

Maxim Integrated (MXIM)

\$70.10 (As of 08/12/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 07/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Maxim reported decent fiscal fourth-quarter results, with the top line surpassing the Zacks Consensus Estimate and the bottom line matching the same. The company is to be acquired by Analog Devices for more than \$17 billion. Notably, solid automatic test equipment demand remains a positive. Furthermore, growing demand for 100G laser drivers and modules is aiding its performance in the communications and data center market. The company remains optimistic about the flexible manufacturing strategy and diversified product portfolio. However, coronavirus pandemic remains a major concern for the company's manufacturing operations. Further, weakness in the consumer electronics and slowdown in auto production are headwinds. The stock has outperformed the industry it belongs to over a year.

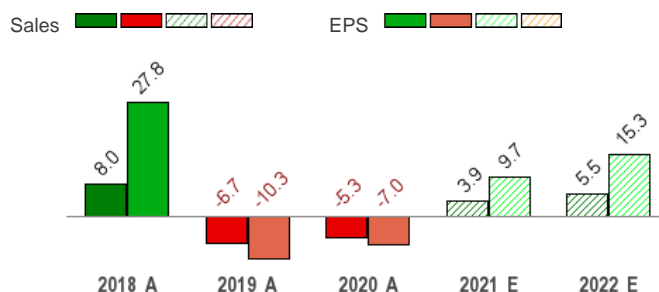
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.52 - \$41.93
20 Day Average Volume (sh)	4,105,374
Market Cap	\$18.7 B
YTD Price Change	14.0%
Beta	1.33
Dividend / Div Yld	\$1.92 / 2.7%
Industry	Semiconductor - Analog and Mixed
Zacks Industry Rank	Top 23% (59 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	4.9%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	30.9
P/E F1	28.3
PEG F1	2.4
P/S TTM	8.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	595 E	595 E	598 E	616 E	2,401 E
2021	548 E	555 E	577 E	602 E	2,276 E
2020	533 A	551 A	562 A	545 A	2,191 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.68 E	\$0.69 E	\$0.71 E	\$0.75 E	\$2.86 E
2021	\$0.58 E	\$0.60 E	\$0.64 E	\$0.69 E	\$2.48 E
2020	\$0.52 A	\$0.56 A	\$0.61 A	\$0.58 A	\$2.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/12/2020. The reports text is as of 08/13/2020.

Overview

San Jose, California based Maxim Integrated Products, Inc. is an original equipment manufacturer (OEM) of semiconductor analog and mixed signal integrated circuits (ICs).

The company has a broad product portfolio that includes analog-to-digital converters, amplifiers and comparators, communications devices, data converters and management components, sensors and wireless products.

Maxim's 70+ product lines are primarily sold in the consumer, computing, industrial, automotive (formerly part of the Industrial segment) and communications markets which are the five primary end markets.

Its products have very extensive application in consumer goods like cordless phones, digital cameras and PDAs; data processing; industrial products; instrumentation products; medical instruments; and various communications gear and networking equipment.

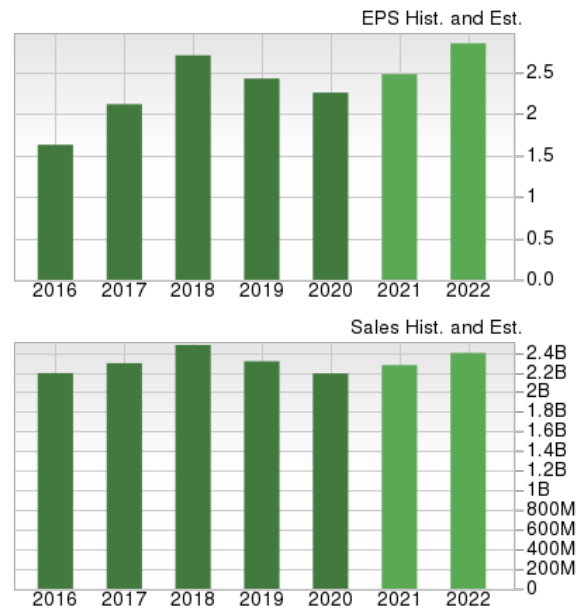
The company's products are sold in major five end-markets namely automotive, communications and data center, computing, consumer and industrial markets.

A significant percentage of the wafer manufacturing continues to be carried out at Maxim's three fabrication facilities, although increasing amounts are being outsourced to partner foundries — Epson, Powerchip and Maxchip.

The company has operations in the Asia/Pacific region, the U.S. and Europe. In fiscal 2020, the major part of total revenues came from China which accounted for 35% and the rest of Asia contributed 33%. The Europe and U.S. generated 18.5% and 11%, respectively. The rest of the world generated 2.5%.

Products are distributed in the U.S. and Canada through a direct sales force and support system. Products are sold through direct sales, applications organization and unaffiliated distributors.

Avnet was the primary global distributor, accounting for around 22% of the company's revenues. Samsung, the only customer generated 10% of revenues alone.



Reasons To Buy:

- ▲ Maxim generates its revenues from the **analog market**, which comes with several inherent advantages. Analog products do not require leading edge manufacturing facilities, since the capacity can be used for longer periods of time than digital products. This reduces capital equipment costs, as large upfront costs are avoided, depreciation is less and profits are more stable when utilization rates drop lower. Being more differentiated, analog products are also less likely to become commoditized. The relatively longer life cycles ensure that older analog products can keep contributing to revenues for longer periods of time and generate higher margins (due to pricing power) than corresponding digital products. Moreover, Maxim's shifting to advanced node process technology development bodes well for its margin expansion.
- ▲ Multiple opportunities continue to unfold in the **industrial market**. Industrial automation, building controls, electrical meters, security devices and automobiles are not just the highest consumers of semiconductors, but also the areas with the greatest promise of growth. The company expects its factory automation product will continue to perform well in the long haul. Moreover, increasing deployment of Industry 4.0 control systems in factories across the world remains a key catalyst. Another segment that is currently showing promise is medical sector and is likely to aid Maxim's business growth. Utilities are moving toward greater automation and efficiencies in operation, another secular growth driver. Maxim's higher-integration smaller-footprint products have been popular in these markets. Maxim has also enhanced its capabilities in the industrial market through bolt-on acquisitions that have strengthened its position and offered more comprehensive solutions. Maxim's **consumer revenues** have picked up gradually due to diversification across customers, products and platforms. Revenues in this market have been improving due to diversification across a variety of markets. Management stated that new wins in the fast growing markets like fitness wearables, tablets and smartphones will continue to drive consumer revenues in the near term.
- ▲ Maxim has a solid balance sheet. As of Mar 31, 2020, the company's net cash amounted to \$692 million compared with \$790 million as of Dec 31, 2019. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul. Moreover, debt-to-total capital was 36.5% as of Mar 31, 2020 which is lower than the industry average of 43.3%. Further, the company had a solid cash balance of \$1.7 billion and cash flow from operations of \$209.8 million as of Mar 31, 2020. Maxim — which has a record of consistent earnings growth — has less credit risk and lower chances of default or bankruptcy if the economic situation worsens.
- ▲ Maxim's **automotive business** carries strategic importance, high growth opportunities. The increase in customer wins is particularly encouraging because it opens up possibilities of further design wins as new car models are prepped for the market. Infotainment, safety and driver assistance content, known as ADAS are long term drivers of the automotive business. The company's expertise in Automotive Safety Integrity Levels (ASIL) remains the key catalyst. Moreover, the company's ASIL compliant battery management system remains a market differentiator and will continue to sustain Maxim's momentum in the market. China is expected to bring further opportunities, as Chinese infrastructure spending boosts demand for its factory automation products. Recently, the company introduced a high-end version of BMS product for electric buses which has already gained momentum in China. Moreover, the company's ASIL compliant battery management system remains a market differentiator and will continue to sustain Maxim's momentum in the market. Management expects battery management systems to be a meaningful driver of revenue growth going forward. Additionally, there are **long term opportunities the communications and data center market**. Longer-term trends like the competitive nature of the communications service provider market that drive players to deploy more efficient and capable infrastructure are intact. It is now apparent that IP-based networks are better than traditional voice-based networks in this respect; therefore, there will be long-term demand for convergence technologies that could be beneficial for companies like Maxim. The company is focusing on communications interface circuits to drive growth in this segment. Maxim is also seeing growing customer wins in the cloud and data center market for its highly integrated, high-current power management solutions and 40-gig and 100-gig optical products. It is also poised to take advantage of a leading cloud computing customer's demand for smaller and more power-efficient solutions to reduce overall cost of ownership. Cloud and datacenters will likely be significant growth drivers for Maxim in the communications and data center market.

Maxim has a solid portfolio that generates steady design wins, a strong core business that is highly profitable and well-diversified, and returns cash to investors at regular intervals.

Risks

- **Revenue growth** is usually an area of concern for analog companies, since products take longer to design and stay relevant longer. Maxim is no different from others in this respect. While the business model supports stronger margins, the longer lead times for customized devices require a relatively longer sales cycle than digital products.
 - **Customer concentration** is a big problem for Maxim. Being designed into Samsung devices means that the company is likely to see very strong growth rates when Samsung does well that skew its overall results. A typical analog company, especially one that has diversified end markets, usually sees moderate and steady growth rates if market conditions permit. However, Samsung is changing all that by generating 10% of the company's total revenues alone in fiscal 2019. No other customer has contributed this much. As a result, Samsung's projections and announcements, especially those related to its high-end models where Maxim has greater exposure, have a significant impact on it. On the positive side, Samsung has many new products scheduled to be launched, so there is a lot of opportunity for Maxim, if it is able to capitalize on it.
 - Maxim derives a major portion of its revenues from outside the U.S. Thus, an economic condition which impacts foreign currency exchange rates does result in transaction exposure, which leads to profit fluctuation. Exposure to **foreign currency translation** impacts and poses a threat to its growth.
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Last Earnings Report

Maxim Q4 Earnings Match Estimates, Revenues Beat

Maxim Integrated Products, Inc. reported fourth-quarter fiscal 2020 adjusted earnings of 58 cents per share, in line with the Zacks Consensus Estimate. The bottom line was above the guided range of 43-57 cents per share.

The figure increased 3% year over year but declined 4.9% on a sequential basis.

Revenues of \$545.4 million outpaced the Zacks Consensus Estimate by 0.04% and came above management's guided range of \$480-\$550 million. However, the top line decreased 2% year over year and 3% on a sequential basis.

On Jul 13, 2020, Analog Devices announced plans to acquire Maxim for more than \$17 billion. Reportedly, shareholders of Maxim are likely to get Analog Devices' shares instead of cash payment.

End Market in Detail

Industrial: The company generated 36% of total revenues from this market during the reported quarter. Revenues in this market advanced 13% from the prior-year quarter, primarily owing to an uptick in test equipment demand.

Automotive: This market accounted for 22% of the company's fiscal fourth-quarter revenues. Revenues were down 22% on a year-over-year basis.

Consumer: Maxim generated 16% of revenues from this market. Revenues in this market declined 30% year over year.

Communications and Data Center: Revenues from this market, which now includes computing, accounted for 26% of the total revenues. This reflects an improvement of 36% from the year-ago quarter.

Operating Details

Non-GAAP gross margin was 67.4%, which expanded 260 basis points (bps) from the year-ago quarter.

Non-GAAP operating expenses of \$183.1 million increased 1.6% year over year. Further, as a percentage of revenues, the figure expanded 150 bps from the prior-year quarter.

Operating margin came in at 32.6%, flat with the year-ago quarter.

Balance Sheet & Cash Flow

As of Jun 27, 2020, cash, cash equivalents and short-term investments were \$1.6 billion, down from \$1.7 billion on Mar 28, 2020.

Long-term debt was \$994 million at fiscal fourth quarter-end compared with \$993.7 million at fiscal third quarter-end.

During the quarter under review, cash flow from operations was \$212 million, up from \$209.8 million in the prior quarter. Further, the company utilized \$16 million for capital expenditure during the fiscal fourth quarter.

Maxim spent \$82 million in repurchasing shares and made a dividend payment of \$128 million (48 cents per share).

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	0.04%
EPS Surprise	0.00%
Quarterly EPS	0.58
Annual EPS (TTM)	2.27

Recent News

On **Jul 13, 2020**, Analog Devices stated that it is in negotiations to acquire Maxim for more than \$17 billion. Further, shareholders of Maxim are likely to get Analog Devices' shares instead of cash payment.

On **Apr 13, 2020**, Maxim increased the production of medical technologies in a bid to cater to the increasing customer need during the COVID-19 pandemic. The company's semiconductor devices are used in medical equipment such as virus detection devices, ultrasounds, analytical/laboratory equipment, ventilators, patient remote monitoring devices, intravenous blood monitors, among others.

Valuation

Maxim Integrated Products shares are up 13.9% in the year-to-date period and 34.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 3.2% and 18% in the year-to-date, respectively. Over the past year, the Zacks sub-industry is up 21.1% and the sector is up 36%.

The S&P 500 index is up 3.3% in the year-to-date period and 17.4% in the past year.

The stock is currently trading at 27.73X forward 12-month earnings, which compares to 25.28X for the Zacks sub-industry, 25.75X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.56X and as low as 15.27X, with a 5-year median of 20.2X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$81 price target reflects 27.18X forward 12-month earnings.

The table below shows summary valuation data for MXIM

Valuation Multiples - MXIM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	27.73	25.28	25.75	22.6
	5-Year High	31.56	27.04	26.31	22.62
	5-Year Low	15.27	13.42	16.72	15.25
	5-Year Median	20.2	18.16	19.61	17.58
P/S F12M	Current	7.15	4.67	3.66	3.37
	5-Year High	7.48	4.67	3.66	3.44
	5-Year Low	3.52	2.81	2.3	2.54
	5-Year Median	5.64	3.69	3.02	3.01
EV/EBITDA TTM	Current	25.26	12.1	12.29	11.95
	5-Year High	29.34	14.57	12.59	12.85
	5-Year Low	8.95	8.34	7.68	8.49
	5-Year Median	12.87	11.74	10.52	10.66

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 23% (59 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Analog Devices, Inc. (ADI)	Outperform	2
Cirrus Logic, Inc. (CRUS)	Outperform	2
Silicon Laboratories, Inc. (SLAB)	Outperform	2
Texas Instruments Incorporated (TXN)	Outperform	1
Monolithic Power Systems, Inc. (MPWR)	Neutral	3
MaxLinear, Inc (MXL)	Neutral	3
Semtech Corporation (SMTC)	Neutral	3
Skyworks Solutions, Inc. (SWKS)	Neutral	3

Industry Comparison Industry: Semiconductor - Analog And Mixed				Industry Peers		
	MXIM	X Industry	S&P 500	SLAB	SMTC	TXN
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	2	3	1
VGM Score	F	-	-	D	F	D
Market Cap	18.69 B	7.55 B	23.75 B	4.52 B	4.17 B	126.99 B
# of Analysts	10	7.5	14	5	7	12
Dividend Yield	2.74%	0.00%	1.68%	0.00%	0.00%	2.60%
Value Score	D	-	-	D	F	F
Cash/Price	0.09	0.08	0.07	0.16	0.07	0.04
EV/EBITDA	20.89	20.00	13.35	31.21	43.63	18.46
PEG Ratio	2.42	2.51	2.98	2.46	3.18	2.94
Price/Book (P/B)	11.28	5.54	3.20	3.90	6.30	16.61
Price/Cash Flow (P/CF)	25.81	22.55	12.97	27.12	41.72	21.36
P/E (F1)	28.27	36.03	22.17	36.93	39.79	27.44
Price/Sales (P/S)	8.53	6.15	2.54	5.22	7.59	9.28
Earnings Yield	3.54%	2.78%	4.31%	2.71%	2.52%	3.64%
Debt/Equity	0.60	0.74	0.77	0.49	0.29	0.82
Cash Flow (\$/share)	2.72	2.82	6.94	3.80	1.53	6.49
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	10.54%	11.63%	10.41%	11.49%	11.77%	18.71%
Proj. EPS Growth (F1/F0)	9.87%	9.34%	-6.32%	-13.56%	5.83%	-3.58%
Curr. Cash Flow Growth	-8.10%	-10.25%	5.22%	-16.69%	-28.03%	-4.66%
Hist. Cash Flow Growth (3-5 yrs)	-0.43%	22.53%	8.55%	13.23%	-5.21%	8.82%
Current Ratio	5.11	2.54	1.33	6.80	4.72	3.92
Debt/Capital	37.49%	42.20%	44.59%	33.06%	22.38%	44.96%
Net Margin	29.88%	3.58%	10.13%	3.50%	6.47%	36.83%
Return on Equity	36.29%	10.54%	14.59%	8.55%	9.48%	60.61%
Sales/Assets	0.61	0.50	0.51	0.48	0.53	0.77
Proj. Sales Growth (F1/F0)	3.86%	1.94%	-1.40%	1.21%	2.66%	-7.80%
Momentum Score	D	-	-	B	F	F
Daily Price Chg	1.93%	2.02%	0.67%	1.56%	2.65%	1.91%
1 Week Price Chg	0.88%	1.92%	2.30%	2.57%	5.65%	4.71%
4 Week Price Chg	-0.53%	3.19%	4.87%	-0.66%	20.08%	4.91%
12 Week Price Chg	23.03%	21.80%	13.54%	2.13%	33.22%	18.01%
52 Week Price Chg	34.24%	30.14%	6.06%	-0.29%	45.13%	14.96%
20 Day Average Volume	4,105,374	835,567	2,006,991	279,257	356,380	5,021,636
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	4.90%	5.87%	1.95%	23.85%	0.00%	25.87%
(F1) EPS Est 12 week change	12.35%	19.09%	2.72%	23.85%	98.28%	25.68%
(Q1) EPS Est Mthly Chg	6.48%	11.41%	0.84%	50.44%	0.00%	39.77%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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