

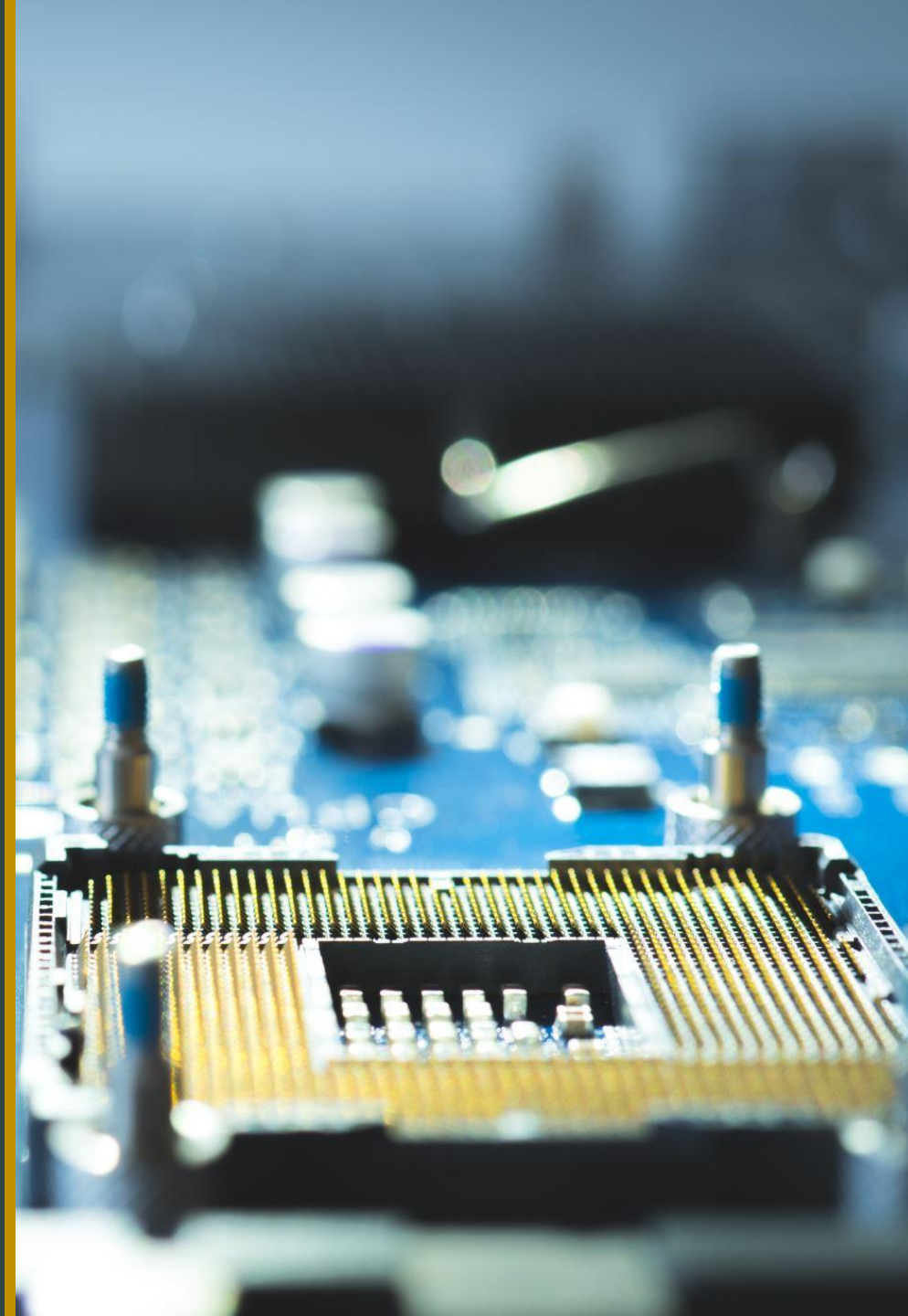


Technology Stock Pitch Semtech Corporation

Senior Analyst
Jonathan Nwachukwu

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Junior Analysts
Oliver Baillie
Olly Wanless
Regina Stabulniece
Sean Del Rosario



Agenda



1	Industry Overview
2	Company Overview
3	Financial Performance
4	SWOT Analysis
5	Investment Thesis
6	Valuation
7	ESG
8	News & Upcoming Events
9	Final Recommendation

Semiconductors – A Brief Introduction



Definition

A semiconductor is a solid material used in circuits with the ability to conduct electricity following the addition of a temperature change or deliberate impurities. Semiconductors sit in between conductors and insulators in terms of conductivity.

Glass
Insulator

Silicon
Semiconductor

Copper
Conductor

As semiconductors act effectively as both an insulator and a conductor, under the right conditions, they can be more flexibly used as they are more resistant and resilient.

Uses & Importance

Because semiconductors are so effective and flexible at conducting electricity, they have become an essential part of electrical circuits, and as such an essential part of all technology, from PCs and phones to missile weapon systems.

Demand for semiconductors will remain as long as technology and electronics are widespread in civilisation, the extent to which demand persists will depend on a wide variety of factors.

Memory

Microprocessors

Commodity Integrated Circuit

Complex SOC

Production Locations

Taiwan

South Korea

Japan

United States

China

Common Materials

Silicon - Element

Germanium - Element

Gallium Arsenide - Compound

Cadmium Selenide - Compound

Industry Overview

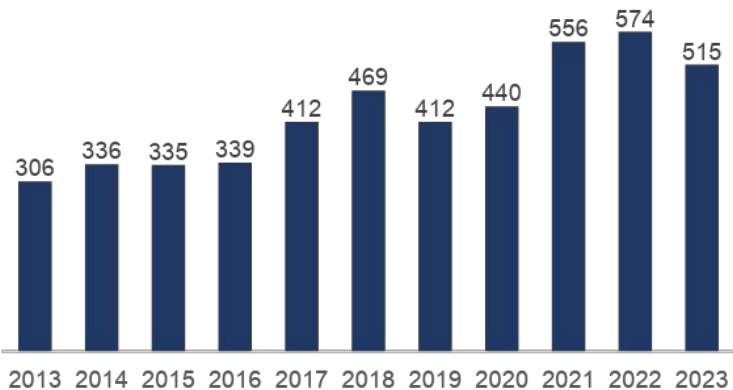


Semiconductor Market

The semiconductor industry is predicated on near-constant technological advancements through perpetual R&D efforts. Semiconductor companies aim to constantly develop smaller, faster, and cheaper products as this allows for the addition of more transistors to be added to a chip, speeding up circuit functionality. Semiconductor companies can be split into two categories, raw and refined producers. Raw producers sell to refined producers and sit higher in the production process. Semtech is a refined producer, whereas Taiwan Semiconductor is a raw producer. This market is also highly seasonal which provides benefits and drawbacks. At some point in the future demand is guaranteed but the timing of increased demand in the face of high R&D spending can be problematic.

Global Semiconductor Market
Revenue 2013 -2023

Values in billions \$



Competitors

Lattice Semiconductors

Diodes Incorporated

ON Semiconductor Corp

Market Leaders

NVIDIA

AMD

Intel

Taiwan Semiconductor

Market Outlook & Drivers

Automotive & Vehicles

High-Speed WL Connection

Internet of Things

Estimates of improvements on this year's performance have been made by tech companies and investment firms. With forecasts indicating strong growth in 2024 to around \$600 billion in global market revenue.

End Markets & Market Segments

Consumer

Industrial

Defence & Space

Telecommunications

Integrated Circuits

Discrete Semiconductors

Optoelectronics

Sensors & Actuators

Company Overview



Business Strategy & Model

Leverage speciality design expertise

Design and Conceptualise

Continue development and release of new products

Outsource Manufacturing

Focus on new fast-growing market segments and regions

S&M & Business Dev

Further capitalise on outsourced manufacturing

Distribution & Delivery

Clientele & Markets

High-End Consumer

Smartphones, Tablets, TVs, Wearables, Chargers, Monitors

Notable Clients

SAMSUNG

Industrial Uses

Broadcasting Equipment, Meter Readers, Smart Grids

Raytheon Technologies

Infrastructure Uses

Routers, Data Centres, Servers, Passive Optical Networks

Alphabet

Background

Semtech is a high-performance semiconductor, IoT systems, and cloud connectivity service provider. They develop, design, and manufacture products for commercial use.

Public since 1967

Founded in 1960

Products & Services

Wireless RF



LoRa Platform

Circuit Protection



Semtech Shield

Power Management



Eco ICs

Locations

Semtech has 37 locations across the globe, headquartered in California. Sites in North America, Europe, and Asia, with locations in multiple countries per continent. Locations include: Canada, America, Mexico, England, France, Germany, Sweden, Switzerland, Australia, China, Taiwan, Korea, and Japan

Technologies

Tri-Edge

Provides faster transfer speeds at low cost with a wide usage range

PerSe Portfolio

Radio frequency chips for human proximity detection devices

BlueRiver

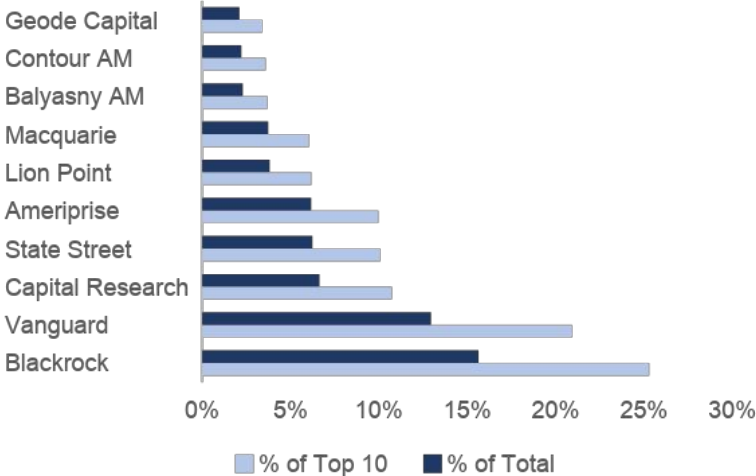
Reduces costs for media uses, simplifying latency transport

Company Overview

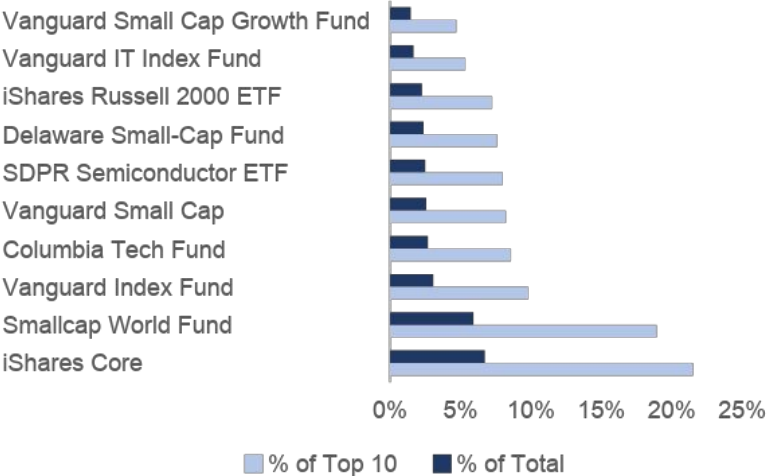


Ownership & Holders

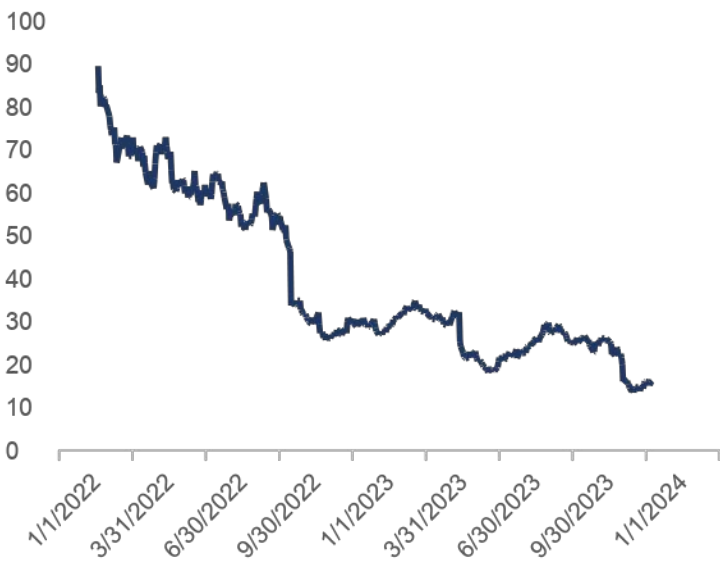
Top Ten Institutional Holders – September 2023



Top Ten Fund Holders – September 2023



Stock Performance



Semtech Leadership Team



Top, Left to Right: SVP & GM –Division Head, President & CEO, EVP & COO, SVP & GM – Division Head. **Bottom, Left to Right:** SVP Global Sales, EVP & GM – Division Head, VP & GM – Division Head, EVP & CFO, EVP & CQO

Due to this large, experienced, and well-divided leadership team, Semtech has been able to remain profitable and acquisitive.

Financial Performance



Income Statement

- Strong Gross Profit Margins YoY, irrespective of rising costs and economic climate due to diverse end markets
- High and growing R&D spend – indicative of the industry

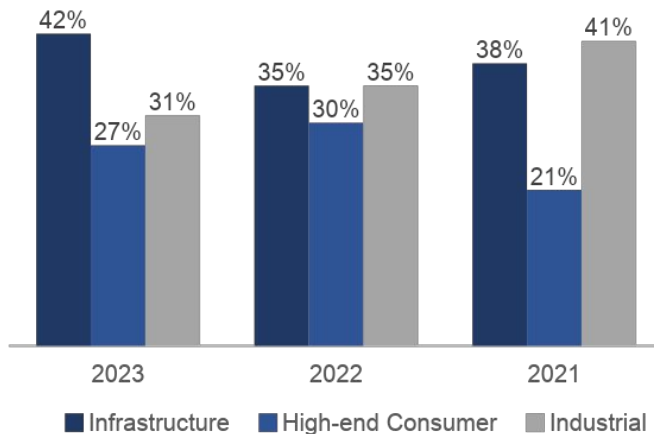
Balance Sheet

- Good Days Accounts Payable Ratio to Days Accounts Receivables Ratio, 1.79x
- Strong cash balance, despite acquisition

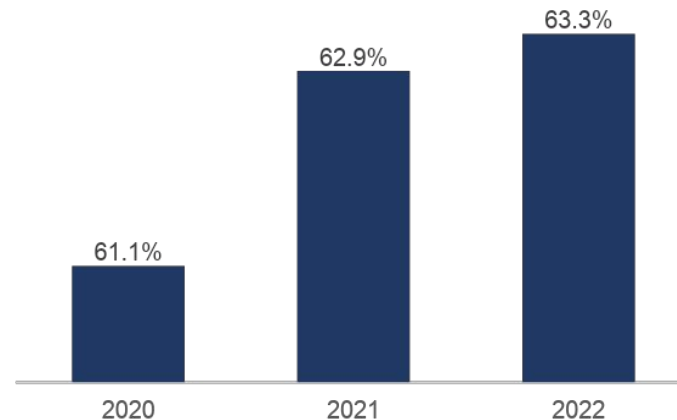
Cash Flow Statement

- Large number of non-cash expense line items:
D&A, SBC
- Negative total from Investing Activities, future payoff

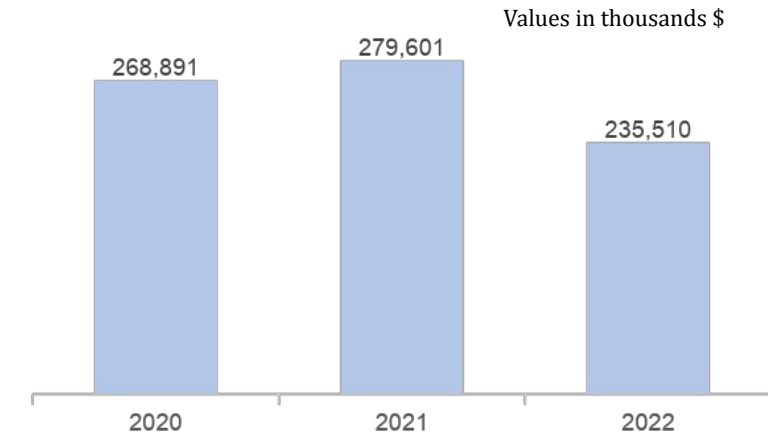
Proportion of Revenue, by type



Gross Profit Margins Year on Year



Cash Balance Year on Year



SWOT Analysis



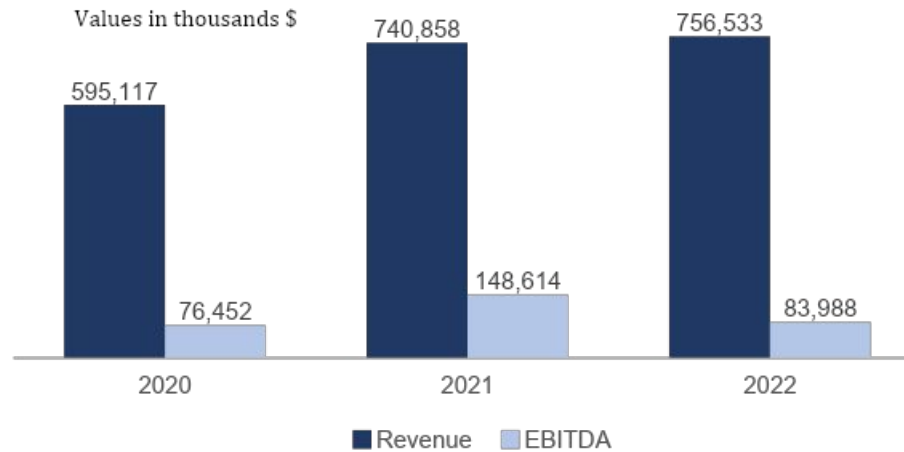
Strengths

- Well-positioned globally, locations in all semiconductor hotspots
- Wide and diverse client list, no over-dependency on any one client

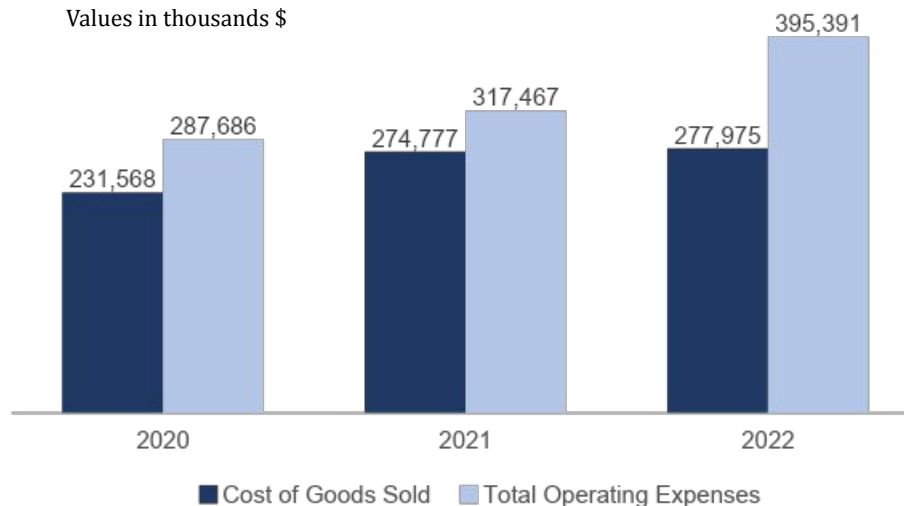
Weaknesses

- High Operating Expenses
- Lower Cash balance due to Sierra acquisition

Revenue to EBITDA



Direct Sales Costs to Operating Expenses



Opportunities

- Favourable US Government policy – CHIPS Act (Aug 2022)
- Addressable market grows alongside IoT demand for semiconductors

Threats

- Inherent Industry Cyclicity
- Geopolitics US & China, China & Taiwan

Investment Thesis



Catalyst 1

Semiconductor Market Contraction

Geopolitical and global socioeconomic issues have been the main drivers influencing the contraction of the semiconductor sector in 2022 and 2023. The market capitalization of the top ten global chip businesses has dropped dramatically due to rising interest rates, increasing inflation, declining consumer confidence, and tech-led stock market declines. From November 2021 to November 2022, the total market cap of these companies has decreased by 34%.

Risk & Mitigant 1

Semtech acknowledges that average selling prices have historically decreased and are likely to continue to do so. Semtech's wide portfolio and solutions will reduce the extent to which this affects income.

Catalyst 2

Accelerating value for the Internet of Things (IoT)

IoT has enormous and continuing commercial potential. Estimates place its global value between \$5.5 trillion to \$12.6 trillion by 2030. Semtech is ideally positioned to benefit from the anticipated expansion in the semiconductor and IoT industries, which are predicted to increase at CAGRs of 12.2% and 26.4%, respectively, over the next ten years.

Risk & Mitigant 2

Semtech is dependent on employees with unique skill sets, to properly capitalise on AMs. Currently, the number of technicians will be outpaced by forecasted market growth. To retain and attract talent, salaries will rise.

Catalyst 3

Acquisition Driven Growth

After acquiring Sierra Wireless, Semtech has increased its TAM and reduced the firm's core dependency on APAC, as Chinese revenues are expected to decrease. Additionally, due to the semiconductor market downturn, we believe that the synergies of this acquisition are yet to be fully realised and integrated.

Risk & Mitigant 3

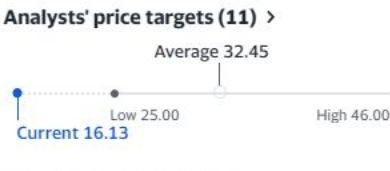
Despite less dependency due to this acquisition, factors like wider market demand, geopolitics, and supplier terms will influence the timeframe to which the Sierra acquisition catalyses growth.

Valuation



Professional Research

Recommendations & Ratings



P/E Multiples

Blended Forward P/E Price Target	\$19.48
Upside	21%
Average Trailing P/E Price Target	\$35.79
Upside	122%

Comparables

Semtech Comps Table (in millions \$)							
Company Name	Market Cap	Enterprise Value	Revenue Growth		EV/EBITDA LTM	LTM P/E Ratio	YTD Return
Analog Devices	9,086	9,078	30.7%	64.1%	10.9x	18.1x	11.5%
Diodes Inc	316	317	47.2%	10.5%	6.7x	11.4x	-9.4%
Lattice Semiconductors	799	802	26.2%	28.2%	94.1x	28.4x	-10.4%
Microchip Corp	4,503	4,491	25.4%	23.8%	17.1x	12.8x	18.2%
ON Semiconductor Corp	2,983	2,990	28.1%	23.6%	9.2x	13.3x	11.3%
Semtech's Peers	2,983	2,990	31.5%	30.0%	10.9x	13.3x	11.3%
Semtech Corporation	1,030	1,030	2.12%	24.49%	5.7x	12.9x	-44.0%

Opinions

Maintains	Susquehanna: Positive to Positive	24/10/2023	Downgrade	Benchmark: Buy to Hold	14/09/2023
Upgrade	Benchmark: Hold to Buy	19/10/2023	Reiterates	Needham: Buy to Buy	14/09/2023
Maintains	Craig-Hallum: Buy to Buy	14/09/2023	Upgrade	Summit Insights Group: Hold to Buy	14/09/2023
Maintains	Roth MKM: Buy to Buy	14/09/2023	Upgrade	Susquehanna: Neutral to Positive	14/09/2023
Maintains	Stifel: Buy to Buy	14/09/2023	Reiterates	Needham: Buy to Buy	07/09/2023
Maintains	Piper Sandler: Overweight to Overweight	14/09/2023	Reiterates	Roth MKM: Buy to Buy	06/09/2023
Maintains	B. Riley Securities: Buy to Buy	14/09/2023	Upgrade	Needham: Hold to Buy	06/09/2023
			Initiated	Craig-Hallum: to Buy	21/06/2023

Discounted Cash Flow

Free Cash Flow	96	86	177	98	139	173	208	242	1,775
PV of Future Cash Flows	1,473				119	128	131	132	963
Capitalization	Small Cap				Name	Sector	Industry		
Market Cap	1,300				Semtech	Technology	Semiconductors		
Shares O/S	62								
Calculated Stock Price	23.79				Employees	Location			

ESG & Corporate Social Responsibility



Corporate Commitment Strategy

Semtech openly acknowledges areas for improvement and plans to integrate more sustainable practices into its business. Sustainability goals are aligned with the UN Sustainable Development Goals and include: Responsible Material Sourcing and Gender Equality.

Product Innovation & Environmental Impact

Semtech's products and technologies, such as Power Management, are purpose-built to reduce e-waste and extend device lifespans making electronics with Semtech components more environmentally friendly. During its own production phases, carbon footprints are proactively minimised.

Social Responsibility & Workplace Development

Semtech aims to foster a positive workplace environment for all its employees, this allows for top talent to be retained and attracted. The Responsible Business Alliance Code is also adhered to, alleviating forced labour concerns within the supply chain, a particular concern in SEA.

Contributions to Global Development

Due to the diverse uses of semiconductors and the variety of Semtech's end-markets, its products have a range of applications and can be used in sustainable endeavours such as: more reliable and sustainable education technology to enhanced crop yields.

Environmental Management & Compliance

Semtech is transparent in its greenhouse gas emissions, energy usage, water consumption, and waste management and earned the ISO 14001 environmental certification in 2018 because of its ability to meet stringent standards and requirements.

Innovative Solutions & Investments

Semtech deliberately acquires firms and invests in technology with sustainable application or focus. Sierra Wireless' GHG Emission Reduction technology, now integrated into the Semtech range, is highly effective at improving environmental management practices.

Recent News & Upcoming Events



Q3 Results Announcement & Outlook

Semtech plans to release its financial results for the third quarter of fiscal year 2024 (2023) on December 6th.

This will be followed by a conference call to discuss the company's performance, current business activities, conditions, and outlook.

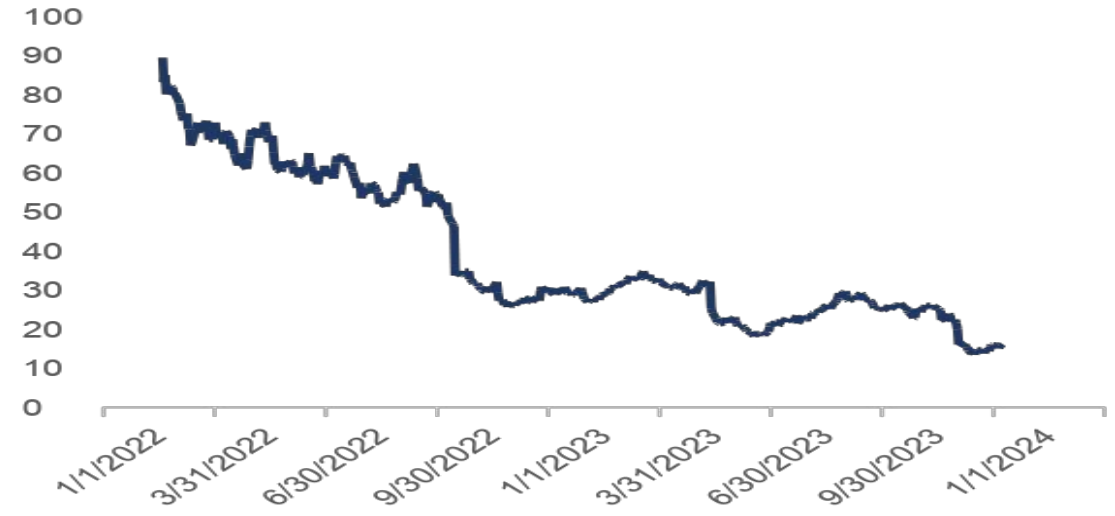
Semtech has reaffirmed its financial outlook for the third quarter of fiscal year 2024 (2023), indicating positive performance and expectations for the remainder of the quarter.

The company expects revenue to be in the range of around \$190 million.

Convertible Debt Announcement

Semtech announced the pricing of \$250 million in convertible senior notes due in 2028.

Stock Performance



Acquisition of Sierra Wireless

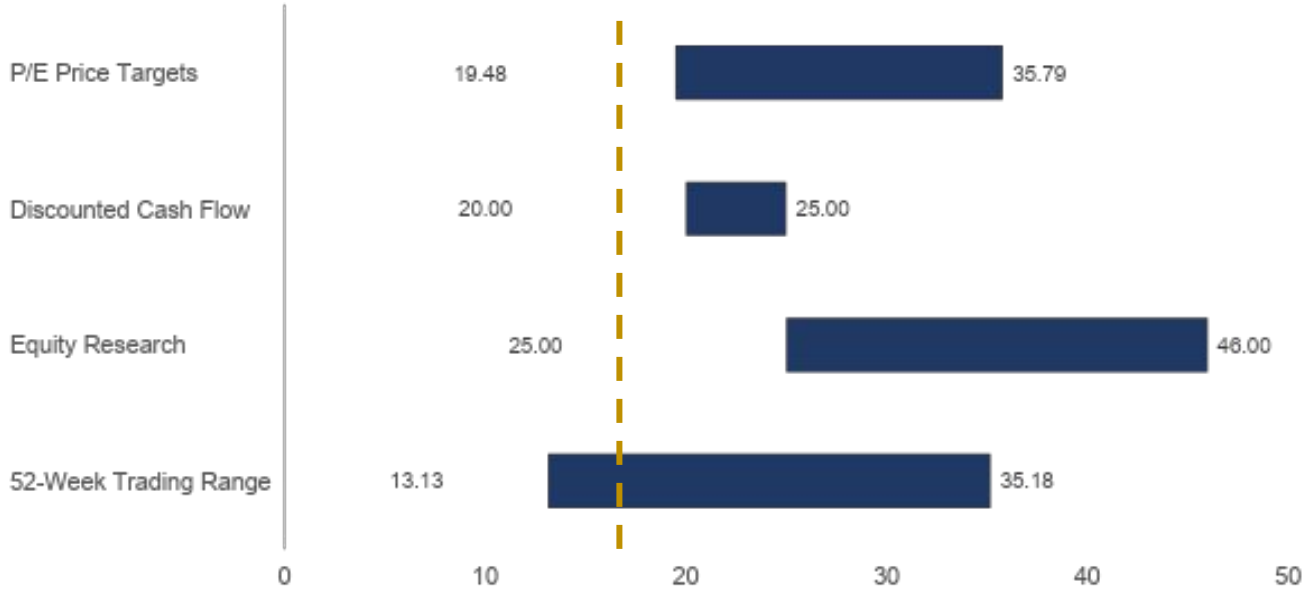
Semtech acquired Sierra Wireless earlier this year for \$1.2 billion.

This significant acquisition will enhance Semtech's portfolio and market presence in the semiconductor and IoT systems sector with new technologies and services to add to its product portfolio.

Final Recommendation - BUY



Football Field Valuation



Investment Thesis Reiteration

Semiconductor Market Contraction

Accelerating value for the Internet of Things

Sierra Acquisition Driven Growth

Stock Currently Trading at Historically Low Levels

Positive Sentiment within Professional Community

Current Price

\$16.13

Price Target

\$19.48
\$35.79

Upside

>21%

Investment Period

6 - 12 Months
12 – 24 Months