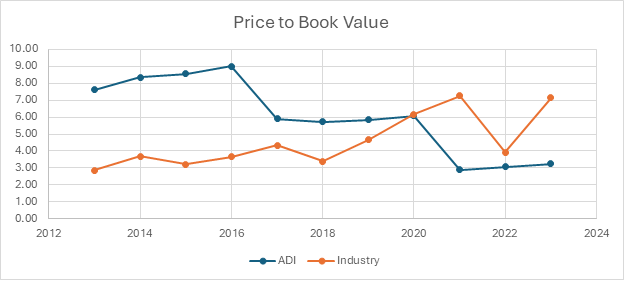




ADI’s price to earnings ratio has a history of being higher than the industries suggesting that the stock price is expensive for how much it earns in comparison to the industry. However, in 2023, ADI’s P/E ratio dropped below the industry average. This could signal a time to buy because it is cheaper to buy a dollar of earnings now than it was in the past.

**Price to Book Value**





ADI has a consistently higher P/B ratio than the industry average throughout most of the observed period. This higher P/B ratio suggests that investors value ADI's equity higher relative to its book value, which could be due to a few reasons: strong growth prospects, confidence in management, valuable intangible assets, or overall market optimism about ADI's future performance. However, a higher P/B ratio may also indicate that the stock is potentially overvalued, as investors are willing to pay more for each dollar of net asset value compared to the industry average. It reflects expectations of higher profitability, better competitive positioning, or greater efficiency in asset utilization, which may justify the premium valuation. In contrast, if ADI were not meeting these expectations, the high P/B ratio could signal potential overvaluation risk.

**Du Pont ROE**

I were unable to get the measurements needed to do a Du Pont Equation for the entire industry so I had to compare it to a NVDA. Given that NVIDIA also outperforms in Total Asset Turnover and EBITDA Margin, it is likely benefiting from better operational efficiency and asset utilization, as well as higher profitability. Moreover, NVIDIA's greater ROE could also reflect a more effective use of leverage, enhancing returns for equity holders. In contrast, ADI shows consistently lower ROE, which suggests less efficient asset use, lower profitability, or a more conservative approach to leveraging.

**Realized Returns & Standard Deviation of Returns**

Last 10 years:

* Realized Return= 1.63% → Took =Average() for the percentage return for the monthly data over the last ten years
* Standard Deviation= 7.73% → Took =STDEV() for the percentage return for the monthly data over the last ten years

Last 5 years:

* Realized Return= 1.56% → Took =Average() for the percentage return for the monthly data over the last five years
* Standard Deviation= 8.08% → Took =STDEV() for the percentage return for the monthly data over the last five years

Last year:

* Realized Return= 2.00% → Took =Average() for the percentage return for the monthly data over the last year
* Standard Deviation= 7.50% → Took =STDEV() for the percentage return for the monthly data over the last year

Takeaways:

* Recently, Analog Devices has had better returns and less variation compared to the last five and ten years. The numbers dipped from ten to five years ago because of the pandemic and the cause it had on the economy.

**Concluding**

In conclusion, ADI demonstrates stable but more conservative financial management compared to NVIDIA and the broader semiconductor industry. ADI has lower liquidity ratios and asset turnover compared to NVIDIA, indicating tighter working capital and less efficient asset utilization. However, its strong EBITDA margin reflects solid operational efficiency. ADI's DuPont ROE and ROIC lag NVIDIA and the industry, indicating less effective use of equity and invested capital. Over the years, ADI's Debt to Assets ratio fluctuated but has now aligned with the industry average, reflecting a more stabilized capital structure. Overall, while ADI showcases effective cost control and consistent operations, NVIDIA outperforms in terms of profitability, growth, and asset utilization, highlighting its superior efficiency and aggressive expansion strategy in the industry. However, NVDA has proven to be an irregularity in any industry. Its rapid growth in revenues, profits, and market cap make it very hard to compete with. Just because ADI does not outperform the industry leader does not mean it is a bad investment.

**Risk Analysis**

There are a few different sources of riskiness associated with Analog Devices. The company operates across different countries, which means that they have to work with different currencies. When this is the case, there is always the risk of foreign currencies not being exchanged properly or when they are exchanged you do not get the expected amount. The next risk that is involved in the company is the riskiness of their supply chain. This also relates to the operation in multiple countries, because anytime there is an across seas supply chain, there is always a lot of risk involved. The company is not producing all of their semiconductors in the United States, so the risk involved there is getting those semiconductors, which are produced in places like Thailand and the Philippines, back to the US so they can distribute them. Another form of risk involved in the company is the market volatility. The market for semiconductors is very volatile, because there is such a specific demand for them and the demand for technology is dependent on shifts in the supply market which affects the volatility of the entire market. Along with this, there is the risk of technological advances and the fact that the consumers of these semiconductors are very concentrated. Like any tech company there is always competition, especially new competition that tries to enter the market so there is always the risk of someone taking away the customers from Analog. If this were to happen it would hurt the company in a large way, because the Analog customers are so concentrated because not every company is in the market to purchase semiconductors, so this brings another point of risk for the company.

These risks are evident because you can look back at the history of companies similar to Analog and see what has harmed those companies, as well as what harms Analog current day. The riskiness has been declining over time, because of advances in technology and the development of the company. There is a higher demand for semiconductors now so that has helped to decrease certain risk surrounding the company. I can use this information to help perform a valuation of the company. Taking the risk for a company into consideration while valuing a company can help to better predict cash flows and events that could possibly happen within a company.

**Beta**

The beta for Analog adjusted over the last three years is 1.12. With this beta, it helps to show that the stock is volatile. With it being greater than one, it shows that Analog is more volatile than the market as a whole, which shows that one of the risks of the company is volatility.

**Model**

I wanted to demonstrate three different scenarios for revenue growth based on how the market does, a bear, moderate, and bullish example. The only assumptions I changed are growth rate, revenue growth, and EBIT margin.

**Assumptions**

Growth Rate: For my moderate example I assume a growth rate of 11% for the next four years and 6% for the next three after because I believe that the semi-conductor industry has potential to be very lucrative in the next following years due to increased demand for AI. These semi-conductor chips are necessary for AI. I assume a constant growth rate of 3% in OCT 31' and beyond because it 3% is a common benchmark used for businesses once they reach steady growth. For my Bull example I assume a growth rate of 15% for 5 years followed by 9% then a constant growth rate of 3.5%. This is my aggressive approach, that is why my rates are high. For my Bear example I assume a growth rate of 9% for 5 years followed by 5% then a constant growth rate of 2.5%. This is my conservative approach, that is why my rates are low.

EBIT Margin: Since EBIT margin has been similar in historic years, I decided to do an average of the last 5 years and keep the EBIT margin constant. For bull I added 2.5% and bear I subtracted 1.5%. I chose to change EBIT margin accoun t specifically because I noticed a lot of disparity between semiconductor companies when it comes to EBIT margin. The companies that do better overall have a larger margin. In my assumptions I presumed aggressive, mild, and conservative scenarios.

* Risk Free Rate: 10yr treasury bond 4.1% (10/21/24)
* Market Risk Premium: 4.60% (Stern School of Business estimates)
* Beta: 1.12 (3yr adjusted beta (facset)
* Depreciation & Amortization: average of the past three years and multiplying it by 1.2 to assume steady depreciation increase.
* Tax Rate: I will assume a 10% tax rate as a steady rate. ADI takes advantage of lower tax jurisdictions and transfer pricing strategies to reduce taxable income in higher-tax regions. They also defer a lot of taxes which may limit the immediate liability for taxes but, they will have to eventually pay these taxes. Therefore, I decided to gradually increase the tax rate.
* Current assets and current non interest bearing liabilities used in operations: Estimated to grow at 10% of the last three years average to show a steady increase in both accounts.

**Calculations**

**DDM:** I first began by calculating the Cost of Equity by taking the risk-free rate and adding it to the market risk premium \* beta

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Once I got the Cost of Equity, I used FactSet to find D0 in order to then forecast the expected dividends for the next 5 years. I used the Yahoo Finance growth estimates for the next 5 years to then apply to the growth formula. D1 = D0\*(1+g) where g = multiple possible growth rates. I did this for T=1 to T=5. In T=6, I applied the constant growth rate of 3% to D5 to get D6. Once I got this, I found P5 by taking D6 and dividing it by the Cost of Equity minus the constant growth rate. Next, I found the NPV of the future dividends, including the P5 in T=5. The rate I used for the NPV function is the cost of equity. Here is the DDM and the sensitivity analysis

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**DCF**

**Free Cash Flow**

First I calculated FCF by subtracting capital expenditures and change in net operating working capital from Operating Cash flow. Here is my calculation:

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**Assumptions in Practice**

Below are the assumptions I listed from before, calculated into future free cash flow. As assumed, free cash flow is greater in the bull example than the others.

**Moderate**

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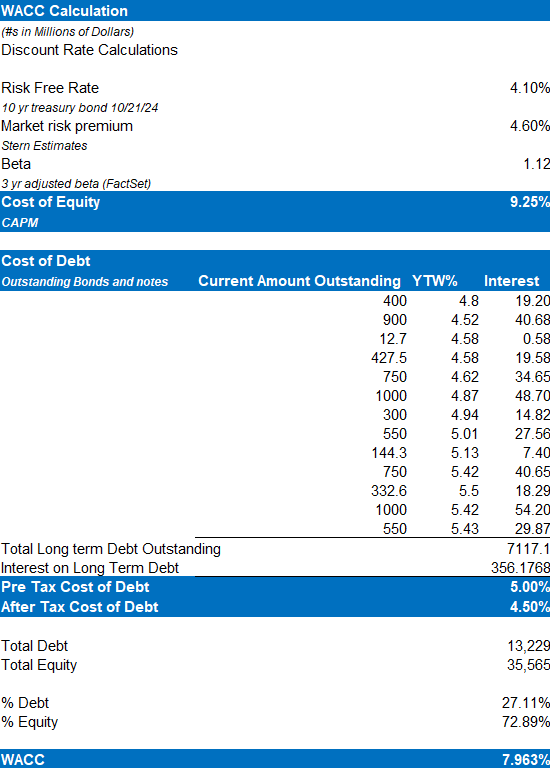
**Bull  
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**Bear**

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**WACC**

To calculate WACC I used the cost of equity (shown in DDM calculation), multiplied it by the % of equity. Then, added that to after tax cost of debt multiplied by % of debt. To arrive at my cost of debt, I took all of ADI’s bonds outstanding and multiplied them by their yield to withdrawls. This gives us a weighted average of short term to long term debt to estimate cost of debt more accurately. Here are the exact calculations:

**Free Cash Flow to Intrinsic Value**

Next, I took the last estimated FCF from each assumption, multiplied it by 1 + each respective growth rate. Then, divided that by WACC minus the growth rates to get terminal value. Then, to get enterprise value, I take the net present value of the cash flows, terminal value is added to the last value. To get from enterprise value to equity value I subtract cash and short term receivables, then add back debt. From there I divide equity value by shares outstanding to get intrinsic values. As you can see below, two of my models recommended a sell while the other recommended I buy.

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**Sensitivity Analysis**

For each valuation, I also analyzed how a fluctuation in WACC and the growth rate would affect the intrinsic value. You can see how the bull scenario has a much wider BUY range. WACC is on the X axis and Growth Rate is on the Y

**Moderate**

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**Bull**

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**Bear**

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**Multiples Valuation**

I used EV/EBITDA and EV/ EBIT to value my company with the industry average.

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**Takeaways**

From the ratio analysis I realized ADI has had lack luster performance in the past. Compared to the industry they were behind in virtually every ratio I covered. When compared to Nvidia, they were blown out of the water. So even before my model, I had a feeling I was going to be recommending a sell.

I learned that the DCF is very sensitive, and often times your models will not match up exactly. For instance, the multiple valuation methods suggested that ADI was undervalued by 82% and 43%, while the DDM did not value ADI above their current market price until the model reached unrealistic growth. I was glad that my DCF models produced results that felt more realistic. My model updates in real time thanks to the data tab in excel. Since all of the recommendations are linked through the stock price, the model will recommend BUY or SELL depending on the day.

I felt like the DCF was the most reliable source to base my recommendation off of because I it captures more of the company’s financials. It also allows us to assume what I think will happen to the company in the future/

**Recommendation**

My models gave us two sell recommendations and one buy recommendation. I are going to recommend to sell the stock because the majority of the models advise to sell and its poor ratio performance compared with the industry. ADI is far below the industry in an important ratio, return on invested capital. A lower ROIC compared to the industry is unfavorable for ADI because it indicates the company generates less profit per dollar of invested capital relative to its peers. This suggests ADI may be less efficient in utilizing its capital or may have suboptimal capital allocation strategies. Ideally, a company’s ROIC should exceed WACC to create value for investors by generating returns above the cost of funding its operations. When ROIC falls below WACC, it signifies value destruction, as the company fails to cover its capital costs with returns. If ROIC continues to stay around or above WACC I believe the conservative or bearish approach would be more accurate.

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