Semtech Corporation (SMTC)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/27/20):</th>
<th>50.21</th>
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</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>55 - 26</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>3,323</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>66.2</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>64.8</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.61</td>
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<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
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</tbody>
</table>

Rating: Outperform
Suitability: Higher Risk
Price Target ($) : 60
L-Term Rev. Gr Rate Est:
Q1: 22.4%
Q2: 5.8%
Q3: 1.92%
Q4: 1.54%
Total: 2.00E

Price Target ($) : 60
Outperform FY Jan 2020A 2021E 2022E
Q1: 0.34A 0.35A 0.44E
Q2: 0.38A 0.42E 0.49E
Q3: 0.41A 0.44E 0.54E
Q4: 0.40A 0.44E 0.54E
Total: 1.52A 1.65E 2.00E

Fiscal Year

EPS (Net): The actuals/estimates above are on a pro forma EPS excluding stock compensation basis.

Headquartered
Camarillo, CA
IPO/Founded: 1967/1960
Management
President & CEO: Mohan Maheswaran
Vice President & CFO: Emeka Chukwu
Head of Investor Relations: William (Sandy) Harrison

Company Description
Semtech Corporation is a leading supplier of high-end analog and mixed-signal semiconductor products for the enterprise computing, communications, high-end consumer, and industrial end markets. Company also owns the LoRa technology, which is rapidly ramping in IoT applications.

Revenue Profile

Revenue by Product Group

| Protection (TVS) | 30% |
| Wireless and Sensing (WST) | 23% |
| Signal Integrity | 45% |

Sources: Company Reports, Baird

Company Description

Protection Products competitors include STMicroelectronics, NXP Semiconductors, ON Semiconductor, and Infineon.
Signal Integrity competitors include Texas Instruments, Maxim Integrated Products, MACOM Technology Solutions, Inphi Corporation, Broadcom, and customers’ own internal solutions.
Power and High-Reliability competitors include Texas Instruments, Maxim Integrated Products, MACOM, and Monolithic Power Systems.
Wireless and Sensing competitors include Silicon Laboratories, Texas Instruments, Analog Devices, and Cypress Semiconductor.
Quick Summary

- Semtech has an optimized mix given the current macro environment, with infrastructure reaching 60% of total revenue (data center, PON, 5G basestation, LoRa) and a low single-digit automotive exposure.
- Key drivers for the sequential rebound embedded in the revenue guidance include an easy comp post supply chain disruptions, work-at-home trends fueling the company’s optical business, along with ongoing strength in data centers and a rebound in LoRa and 5G basestations.
- Channel inventories declined for Semtech in the quarter and remain healthy.
- Expected YOY increase in LoRa revenue this quarter, along with an unchanged full-year revenue guidance, is very encouraging given the significant earlier-year weakness in the China market.
- New LoRa design wins are primarily originating outside of China, representing a strong signal that adoption is broadening and eventually fueling a reacceleration in LoRa revenue, in our view.
- LoRa metrics continue to increase, notably gateway deployments which ultimately drive end-node proliferation.
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Quarter Results.

- F1Q21 (ended April) pro forma EPS (excluding stock comp) was $0.35, near the high-end of guidance of $0.30-$0.36. GAAP EPS was $0.15.
- F1Q21 GAAP revenue of $132.7 million was above the midpoint of guidance of $125-$135 million, down 4% QoQ.
- Pro forma gross margin of 61.3% was down 20bps QoQ, near the low-end of the guidance range of 61.0%-62.0%.

Guidance.

- F2Q21 GAAP revenue guidance midpoint of $142 million is well above our estimate of $134.0 million and consensus of $132.6 million.
- The midpoint of F2Q21 GAAP gross margin guidance of 60.8%-61.6% is in line with our previous estimate and consensus of 61.1%.
- The midpoint of F2Q21 pro forma EPS guidance (excluding stock comp) of $0.40- $0.44 is well above our previous estimate of $0.33 and consensus of $0.35.

- Raised price target to $60. Outperform-rated.

Investment Thesis

Proprietary LoRa technology represents a secular and very differentiated growth catalyst for Semtech, with the biggest TAM potential in U.S. home IoT applications, along with multiple other drivers including green buildings, geo-location, and industrial applications. While LoRa growth abated in F2020, Semtech’s new design win pipeline suggests meaningful geographic diversification away from China in the medium-term. Other secular drivers for Semtech include data center, PON, 5G basestations, and new smartphone technologies.

Risks & Caveats

- Lack of industry adoption for certain new technologies. Part of Semtech’s growth is reliant on new technologies ramp, such as LoRa. Should LoRa fail to gain traction as a leading LPWAN standard, it could deprive Semtech from a key revenue growth driver.

- Transition from IC to licensing revenue. Semtech’s LoRa chipsets command today high ASPs. STMicro is the only licensee of the technology announced by Semtech so far, and licensing fees are not disclosed. Should a significant portion of LoRa’s IC business transition to licensing revenue over time, significant ASP degradation could occur.

- Customer concentration. Semtech is a highly diversified company from a customer standpoint, with 10% customers only comprised of two distributors in F2018. However, while exposure to Samsung has declined over the past few years, combined exposure to Samsung and Premier (a distributor with high Samsung exposure) was 14% of revenue in F2018.

- Supply constraints. Semtech is a fabless company and any supply constraints could impact Semtech’s ability to serve its customers.

- Competition. Semtech faces several competitors and a variety of end markets, including in growth product areas. However, Semtech does not pursue and invest in markets unless it thinks it can maintain a No. 1 or No. 2 market share position.

Supplemental Information

- Valuation. Our price target of $60 on SMTC shares is based on the stock trading at 30x P/E to our F2022 pro forma EPS excluding stock compensation estimate of $2.00. The multiple we use in determination of our price target is above the 18x average multiple for a peer group of companies. We believe the premium multiple is warranted due to Semtech’s high-margin profile, rapid growth opportunities notably with its LoRa technology, and strategic positioning in high-growth end markets.
Appendix - Important Disclosures and Analyst Certification

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1 Robert W. Baird & Co. Incorporated makes a market in the securities of SMTC.

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