



Technology - Semiconductors

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J.J.B. Hilliard, W.L. Lyons, LLC
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TERMINATING COVERAGE

Key Metrics

LLTC - NASDAQ - as of	3/7/17	\$65.33
Price Target		N/A
52-Week Range	\$42.14 -	\$65.76
Diluted Shares Outstanding (000s)		245,709
Market Cap. (\$000's)		\$16,052,169
1-Mo. Average Daily Volume		1,553,928
Institutional Ownership		89.2%
Debt/Total Capital (net)	FQ2'17	0%
ROE	LTM	29.1%
Book Value / Share		\$7.34
Price / Book Value		8.9x
Indicated Dividend / Yield	\$1.32	2.0%
EBITDA Margin		48.4%

GAAP EPS FY 06/30

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.46		\$0.47	A	
2Q	\$0.50		\$0.50	A	
3Q	\$0.52	\$0.54			
4Q	\$0.54	\$0.57			
Year	\$2.02	\$2.08			
P/E	32.3x		#DIV/0!		#DIV/0!

Revenue (\$mil)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$341.9		\$373.9	A	
2Q	\$347.1		\$375.8	A	
3Q	\$361.1	\$384.6			
4Q	\$373.7	\$396.2			
Year	\$1,424	\$1,531			

Company Description: Milpitas, California based - Linear Technology designs, manufactures and markets high performance analog integrated circuits worldwide. Products include power management, data conversion, signal conditioning, voltage regulators, and high frequency integrated circuits. Major end markets include Industrial (44%), Transportation (24%), Communications (18%), Computers (6%), Military (6%), and Consumer (2%).

Linear Technology Corp.

LLTC - NASDAQ – Not Rated - 4

Terminating Coverage: Analog Devices Set to Close on Acquisition of Linear Technology.

- Acquisition.** Analog Devices announced the company received final regulatory approval from China's MOFCOM (Ministry of Commerce of the People's Republic of China) to complete the purchase of Linear Technology. The acquisition is expected to close and shares of LLTC are expected to end trading on March 10, 2017. At closing, LLTC shareholders will receive \$46 per share in cash and .2321 shares of ADI. Based on yesterday's closing share price of ADI, LLTC shareholders are currently expected to receive total consideration of \$65.36. The combined company will have an enterprise value of over \$30 billion and is expected to compete with larger rival Texas Instruments.
- Dividend.** Yesterday, Linear paid its final quarterly dividend of \$0.33, a penny per share increase from last quarter's dividend, representing the 25th consecutive year of dividend payment increases.
- Dropping Coverage.** With ADI shares currently trading at \$83.41 per share, the deal represents a forward price to earnings multiple of 31.4x our FY'17 EPS estimate of \$2.08 based on the current share price of LLTC. The forward P/E multiple represents a premium of 46% to LLTC's historical forward multiple prior to the acquisition announcement on July 26, 2016. Shareholders of LLTC will receive a price premium of over 35% from the day prior to the acquisition announcement and a premium of 54% from the year ago price level. We are dropping coverage on shares of LLTC as a result of the closing of the acquisition by Analog Devices. Our previous rating of Neutral and our estimates should not be relied upon going forward.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

SUITABILITY

Following the proposed acquisition of Linear Technology by Analog Devices, our suitability rating on shares of LLTC was changed to a 4 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). Our prior rating of 2 was based on Linear's industry leading position of selling a majority of products to the Transportation and Industrial end markets and its industry leading margin profile. The company also has a solid balance sheet and generates significant free cash flow. However, we believe our current suitability rating of 4 incorporates the acquisition premium built into the stock as, in our view, it trades significantly above levels it otherwise would if the acquisition by Analog Devices fails to close as expected on March 10, 2017.

Linear Technology Corp. GAAP Income Statement (\$ 000's) FYE June

	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17
Revenues	\$ 968,498	\$ 1,169,988	\$ 1,483,962	\$ 1,266,621	\$ 1,282,236	\$ 1,388,386	\$ 1,475,139	\$ 341,917	\$ 347,128	\$ 361,125	\$ 373,766	\$ 1,423,936	\$ 373,895	\$ 375,817
Cost of sales	237,868	269,076	324,445	312,539	322,516	338,580	355,727	85,205	84,384	85,960	88,252	343,801	91,826	90,990
Gross profit	730,630	900,912	1,159,517	954,082	959,720	1,049,806	1,119,412	256,712	262,744	275,165	285,514	1,080,135	282,069	284,827
Expenses:														
Research & development	185,843	198,957	226,516	224,467	235,184	250,434	266,761	66,602	69,884	69,645	70,331	276,462	76,359	77,030
Selling, general & administrative	128,804	138,544	165,691	147,579	151,382	159,642	169,952	40,193	43,403	43,042	43,482	170,120	56,409	47,552
Restructuring	3,907	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	318,554	337,501	392,207	372,046	386,566	410,076	436,713	106,795	113,287	112,687	113,813	446,582	132,768	124,582
Operating income	412,076	563,411	767,310	582,036	573,154	639,730	682,699	149,917	149,457	162,478	171,701	633,553	149,301	160,245
Interest expense	(83,011)	(75,356)	(54,176)	(47,517)	(48,343)	(39,283)	-	-	-	-	-	-	-	-
Other	16,882	(10,458)	-	(3,195)	-	-	-	-	-	-	-	-	-	-
Interest and other income	22,954	12,814	10,704	4,586	4,070	2,706	2,690	987	1,521	1,593	1,795	5,896	2,173	2,361
Income before income taxes	368,901	490,411	723,838	535,910	528,881	601,268	685,389	150,904	150,978	164,071	173,496	639,449	151,474	162,606
Provision for income taxes	79,694	129,070	143,056	137,799	121,956	141,307	164,426	38,857	29,446	35,679	41,121	145,103	36,352	38,620
Net income	289,207	361,341	580,782	398,111	406,925	459,961	520,963	112,047	121,532	128,392	132,375	494,346	115,122	123,986
Diluted EPS (GAAP)	\$ 1.28	\$ 1.58	\$ 2.50	\$ 1.70	\$ 1.71	\$ 1.90	\$ 2.13	\$ 0.46	\$ 0.50	\$ 0.52	\$ 0.54	\$ 2.02	\$ 0.47	\$ 0.50
Diluted EPS (adjusted)	\$ 1.71	\$ 2.59	\$ 1.78	\$ 1.80	\$ 1.97									
Diluted EPS (Non GAAP)	\$ 1.63	\$ 1.93	\$ 2.81	\$ 1.97	\$ 1.99	\$ 2.17	\$ 2.36	\$ 0.52	\$ 0.57	\$ 0.60	\$ 0.61	\$ 2.30	\$ 0.53	\$ 0.54
Diluted shares outstanding	226,387	228,860	232,772	234,298	237,753	242,231	244,988	245,234	244,880	244,764	244,933	244,953	245,709	246,280
Cash dividends per share	\$ 0.86	\$ 0.90	\$ 0.94	\$ 0.98	\$ 1.02	\$ 1.06	\$ 1.14	\$ 0.30	\$ 0.30	\$ 0.32	\$ 0.32	\$ 1.24	\$ 0.32	\$ 0.32
Yr./Yr. Percentage change														
Revenues	-17.6%	20.8%	26.8%	-14.6%	1.2%	8.3%	6.2%	-7.9%	-1.5%	-2.9%	-1.5%	-3.5%	9.4%	8.3%
Cost of sales	-10.9%	13.1%	20.6%	-3.7%	3.2%	5.0%	5.1%	-4.3%	-2.7%	-3.6%	-2.9%	-3.4%	7.8%	7.8%
Gross profit	-19.5%	23.3%	28.7%	-17.7%	0.6%	9.4%	6.6%	-9.0%	-1.2%	-2.7%	-1.1%	-3.5%	9.9%	8.4%
Research & development	-5.7%	7.1%	13.9%	-0.9%	4.8%	6.5%	6.5%	1.5%	7.3%	3.8%	2.0%	3.6%	14.6%	10.2%
Selling, general & administrative	-9.5%	7.6%	19.6%	-10.9%	2.6%	5.5%	6.5%	-4.5%	2.0%	1.9%	0.9%	0.1%	40.3%	9.6%
Total operating expenses	-6.2%	5.9%	16.2%	-5.1%	3.9%	6.1%	6.5%	-0.8%	5.2%	3.1%	1.6%	2.3%	24.3%	10.0%
Operating income	-27.5%	36.7%	36.2%	-24.1%	-1.5%	11.6%	6.7%	-14.0%	-5.5%	-6.4%	-2.8%	-7.2%	-0.4%	7.2%
Interest expense	-7.6%	-9.2%	-28.1%	-12.3%	1.7%	-18.7%								
Provision for income taxes	-43.8%	62.0%	10.8%	-3.7%	-11.5%	15.9%	16.4%	-14.6%	-15.5%	-9.1%	-8.3%	-11.8%	-6.4%	31.2%
Net income	-21.2%	24.9%	60.7%	-31.5%	2.2%	13.0%	13.3%	-13.4%	-1.7%	-5.0%	-0.3%	-5.1%	2.7%	2.0%
Diluted EPS (GAAP)	-20.0%	23.6%	58.0%	-31.9%	0.7%	10.9%	12.1%	-13.6%	-1.8%	-4.9%	0.0%	-5.1%	2.5%	1.4%
Diluted EPS (Non GAAP)	-14.9%	18.6%	45.4%	-30.0%	1.0%	9.2%	8.9%	-10.5%	0.8%	-1.4%	0.7%	-2.6%	1.0%	-5.7%
Diluted shares outstanding	-1.5%	1.1%	1.7%	0.7%	1.5%	1.9%	1.1%	0.2%	0.1%	-0.1%	-0.2%	0.0%	0.2%	0.6%
Cash dividends per share	10.3%	4.7%	4.4%	4.3%	4.1%	3.9%	7.5%	11.1%	11.1%	6.7%	6.7%	8.8%	6.7%	6.7%
Percentage of Revenues														
Gross profit	75.4%	77.0%	78.1%	75.3%	74.8%	75.6%	75.9%	75.1%	75.7%	76.2%	76.4%	75.9%	75.4%	75.8%
Research & development	19.2%	17.0%	15.3%	17.7%	18.3%	18.0%	18.1%	19.5%	20.1%	19.3%	18.8%	19.4%	20.4%	20.5%
Selling, general & administrative	13.3%	11.8%	11.2%	11.7%	11.8%	11.5%	11.5%	11.8%	12.5%	11.9%	11.6%	11.9%	15.1%	12.7%
Total operating expenses	32.9%	28.8%	26.4%	29.4%	30.1%	29.5%	29.6%	31.2%	32.6%	31.2%	30.5%	31.4%	35.5%	33.1%
Operating income	42.5%	48.2%	51.7%	46.0%	44.7%	46.1%	46.3%	43.8%	43.1%	45.0%	45.9%	44.5%	39.9%	42.6%
Interest expense	-8.6%	-6.4%	-3.7%	-3.8%	-3.8%	-2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	29.9%	30.9%	39.1%	31.4%	31.7%	33.1%	35.3%	32.8%	35.0%	35.6%	35.4%	34.7%	30.8%	33.0%
Net income (excludes amort.)	0.0%	33.4%	40.6%	33.0%	33.4%	34.5%	35.3%	32.8%	35.0%	35.6%	35.4%	34.7%	30.8%	33.0%
Net income (Non GAAP)	38.1%	37.8%	44.1%	36.4%	36.8%	37.9%	39.2%	37.6%	40.1%	40.4%	40.2%	39.6%	34.8%	35.1%
Tax rate	21.6%	26.3%	19.8%	25.7%	23.1%	23.5%	24.0%	25.7%	19.5%	21.7%	23.7%	22.7%	24.0%	23.8%

Source: Company data & Hilliard Lyons estimates, highlighted figures used for valuation methodology.

Linear Technology Corp. Balance Sheet (\$ 000's) FYE June

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Q1'17	Q2'17
Cash and cash equivalents	966,701	868,711	958,069	922,537	1,203,059	1,524,741	1,012,787	1,202,722	1,448,275	1,521,146	1,609,825
Accounts receivable, net	161,452	95,434	176,874	169,637	153,090	145,274	173,340	179,264	157,460	162,434	145,135
Inventories:											
Total inventories	56,017	52,531	54,044	72,195	79,664	87,229	91,310	99,861	97,251	98,073	98,548
Prepaid expenses & Other	61,370	72,575	75,314	81,921	69,597	36,646	87,276	102,905	51,744	53,337	48,539
Total current assets	1,245,540	1,089,251	1,264,301	1,246,290	1,505,410	1,793,890	1,364,713	1,584,752	1,754,730	1,834,990	1,902,047
Property, plant and equipment											
Net Property, plant and equipment	261,085	258,425	257,035	332,969	320,222	288,466	277,080	287,742	285,866	281,571	281,149
Identified intangible assets, net and goodwill	77,264	73,853	69,382	14,807	25,436	15,985	13,785	11,585	9,385	8,835	8,285
Total noncurrent assets	338,349	332,278	326,417	347,776	345,658	304,451	290,865	299,327	295,251	290,406	289,434
Total assets	1,583,889	1,421,529	1,590,718	1,594,066	1,851,068	2,098,341	1,655,578	1,884,079	2,049,981	2,125,396	2,191,481
Current liabilities:											
Accounts payable	16,860	10,531	21,235	11,606	11,459	10,258	28,221	17,608	17,465	17,019	17,197
Accrued payroll and related benefits	66,465	44,250	80,796	89,997	77,978	77,659	141,275	118,450	113,800	138,528	132,931
Deferred income on shipments to distributors	37,777	28,497	33,700	47,587	41,333	44,088	45,619	46,860	48,701	48,759	49,489
Long-term debt, current maturities	-	-	392,926	-	-	826,629	-	-	-	-	-
Deferred tax liabilities, net current	-	-	-	-	-	35,479	-	-	-	-	-
Total current liabilities	175,158	125,341	582,510	182,806	170,581	1,025,880	215,115	182,918	179,966	204,306	199,617
Deferred tax liabilities	41,932	107,514	108,665	73,024	97,817	48,026	109,094	123,234	110,840	112,489	114,052
Total liabilities	2,017,807	1,607,866	1,550,933	1,088,455	1,114,560	1,116,433	324,209	306,152	290,806	316,795	313,669
Commitments and contingencies											
Stockholder's equity:											
Additional paid in capital	1,050,038	1,246,870	1,331,664	1,465,871	1,587,815	1,736,496	1,947,771	2,052,490	2,137,150	2,159,864	2,192,469
Accumulated other comprehensive income, net	1,452	5,095	1,974	1,130	165	(266)	355	(475,124)	(379,210)	(351,883)	(314,459)
Accumulated deficit	(1,485,629)	(1,438,524)	(1,294,077)	(961,617)	(851,702)	(754,555)	(616,992)	561	1,235	620	(198)
Total stockholders' equity	(433,918)	(186,337)	39,785	505,611	736,508	981,908	1,331,369	1,577,927	1,759,175	1,808,601	1,877,812
Total liabilities and stockholders' equity	1,583,889	1,421,529	1,590,718	1,594,066	1,851,068	2,098,341	1,655,578	1,884,079	2,049,981	2,125,396	2,191,481

Source: Company data

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- With a closing date announced there is a limited risk, in our view, the deal to purchase Linear does not close as or when expected, however in the event the deal fails to occur it would materially reduce LLTC's share price.
- Changes in macroeconomic conditions causing cyclical business patterns from trends in consumer and enterprise spending
- The addition and/or suspension of government regulations and/or subsidies
- Lack of innovation designing new products could lead to lower future sales
- Product related liabilities and defects
- Disruption of internal manufacturing facilities located in Asia, California, and Washington state
- Risks resulting from international business including trade agreements and foreign currency exchange effects
- New disruptive technology enters the marketplace or the introduction of defective products
- Increased competition from large semiconductor companies wishing to enter the Industrial and Automotive industries could pressure margins
- Retaining key personnel
- Reliance on third party suppliers and product resellers

Additional information is available upon request.

Other stocks mentioned: Analog Devices (ADI-\$83.41-Not Rated) and Texas Instruments (TXN-\$79.12-Not Rated)

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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