

Skyworks Solutions Inc.

NasdaqGS: SWKS

Analyst: Ryan Burke

Sector: Technology

BUY

Price Target: \$85.66

Key Statistics as of 11/17/2015

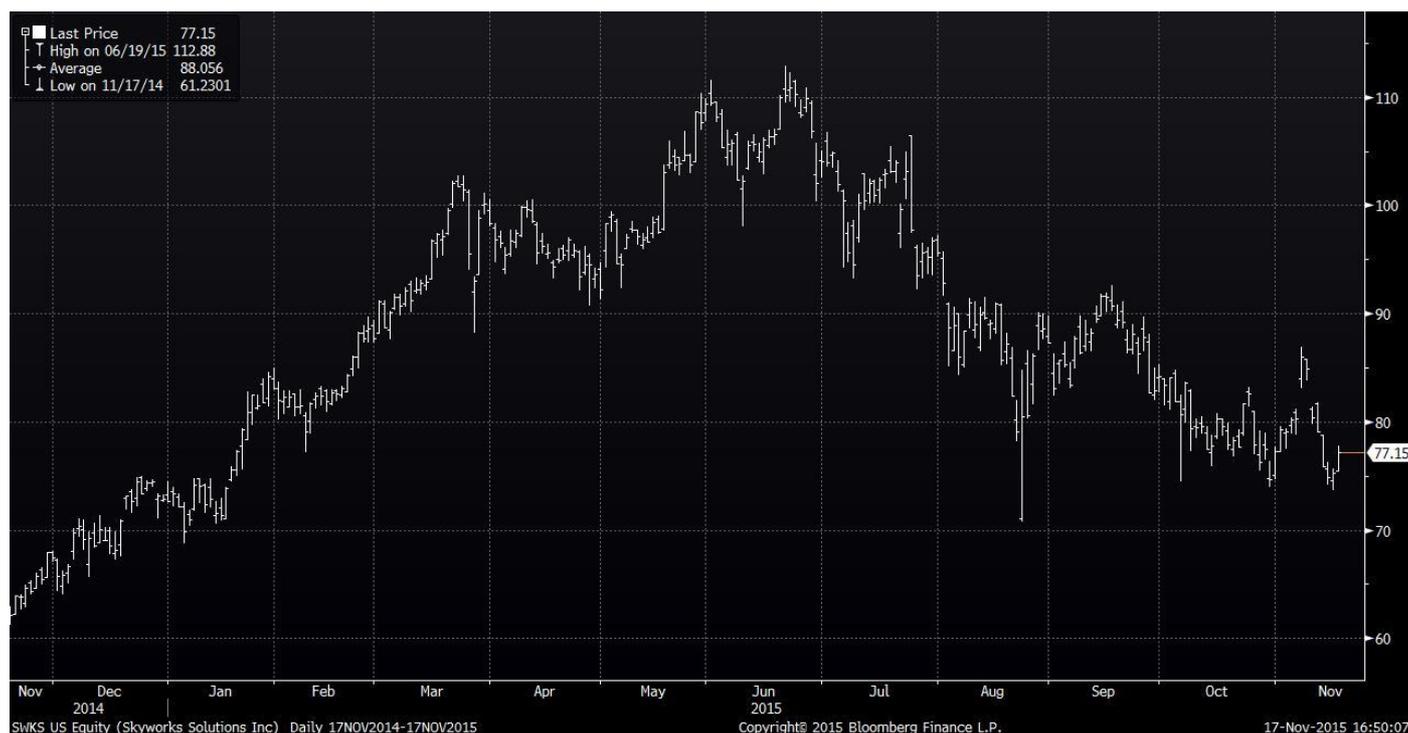
Market Price:	\$77.16
Industry:	Semiconductors
Market Cap:	\$15.69B
52-Week Range:	\$56.68 – 112.88
Beta:	.933887

Thesis Points:

- Skyworks chips are essential to the “Internet of Things”
- Recent Accretive Acquisition
- Growth in emerging markets phone sales

Company Description:

Skyworks Solutions Inc. is an innovator of high performance analog and mixed signal semiconductors linking people, places and things across a rapidly expanding number of applications including automotive, broadband, wireless infrastructure, energy management, GPS, industrial, medical, military, networking, smartphones and tablets. Their product portfolio consists of amplifiers: the modules that improves the signal so that it has required energy to reach a base station; attenuators: circuits that allow a known source of power to be reduced by a predetermined factor; detectors, intended for use in power management applications; diodes: semiconductor devices that pass current in one direction, and a variety of other components such as battery chargers, circulators, DC/DC converters, etc. The company has aligned its product portfolio around two markets, cellular handsets and analog semiconductors. Skyworks offers its products primarily in Europe, North America, China, and Taiwan.



Bargaining Power of Buyers: Low

Skyworks Solutions has the reputation for high quality products which has led to a wide variety of contracts with many different companies. Each company requires a customized chip for their specific purposes, which gives Skyworks leverage over their buyers.

Bargaining Power of Suppliers: Low

Many of Skyworks Solutions contracts endure over multiple years with high profile clients such as Lockheed Martin, Apple, and Panasonic. This makes them an important and reliable revenue stream for their suppliers. This reduces the suppliers bargaining power.

Threat of new entrants: Low (for the time being)

Skyworks Solutions has over 50 product patents which makes their service difficult to duplicate. Additionally, it takes quite a bit of capital and numerous contracts to successfully start a semiconductor company in the immediate future. However, Semiconductor technology evolves at a fast rate, as times change there is potential for existing chip processing companies to invest and gain share in the semiconductors of the future.

Skyworks role in the “Internet of Things”

The biggest potential win for Skyworks solutions is growth in customer base that will come from the “Internet of Things”. The “Internet of Things” is a proposed development of the Internet in which everyday objects have network connectivity allowing them to send and receive data. Skyworks is equipped to accommodate the myriad of mobile connected devices in the future. The partnership between Skyworks and the GE Healthcare division show the breadth of the potential market for high—quality connectivity solutions.

Acquisition

Skyworks acquired PMC-Sierra on October 6th 2015. PMC-Sierra is a leader in mixed signal semiconductor solutions, supporting networking and storage applications. This diversification into adjacent markets gives Skyworks the potential to create an analog and mixed signal powerhouse within the semiconductor

Thesis

Skyworks is a company well integrated in the technology industry. Specializing in cellular handsets and analog semiconductors, Skyworks is the supplier to the technology industry’s biggest names: Apple, Samsung, Google, Cisco and many more. This chipmaker is seen as a leader in solving complex integration issues, managing the coexistence of multiple common protocols. It has unmatched system design capabilities, extensive product breadth in core enabling technologies, and advanced production techniques to enable highly customized solutions. As time progresses and the inevitable future of the “Internet of Things” crystallizes, Skyworks Solutions Inc. is strategically positioned to become a leading player providing the chips that will connect billions of devices experts expect to communicate with one another by the end of the decade. The recent acquisition of PMC-Sierra demonstrates their aggressive growth and strategic diversification into adjacent markets. Finally, the ubiquity of Skyworks semiconductors and products in smartphones worldwide will lead to organic growth as emerging markets adopt smartphone technology over time.

Porter’s 5 Forces

Competitive Rivalry: Medium

There are a wide variety of semiconductor chip makers in existence but Skyworks specialization in wireless communication and ability to customize set them apart from their competition. Currently they are an industry leader in mobile devices and analog semiconductors, but as time goes on, their products will become cheaper to produce. Big players such as Intel and Samsung have the resources to encroach on this corner of the market over time.

Threat of Substitute Products or Services:

Skyworks commands the market for Wireless connectivity in a variety of devices, whether it be infotainment, healthcare, or cellular. This industry involves such a large amount of complexity and customization, customers tend to look for a company with the breadth of technology to tackle any particular situation and not risk a smaller more focused company for these services.

landscape gearing for the explosive growth in digital content and in data traffic. This acquisition will enhance PMC-Sierra's business model via Skyworks global supply chain. Senior management has identified \$75 million of annual cost savings and \$ 4 Billion in annualized revenue. One of the primary growth drivers of this acquisition is data storage. PMC-Sierra products enable seamless and efficient expansion of capacity along with significantly high levels of performance for cloud service and enterprise data centers. The acquisition will be financed through a combination of available cash from the combined balance sheet and a new \$1.8 Billion term loan with 4.5% interest.

Emerging Markets

In 2014 90 million smart phones in china, by the end of this year CEO David Aldrich projects there will be approximately 250-300 Million smartphones, all of which will use Skyworks Solutions chips. As emerging markets adopt 3G, 4G and LTE technologies, , increases in tablet computing, the expansion of their analog product portfolio will address additional content within the handset and tablet markets as well as new vertical markets including medical, automotive, military and industrial.

Summary

As the Internet of Things comes to fruition over the next several years, Skyworks Solutions Inc. is geared to accommodate the mobile connectivity of billions of potential devices. Its recent accretive acquisition into an adjacent market shows Skyworks ambition for growth in the semiconductor industry. If the company continues operations as is, the growth in emerging markets and global connectivity will yield value for shareholders.

CENTER FOR GLOBAL FINANCIAL STUDIES

Skyworks Solutions Inc.	swks	Analyst Ryan Burke	Current Price \$75.84	Intrinsic Value \$78.55	Target Value \$85.66	Dividend Yield 1%	1-y Return: 14.32%	NEUTRAL
General Info		Peers		Management				
Sector	Information Technology	Analog Devices, Inc.	\$18,789.12	Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Industry	semiconductors and Semiconductor Equipme	Qorvo, Inc.	\$7,805.51	Aldrich, David	Chairman of the Board and Chief Exec	\$5,800,648	\$6,912,623	\$0
Last Guidance	November 5, 2015	Xilinx Inc.	\$12,098.38	Griffin, Liam	President	\$2,142,071	\$4,637,934	\$0
Next earnings date	NM	Maxim Integrated Products, Inc.	\$11,263.64	Palette, Donald	Chief Financial Officer, Principal Accou	\$1,726,046	\$3,451,049	\$0
Market Data		QIN Semiconductor Corp.	\$4,632.58	Freyman, Bruce	Executive Vice President of Worldwide	\$1,566,568	\$2,950,130	\$0
Enterprise value	\$14,434.27	Avago Technologies Limited	\$33,106.05	Gammel, Peter	Chief Technology Officer	\$0	\$0	\$0
Market Capitalization	\$4,449.48	NVIDIA Corporation	\$16,444.89	Tremallo, Mark	Vice President, General Counsel and S	\$1,073,041	\$0	\$0
Daily volume	0.22	Marvell Technology Group Ltd.	\$4,560.06	Past Earning Surprises				
Shares outstanding	195.67	Microsemi Corporation	\$3,530.54	Revenue		EBITDA	Norm. EPS	Standard Error of "Surprise"
Diluted shares outstanding	194.90	Linear Technology Corporation	\$10,630.00	Last Quarter	0.19%	0.00%	0.00%	0.06%
% shares held by institutions	26.01%	Current Capital Structure		Last Quarter-1	1.04%	7.70%	3.88%	1.93%
% shares held by insiders	0.32%	Total debt/Common Equity (LTM)	0.11	Last Quarter -2	1.37%	4.46%	1.77%	0.97%
Short interest	7.16%	Cost of Borrowing (LTM)	0.00%	Last Quarter -3	4.06%	13.28%	5.88%	2.82%
Days to cover short interes	3.25	Estimated Cost of new Borrowing	2.53%	Last Quarter -4	0.00%	7.64%	3.70%	2.21%
52-week high	\$112.88	Altman's Z	NA	Standard error	0.7%	2.2%	1.0%	0.37%
52-week low	\$60.33	Estimated Debt Rating	AAA	Standard Error of Revenues prediction	0.7%	Industry Outlook (Porter's Five Forces)		
5y Beta	1.25	Current levered Beta	1.25	Imputed Standard Error of Op. Cost prediction	2.1%	Bargaining Power of Suppliers (75th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th		
6-month volatility	42.49%	LTM WACC	10.48%	Imputed Standard Error of Non Op. Cost prec	NM			

Convergence Assumptio		General Assumptions		Items' Forecast Assumptions			Other Assumptions	
All base year ratios linearly converge towards the Peers ratios over an explicit period of 10 years		Money market rate (as of today)	0.37%	Base year (LTM)	Convergence period (Peers)	Adjustment per year	Tobin's Q	80%
		Risk-Free rate (long term estimate)	2.93%	Operating Cash/Rev.	0.00%	0.00%	Excess cash reinvestment	Money market rate
		Annual increase (decrease) in interest rates	0.0%	NW/Rev.	12.50%	12.50%	Other claims on the firm's asse	\$0.00
		Marginal Tax Rate	37.5%	NPPE/Rev.	25.36%	25.36%	Capitalization	
		Country Risk Premium	6.0%	Dpr/NPPE	20.00%	20.00%	Rent expenses are not capitalized	
				NOPAT MARGIN	25.03%	25.03%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years	
Forecast Year	Revenue Growth Forecast	Revenue (\$)	Forecast	Op. Exp./Rev.	64.26%	64.26%	E&F expenses are not capitalized	
LTM		\$3,258.40		SBC/Rev.	3.07%	3.07%	SG&A expenses are not capitalized	
FY2016	13.1%	\$3,684.03		Rent Exp./Rev.	0.00%	0.00%	Valuation Focus	
FY2017	12.6%	\$4,146.64		R&D/Rev.	7.91%	7.91%	DCF Valuation	100%
FY2018	8.4%	\$4,493.57		E&D/Rev.	0.00%	0.00%	Relative valuation	0%
FY2019	5.7%	\$4,748.95		SG&A/Rev.	4.39%	4.39%	Distress Valuation	0%
FY2020	4.3%	\$4,956.13		RDIC	41%	40.65%	Monte Carlo Simulation Assumptions	
FY2021	3.7%	\$5,137.02		EV/Rev.	4.58%	4.58%	Revenue Growth deviation	Normal (0%, 1%)
FY2022	3.3%	\$5,308.36		EV/EBITDA	12.40%	12.40%	Operating expense deviation	Normal (0%, 1%)
FY2023	3.2%	\$5,476.52		Debt/Equity	11%	11%	Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
FY2024	3.1%	\$5,645.40		Unlevered beta	1.16	1.16	Country risk premium	Triangular (2.91%, 3%, 3.09%)
FY2025	3.0%	\$5,817.13		Dividends/REV	0%	0%	Intrinsic value = (e)	\$0.09
Continuing Period	3.0%	\$5,991.65					1-year target price = (e)	\$0.10

Forecast Year		ROIC	WACC	Invested Capital	Implied Enterprise Value	Claims on Assets and Dilution	Shares Outstanding	Price per Share	Monte Carlo Simulation Results
LTM		40.7%	10.5%	\$2,665.13	\$14,025.52	-\$918.73	195.67	\$77.66	The 3σ(-)-adjusted intrinsic value is \$78.55; the 3σ(-)-adjusted target price is \$85.66; and the analysts' median target price is \$111.68
FY2016		33.7%	9.7%	\$3,015.83	\$14,840.19	-\$1,530.95	195.67	\$84.76	
FY2017		33.5%	9.7%	\$3,397.01	\$15,851.73	-\$2,183.36	195.67	\$91.86	
FY2018		32.2%	9.7%	\$3,682.87	\$16,362.23	-\$2,930.72	195.67	\$99.04	
FY2019		31.4%	9.7%	\$3,893.29	\$17,004.06	-\$3,755.04	195.67	\$106.39	
FY2020		31.0%	9.7%	\$4,063.18	\$17,617.44	-\$4,634.94	195.67	\$113.96	
FY2021		30.8%	9.7%	\$4,213.06	\$18,226.03	-\$5,558.56	195.67	\$121.80	
FY2022		30.7%	9.7%	\$4,354.24	\$18,843.26	-\$6,519.86	195.67	\$129.33	
FY2023		30.6%	9.7%	\$4,492.79	\$19,476.81	-\$7,516.07	195.67	\$138.37	
FY2024		30.6%	9.7%	\$4,631.95	\$20,131.32	-\$8,546.23	195.67	\$147.16	
FY2025		30.6%	9.7%	\$4,773.45	\$20,809.87	-\$9,610.31	195.67	\$156.00	
Continuing Period		30.6%	9.7%	\$4,916.65					Sensitivity Analysis
									Revenue growth variations account for 95.9% of total variance
									Risk premium's variations account for 2.5% of total variance
									Operating expenses' variations account for 1.4% of total variance
									Continuing period growth variations account for 0.2% of total variance