EXECUTIVE SUMMARY

After accounting for splits, Microchip stock rose from $0.50 in 1993 to $100 in 2018 and predicted to go even higher by analysts. Clearly Microchip must be doing something right in a highly competitive environment, an industry used to very high growth rate which has now dwindled to low single digits.

Since 1993, Microchip understood importance of organic growth in the core business. While Moore's law played out nicely, Microchip did not squander away this advantage, and used it to cement its position using architectural control and sustained R&D. Microchip used propriety AVR and PIC architecture to make it difficult for customers to switch later. This brings us to learning #1, always differentiate yourself from competitors and prevent your products from being commoditized.

However, as it became more difficult/expensive to go to new technology-nodes and processes, growth rate of this industry rapidly slowed down, and industry went into a consolidation phase. Microchip switched gears and recognized that inorganic growth was just as important as organic growth. This brings us to learning #2, acquire or be acquired. Microchip has strategically acquired ~18 companies in last decade including 2 high profile/value companies recently. This enabled Microchip to acquire new technologies, patents, IPs, distributors and customers. As a result, Microchip debt is critically high, making it unattractive to be acquired and exposes it to financial risks.

Learning #3, Microchip could grow organically and inorganically only because of its vast distributor and supplier network with robust supply chain management.

NOTE: Microchip Technology Inc., MCHP (NASDAQ ticker) and Microchip have been used alternatively in the entire report.