

Semtech Corporation (SMTC)

\$39.49 (As of 03/02/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Semtech continues to benefit from its diversification strategy. Further, product differentiation, operational flexibility, and specific focus on fast-growing segments and regions continue to be its key growth drivers. Additionally, Semtech's solid momentum across industrial and communications markets continues to drive its top-line growth. Moreover, well-performing LoRa business of the company is a major positive. Also, the company is gaining traction across data center, Internet of Things and mobile markets. However, overall global demand environment in key end-markets is a major negative. Also, the company's weakening momentum in the consumer market and macro headwinds in China remain concerns. Also, intensifying competition in the semiconductor space is a headwind. Notably, the stock has underperformed the industry over a year.

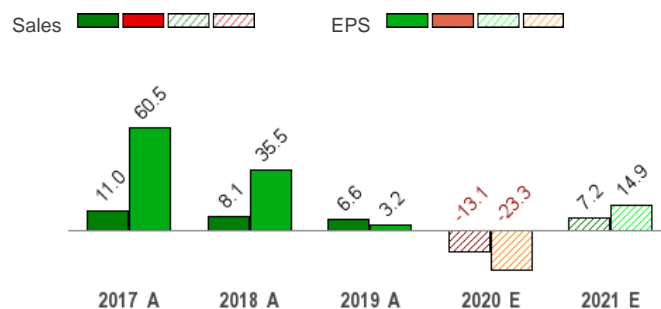
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.26 - \$37.27
20 Day Average Volume (sh)	436,584
Market Cap	\$2.7 B
YTD Price Change	-22.8%
Beta	1.94
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Semiconductor - Analog and Mixed
Zacks Industry Rank	Top 38% (98 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	03/11/2020
Earnings ESP	0.0%
P/E TTM	24.3
P/E F1	23.2
PEG F1	1.9
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	138 E	145 E	152 E	150 E	584 E
2020	131 A	137 A	141 A	136 E	545 E
2019	130 A	163 A	174 A	160 A	627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.36 E	\$0.42 E	\$0.46 E	\$0.45 E	\$1.70 E
2020	\$0.34 A	\$0.38 A	\$0.41 A	\$0.36 E	\$1.48 E
2019	\$0.47 A	\$0.55 A	\$0.63 A	\$0.55 A	\$1.93 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 03/02/2020. The reports text is as of 03/03/2020.

Overview

Headquartered in Flynn Road Camarillo, CA, Semtech Corporation designs, manufactures and markets a wide range of analog and mixed-signal semiconductors for commercial applications.

The product line comprises Signal Integrity Products, Protection Products, Power and High-Reliability Products, Wireless and Sensing Products, and Systems Innovation Group.

The company's devices are used in a variety of applications including computer, communications, industrial, military-aerospace and automotive. The company also provides a limited amount of wafer foundry services to other electronic component manufacturers.

Semtech has manufacturing facilities in Irvine, Camarillo and San Diego in California, Reynosa in Mexico and Neuchâtel in Switzerland.

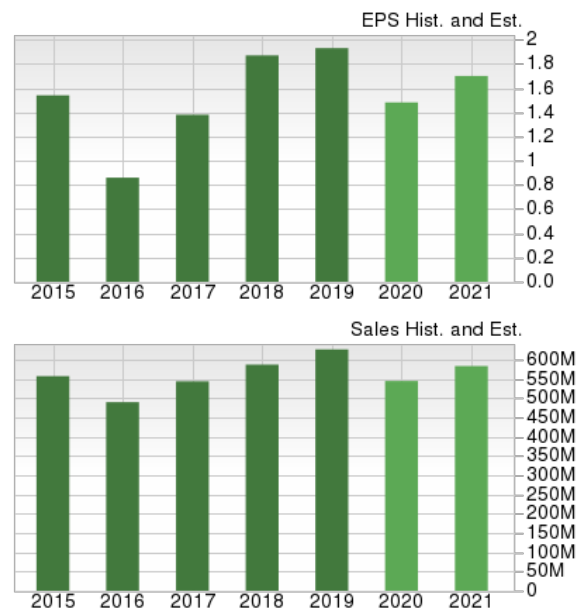
In fiscal 2019, the company generated \$627.2 billion in revenues, which was derived from four end markets—Enterprise Computing (31% of fiscal 2019 revenue), Industrial and Other (26%), High-End Consumer (26%), Communications (18%).

In Enterprise Computing market, the company caters to the demand for products needed in data centers, monitors, desktops, notebook, passive optical networks, servers and other computer peripherals.

In Communications market, Semtech takes care of the needs of wireless LAN, base stations, cable modems, optical networks, carrier networks, switches and routers. It also caters to the demand for equipment required in other communication infrastructures.

The company serves the requirements needed in tablets, wearables, digital video recorders, handheld products, wireless charging, set-top boxes, smartphones, digital televisions, monitors and displays in high-end Consumer market.

Further, equipment requirements in smart grid, wireless charging, military and aerospace, medical, security systems, automotive, industrial and home automation analog and digital video broadcast equipment, video-over-IP solutions, automated meter reading and Internet of Things are taken care by Semtech in its Industrial end-market.



Reasons To Buy:

- ▲ Semtech has a **specific focus on fast-growing segments and regions**. The company has been targeting analog/mixed signal sub-segments of some of the most potential and fast growing end markets. The enterprise computing, industrial, communications and high-end consumer markets are characterized by a number of trends such as increasing bandwidth over high-speed networks, growing need for more efficient energy management in home and industrial settings, increasing electronic system requirements for mobile devices, rising demand for Internet connectivity to low power sensors and propagation of green standards. All these trends are driving demand for Semtech's products.
- ▲ Semtech **acquired AptoVision**, a privately held company that provides algorithms for transporting video over Internet protocol (IP). The acquisition is expected to strengthen Semtech's position in the video over IP Pro AV space in the long-term. This market is expected to expand significantly over the years to come driven by an increase in video consumption and distribution across a large number of industrial applications including education, transport, medical and retail.
- ▲ The company carries on **product differentiation and price competition** simultaneously. While there is continuous focus on creating new, unique and proprietary products that add performance and value, they are priced competitively. Semtech continues to attain design wins with new and existing customers, which in turn underscores its strong growth potential. Further, outsourcing provides operational flexibility to Semtech. The company outsources the major part of its manufacturing so that it can better focus on designing, developing and marketing functions. The company's primary wafer foundries are located in the U.S. China and Israel. Outsourcing leads to capital efficiency and technological flexibility and at the same time reduces investment risk.

Key growth drivers for Semtech are product differentiation, operational flexibility and a specific focus on fast-growing segments and regions.

Reasons To Sell:

- ▼ Semtech's end markets, especially the high-end consumer and industrial, experience **seasonality**. These end markets experience weaker demand in the first and fourth quarters, relative to second and third quarters. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.
- ▼ Semtech operates in an intensely **competitive market** where its success depends on new product development capacity, capacity to recruit and retain industry experts and marketing efficiency. Some of the major competitors of the company include ON Semiconductor, Texas Instruments, Maxim Integrated Products, Broadcom Limited, Microsemi Corporation, Cypress Semiconductor Corp and Monolithic Power Systems. The market is characterized by lower entry barriers and frequent technological improvements that increase the chances of price competition. Pricing pressure makes Semtech susceptible to reduced sales and lower margins.
- ▼ The nature of business makes Semtech vulnerable to **foreign exchange risk**. A significant part of the company's assets exist in non-U.S. dollar-denominated currencies such as the Swiss franc, euro, British pound sterling, Canadian dollars, Mexican peso and Japanese yen. Thus, appreciation or depreciation of the U.S. dollar versus these foreign currencies could impact the company's financial results.

Major headwinds for Semtech are seasonality, a competitive market and foreign exchange risk.

Last Earnings Report

Semtech Earnings & Revenues Beat Estimates in Q3

Semtech Corporation's fiscal third-quarter 2020 non-GAAP earnings of 41 cents per share surpassed the Zacks Consensus Estimate by a couple of cents. The reported earnings increased 7.9% sequentially but decreased 34.9% year over year.

Non-GAAP revenues of \$141.01 million increased 2.8% sequentially but decreased 18.7% from the prior-year quarter. The sequential increase was driven by growth in IoT and hyper scale data center markets.

Revenues surpassed the Zacks Consensus Estimate by 0.8% and came within the guided range of \$135-\$145 million.

Its key growth drivers are product differentiation, operational flexibility, and specific focus on fast-growing segments and regions.

Let's delve into the numbers in detail:

Revenues by End Market

Sales to the enterprise computing end market—which represented 31% of its total revenues—increased 16% on a sequential basis, driven by a strong rebound in PON demand.

Also, industrial and communications end markets increased 2% and 1% sequentially, representing 34% and 10% of the total revenues, respectively. Revenues from the industrial market decreased, as growth from the LoRa business was offset by broad industrial weakness. This represented 34% of total net revenues.

Also, sales to the high-end consumer market represented 25% of total revenues. The figure decreased 3% sequentially due to lower smartphone demand. Roughly 16% of high-end consumer revenues were attributable to mobile devices and 9% to other consumer systems.

Revenues by Product Group

Signal Integrity Product Group revenues contributed 42% to total sales. The reported figure increased 6% sequentially. The increase was driven by strong demand from the hyperscale data center and PON segments, partially offset by weakness from the base station and broader industrial markets.

Revenues from Protection Product Group represented 28% of the total revenues. The figure was flat sequentially, driven by strength in the mobile business and increase in broad-based demand from industrial and automotive markets.

Revenues from Wireless and Sensing Product Group, which contributed 30% to total revenues, increased 1% sequentially.

Bookings

Bookings, which accounted for roughly 42% of shipments, decreased on a sequential basis during the quarter. The book-to-bill ratio was above 1.

Margins and Net Income

Non-GAAP gross margin was 61.6%, down 60 basis points (bps) sequentially and 10 bps from the year-ago quarter.

Semtech's adjusted operating expenses of \$52.9 million were down 2.6% on a year-over-year basis.

As a result, its operating margin of 24% was up 110 bps sequentially but down 640 bps year over year.

Balance Sheet & Cash Flow

Semtech ended the quarter with cash and cash equivalents of \$283.1 million versus \$287.8 million in the fiscal second quarter. Accounts receivables were \$61.4 million, up from \$58.6 million in the fiscal second quarter. Long-term debt was \$179.1 million, down from \$183.7 million in the fiscal second quarter.

During the quarter, cash flow from operations was \$33.3 million, capital expenditure amounted to \$3.5 million and free cash flow totaled \$29.8 million.

Guidance

For fiscal fourth-quarter 2020, management expects revenues in the range of \$130-\$140 million.

Non-GAAP gross profit margin is expected within 61-62%. Management projects SG&A expenses within \$28-\$29 million, and research and development costs in the range of \$24-\$25 million. Non-GAAP earnings per share are expected in the range of 33-39 cents.

Quarter Ending **10/2019**

Report Date	Dec 04, 2019
Sales Surprise	0.76%
EPS Surprise	5.13%
Quarterly EPS	0.41
Annual EPS (TTM)	1.68

Recent News

On **Nov 14, 2019**, Semtech rolled out new BlueRiver audio visual processor (AVP) chipset which enables a new generation of lower cost peripherals and integration directly into end-products. Further, the new chipset is capable of driving growth of SDVoE-enabled products.

Valuation

Semtech shares are down 1.6% in the past six-month period and 26.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 6.1% and 7.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is up 8.1% and the sector is up 17.2%.

The S&P 500 index is up 5.5% in the past six-month period and 9.6% in the past year.

The stock is currently trading at 23.52X forward 12-month earnings, which compares to 20.03X for the Zacks sub-industry, 19.91X for the Zacks sector and 16.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 53.62X and as low as 12.91X, with a 5-year median of 25.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 24.71X forward 12-month earnings.

The table below shows summary valuation data for SMTC

Valuation Multiples - SMTC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.52	20.03	19.91	16.86
	5-Year High	53.62	22.8	22.04	19.34
	5-Year Low	12.91	13.42	16.87	15.18
	5-Year Median	25.35	18.14	19.33	17.44
P/S F12M	Current	4.59	4.16	3.34	3.12
	5-Year High	6.34	4.52	3.58	3.43
	5-Year Low	1.9	2.81	2.3	2.54
	5-Year Median	3.69	3.69	3.05	3.01
EV/EBITDA TTM	Current	17.56	11.14	11.27	10.93
	5-Year High	25.97	14.57	12.61	12.88
	5-Year Low	7.01	8.34	7.68	8.49
	5-Year Median	15.32	11.75	10.55	10.79

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 38% (98 out of 255)



Top Peers

Monolithic Power Systems, Inc. (MPWR)	Outperform
Analog Devices, Inc. (ADI)	Neutral
Broadcom Inc. (AVGO)	Neutral
Cypress Semiconductor Corporation (CY)	Neutral
MACOM Technology Solutions Holdings, Inc. (MTSI)	Neutral
Maxim Integrated Products, Inc. (MXIM)	Neutral
Texas Instruments Incorporated (TXN)	Neutral
ON Semiconductor Corporation (ON)	Underperform

Industry Comparison Industry: Semiconductor - Analog And Mixed				Industry Peers		
	SMTC Neutral	X Industry	S&P 500	ADI Neutral	MTSI Neutral	TXN Neutral
VGM Score	D	-	-	F	C	D
Market Cap	2.71 B	5.66 B	22.14 B	40.97 B	1.76 B	111.12 B
# of Analysts	7	9	13	12	7	12
Dividend Yield	0.00%	0.00%	1.98%	2.23%	0.00%	3.03%
Value Score	D	-	-	D	D	D
Cash/Price	0.11	0.11	0.05	0.02	0.13	0.05
EV/EBITDA	21.25	17.84	12.79	17.84	-8.00	15.98
PEG Ratio	2.01	1.71	1.92	1.89	NA	2.50
Price/Book (P/B)	3.93	3.93	3.00	3.51	6.00	12.49
Price/Cash Flow (P/CF)	19.04	17.02	11.97	14.99	25.74	18.33
P/E (F1)	24.16	23.73	17.43	23.43	57.23	23.30
Price/Sales (P/S)	4.75	4.54	2.48	7.12	3.76	7.73
Earnings Yield	4.16%	4.21%	5.74%	4.27%	1.73%	4.30%
Debt/Equity	0.26	0.55	0.70	0.41	2.33	0.60
Cash Flow (\$/share)	2.15	2.91	6.94	7.42	1.03	6.49
Growth Score	D	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	11.83%	13.72%	10.85%	19.53%	-41.02%	20.28%
Proj. EPS Growth (F1/F0)	14.76%	7.94%	6.48%	-7.80%	260.10%	-2.56%
Curr. Cash Flow Growth	-2.21%	-12.47%	6.03%	-9.88%	-30.98%	-4.66%
Hist. Cash Flow Growth (3-5 yrs)	-13.66%	24.61%	8.52%	24.75%	-8.89%	8.82%
Current Ratio	4.35	3.59	1.23	1.08	4.34	4.13
Debt/Capital	20.63%	36.52%	42.57%	28.87%	69.99%	37.32%
Net Margin	8.71%	3.29%	11.57%	21.06%	-83.56%	34.83%
Return on Equity	10.64%	12.86%	16.66%	15.38%	-15.36%	56.21%
Sales/Assets	0.54	0.48	0.54	0.27	0.39	0.81
Proj. Sales Growth (F1/F0)	7.14%	3.56%	4.07%	-6.07%	1.53%	-0.69%
Momentum Score	C	-	-	C	C	D
Daily Price Chg	3.47%	3.46%	3.82%	2.04%	5.14%	4.23%
1 Week Price Chg	-16.26%	-12.28%	-12.06%	-11.17%	-15.23%	-11.19%
4 Week Price Chg	-18.64%	-5.65%	-6.43%	1.15%	-7.78%	-3.59%
12 Week Price Chg	-12.03%	-2.81%	-5.15%	-2.92%	8.18%	-2.48%
52 Week Price Chg	-26.31%	8.69%	4.77%	2.40%	38.24%	10.77%
20 Day Average Volume	436,584	692,884	2,363,047	2,724,839	428,014	4,794,421
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.91%	-0.29%	-0.04%	-0.58%	0.00%	-0.29%
(F1) EPS Est 12 week change	5.19%	-0.52%	-0.33%	-0.52%	NA	2.49%
(Q1) EPS Est Mthly Chg	-2.60%	-0.70%	-0.38%	-3.15%	0.00%	-0.43%

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	C
VGM Score	D

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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