

Microchip FY2025 + Run-Rate Due Diligence Brief

24 November 2025

Executive takeaways

- FY2025 revenue collapsed 42% to 4.40B as the broad industrial/auto inventory correction starved orders, yet gross margin held 56% and operating cash still reached 0.9B (20% of sales) even with fabs running well below capacity (Microchip Form 10-K).
- Product/geography mix stayed diversified: mixed-signal MCUs 51% of sales, analog 26%, and Asia 50%/Americas 30%/Europe 20% — with distributors still 45% of revenue and Arrow at 10%; distributor days fell to 33 while Microchip’s own inventories ballooned to 251 days, forcing 132M of under-absorption expense.
- Capital returns exceeded earnings: 976M of common dividends and 96M buybacks vs. 772M free cash flow, funded via commercial paper, senior notes, and a new 1.45B 7.5% mandatory convertible preferred issuance; leverage covenants were relaxed (5.5x) while the recovery plan reduces inventory.
- Q2 FY2026 (Sep-25 quarter) finally showed sequential revenue growth (+4% QoQ) and a return to modest profitability (0.03 diluted EPS to common) while operating cash of 364M year-to-date came almost entirely from inventory drawdown (Form 10-Q filed 6 November 2025).
- Shares around \$55 (approx. \$30B market cap) trade at 5.8x NTM sales, 38x FY2026 EPS, a 3.3% dividend yield, beta 1.47, and 80% debt-to-equity — a recovery/mean-reversion bet that still carries tax/audit disputes (IRS, Malaysia, Germany) and elevated payout commitments (Semiconductor List.xlsx).

Source corpus

- Microchip Technology Incorporated Form 10-K for FY2025 (filed 6 May 2025) — consolidated statements, product/geography mix, cash flow, capital returns, CHIPS/expansion commentary.
- Microchip Technology Incorporated Form 10-Q for Q2 FY2026 (quarter ended 30 September 2025, filed 6 November 2025) — quarterly P&L, cash flow, liquidity discussion, and recovery plan updates.
- “Semiconductor List.xlsx” (November 2025 refresh) — price, market cap, consensus revenue/EPS, valuation multiples, leverage, beta, volatility, and sentiment datapoints.

Embedded control portfolio map

- **Mixed-signal MCUs**

MPUs: 8/16/32-bit PIC

AVR families, dsPIC motor-control and smart-energy controllers, TrustFLEX security modules, and broad development ecosystem.

- **Analog, timing, connectivity:** Interface, power-management, mixed-signal, RF, Ethernet PHY/switching, and timing solutions that attach to Microchip MCUs or serve standalone sockets (industrial/auto).
- **Other**
FPGA/IP/legacy: PolarFire FPGAs, licensing/royalty revenue (SuperFlash and IP sales), aerospace/defense ASICs, memory, and manufacturing services (foundry, assembly/test) that smooth utilization.

FY2025 scoreboard

Metric (USD in billions)	FY2025	FY2024	YoY
Revenue	4.40	7.63	-42.3%
Gross profit	2.47	5.00	-50.6%
Operating income	0.30	2.57	-88.5%
Net income	-0.00	1.91	-100%
Operating cash flow	0.90	2.89	-68.9%
Capital expenditures	0.13	0.29	-55.8%
Free cash flow	0.77	2.61	-70.4%
R&D expense	0.98	1.10	-10.4%
Dividends paid	0.98	0.91	+7.0%
Share repurchases	0.10	0.98	-90.2%
Gross margin	56.1%	65.4%	-930 bps
Operating margin	6.7%	33.7%	-2,700 bps
Net margin	-0.0%	25.0%	-2,500 bps

Table 1: Microchip FY2025 consolidated results (millions converted to USD billions). Free cash flow defined as operating cash flow minus capital expenditures.

Observations

- Inventory digestion, lower factory utilization, and 259M of interest expense drove the near-break-even bottom line despite still-solid gross margin; 490.9M of amortization and 79.2M of restructuring weighed further.
- Working-capital swing was mixed: accounts receivable fell 454M and inventories 32M, but accrued liabilities and LTSA deposit refunds consumed 346M and 179M of cash, respectively.
- R&D intensity jumped to 22% of sales as management maintains MCU/analog roadmap funding during the downturn, while SG&A fell 16% YoY through comp resets and travel cuts.
- Dividends continued unabated (0.455 quarterly) even as free cash flow shrank, highlighting reliance on external funding and the need for careful covenant management.

Product line	Revenue (B)	Mix	YoY
Mixed-signal microcontrollers	2.25	51.1%	-47.3%
Analog	1.16	26.3%	-42.6%
Other (FPGA/IP/memory/services)	0.99	22.6%	-26.1%
Total	4.40	100%	-42.3%

Table 2: Product-line disclosure from FY2025 Form 10-K.

Mix snapshots

Product mix (FY2025)

Geographic mix (FY2025)

Geography	Revenue (B)	Mix	YoY
Americas	1.33	30.2%	-40.2%
Europe	0.88	19.9%	-52.6%
Asia	2.20	49.9%	-38.4%
Total	4.40	100%	-42.3%

Table 3: Geographic sales split per FY2025 Form 10-K; substantially all invoiced in USD.

Channel and operations notes

- Distributors represented 45% of FY2025 revenue (Arrow 10%); distributor inventory dropped to 33 days from 41, yet Microchip’s own inventory days rose to 251 as fabs ran at reduced loadings.
- About 64% of FY2025 sales shipped from external foundries while 67% of assembly and test was internal; Fab 2 (Tempe) was shut in May 2025 and most expansion spending is paused through FY2026.
- LTSA deposits collected during the shortage period are now being refunded as customers trim commitments, decreasing deferred revenue and cash in FY2025 and FY2026.

Latest quarterly pulse (Q2 FY2026)

- **P&L:** Net sales 1.14B (-2% YoY, +4% QoQ), gross profit 638M (55.9% margin), operating income 88.9M (7.8%), GAAP net income 41.7M; after 27.8M preferred dividends, diluted EPS to common was 0.03.
- **Six-month view:** Revenue 2.22B (-7.9% YoY), operating income 121M (5.5% margin), net loss to common (32.5)M as interest expense (114M) and opex (1.09B) stayed elevated.
- **Cash flow:** Operating cash 363.7M hinged on a 201M inventory release, 56M AR collection, and 26M payables outflow; capex 54.4M and LTSA/tax outflows left cash down 535M since March.

- **Balance sheet:** Cash 236.8M, net receivables 746M, inventory 1.10B; long-term debt 5.38B (commercial paper outstanding fluctuating, 175M at FY2025 year-end but paid down mid-2026), total equity 6.70B; current ratio 2.25x, but heavy dividend/interest obligations constrain flexibility.
- **Management commentary:** Recovery plan continues to prioritize inventory reduction, paused factory additions, and selective customer allocation; Americas and Asia posted sequential growth while Europe remains soft; LTSA refunds and softer automotive demand remain headwinds.

Balance sheet, liquidity, and capital returns

- **Liquidity:** Cash 0.77B at FY2025 end (down to 0.24B by September), 2.99B current assets vs. 1.16B current liabilities (2.6x). Revolver capacity 2.25B plus commercial paper program (2.25B limit) backstops working capital.
- **Leverage:** Total debt 5.66B with maturities spanning 2025–2030 senior notes plus CP; net leverage covenants temporarily relaxed (up to 6.25x in September 2025) to absorb earnings trough. Debt-to-equity around 0.8x.
- **Capital returns:** 975.7M FY2025 common dividends (0.455 quarterly), 2.2M preferred dividends, 96.5M buybacks (1M shares) leaving 1.56B authorization. Series A preferred shares convert before 2028 and currently add 55.6M annual dividend burden.
- **Capex**
CHIPS: FY2025 capex 126M and FY2026 plan “at or below 100M” while awaiting a 162M preliminary CHIPS Act grant for two U.S. fabs (not yet finalized). Government incentives reduced PP&E carrying value by 46M at FY2025.

Strategic themes and catalysts

1. **Inventory normalization:** Sequential demand uptick plus shrinking distributor days should enable utilization recovery and gross-margin rebuild once customer destocking ends.
2. **MCU + analog attach:** Broad PIC/AVR plus power/timing portfolio positions Microchip to capture electrification, industrial automation, and connectivity sockets when industrial OEMs resume ordering.
3. **PolarFire FPGA expansion:** Mid-range, power-efficient FPGAs and aerospace/defense sockets offer incremental growth with less competition from high-end AI accelerators.
4. **Operational discipline:** Paused expansions, Fab 2 closure, and selective outsourcing provide levers to restore mid-60% gross margins as loadings normalize.
5. **Potential CHIPS grants:** Finalizing 162M in grants and utilizing the 25% investment tax credit could offset U.S. capex and bolster domestic manufacturing credibility with auto/defense customers.

Risks and watch items

- **Macro/industrial demand:** A prolonged industrial/auto slowdown or renewed distributor destocking would delay margin recovery and strain dividend coverage.
- **LTSA unwind:** Accelerated refunds or renegotiations could reduce deferred revenue and put further pressure on cash while customers retain take-or-pay leverage.
- **Leverage and payouts:** Maintaining nearly 1B annual dividends plus pref coupons with sub-1B operating cash leaves little cushion if utilization remains low.
- **Tax and legal exposure:** IRS transfer-pricing (FY2007–2016), Malaysian assessment (up to \$410M), and German ORIP disputes (up to \$92M) could trigger sizable cash settlements and higher effective tax rates.
- **Execution on cost actions:** Failure to migrate assembly/test in-house or delay in closing low-utilization fabs would keep unabsorbed overhead elevated.

Scenario outlook

Scenario	Key assumptions	FY2026 revenue (B)	FY2026 EPS (USD)
Bear	Industrial/auto demand flat, LTSA refunds continue, gross margin stuck near 55%, dividends maintained; leverage rises toward covenants.	4.3	1.10
Base	Inventory correction ends mid-2026, utilization improves, gross margin back to 58%, modest opex relief, tax rate normalizes high teens.	4.6	1.44
Bull	Accelerated restocking plus CHIPS support enables revenue snapback and 60%+ gross margin; PolarFire		
automotive sockets add upside, share count drifts lower.	5.4	2.50	

Table 4: Scenario guardrails anchored on FY2025 actuals, FY2026 run-rate metrics, and consensus inputs (Semiconductor List.xlsx: FY1 revenue 4.55B, FY2 EPS 2.50).

Action items

- Track distributor inventory days, LTSA refund disclosures, and backlog commentary each quarter to gauge timing of volume recovery.
- Monitor cash/credit metrics (commercial paper outstandings, revolver usage, leverage covenant headroom) versus dividend commitments.

- Follow CHIPS Act negotiations and any incremental domestic capex plans that could unlock grants or tax credits.
- Watch analog and MCU booking trends by end market (industrial, auto, comms, aero/defense) along with PolarFire design wins.
- Update valuation comps (PS NTM 5.8x, PE FY2026 38x, dividend yield 3.3%, beta 1.47) after each earnings release relative to analog peers (TXN, ADI) and MCU-focused rivals (NXP, Renesas).

Appendix: data notes

- Figures sourced from Microchip FY2025 Form 10-K and Q2 FY2026 Form 10-Q text extractions within this workspace; dollar amounts converted to USD billions and rounded to two decimals unless noted.
- Free cash flow defined as GAAP operating cash flow minus capital expenditures; margins calculated from GAAP financials.
- Valuation metrics, beta, EPS/revenue forecasts, dividend yield, leverage, volatility, and short interest pulled from “Semiconductor List.xlsx” dated November 2025.
- Inventory days, distributor mix, LTSA commentary, and CHIPS grant details quoted directly from management discussions in the referenced filings.