



Linear Technology Corp. (LLTC; \$36.04) - Buy; Q3 beats top-line and meets bottom-line consensus; \$3B accelerated share repurchase announced – 30% of market cap; guides to 3-6% top-line growth in calendar Q2-07. Reiterate Buy. April 19th, 2007

- Beats Q3** - Linear announced \$255M in revenue for Q3-07, down 9% from a year ago. Revenue was down 5% sequentially, which was in the 4% - 7% range the company had guided last quarter. Linear slightly beat the Street's estimate of \$254M. While revenue was down, the company's order book grew in each month of the quarter, led by industrial and automotive, both up 1%. Communications bookings were down 2%.

Net income was \$98.6M or \$0.32 per share, in-line with consensus, but down 11% y-o-y and down 6% sequentially. Linear's quarterly ROE was 18% and ROA was 17%. Net of cash, the company's ROE increases to 113% and its return on operating assets comes in at 67%.

Gross margins were relatively flat at 77.8%. While fixed costs were spread over a lower revenue base, the company's Average Selling Price increased from \$1.59 to \$1.67 due to a shift in product mix.

Net cash increased \$24.9M even after buying back \$25.2M in shares and paying a \$0.18 dividend on 305M shares. This was the 84th consecutive quarter of positive operating cash flow generation.

Price	36.04	Rev '06	1.09B
52 wk Hi-Lo	27.80–36.98	Rev '07	1.12B
Shares O/S	305M	EPS '06	\$1.37
Mkt Cap	11.0B	EPS '07	\$1.42
Net Cash	1.8B	EV/E '06	22.0x
EV	\$30.10per share	EV/E '07	21.2x

- Q4-07 Guidance for 3% to 6% sequential growth** – Linear indicated that visibility is low into Q4-07, but guided to 3-6% revenue growth with operating margins increasing similarly. The company indicated it had a positive book-to-bill ratio implying the inventory correction seen in the last several quarters may be over. Inventory was up in Q3, but largely due to Work in Process (WIP), specifically die banks. While the company is managing the inventory levels, increased WIP allows the company to respond quickly to new customer orders.
- Accelerated Share Repurchase** - Linear announced a \$1.7B private placement of convertible senior notes to be used as part of a \$3B share repurchase program over the next nine months. The company currently has \$1.8B in cash, leaving roughly \$500M in cash on the balance sheet after the repurchase program. The change in capital structure will obviously affect our model, which we are working to refine. Levering up the balance sheet makes Linear a less attractive takeover target. Linear has consistently generated cash; therefore we believe it can handle the debt load, and the share repurchase is a shareholder-friendly use of its sizable cash position.
- Reiterate Buy** – Linear, as the leading provider of high-performance analog circuits/chips, has managed its business profitably in up markets and down and has consistently generated cash. The company has diversified products and sells to multiple markets allowing flexibility to shift to higher margin and higher demand product lines. The barrier to entry is the talent pool size. The company focuses on the higher end of the market, which attracts talent and it is willing to pay for it. Yet management has consistently kept gross margins in the 78-80% range and net margins close to 40%. The current analog market is \$37B and is expected to grow 8-10% annually for the next three years. Linear has consistently grown at rates higher than the market. Management believes that the Street is looking at the company narrowly by focusing on the Consumer and Communications segments. Consumer products are expected to grow at 1/3rd the pace of the rest of the analog market representing 8% of the overall market. Communications, while 22% of the market and growing, is not a profitable segment. Focusing on the rest of the market such as industrial and automotive leaves plenty of room for Linear to grow and to grow profitably. Linear's shares were up 12% yesterday. Linear is still trading at a compelling price at 21x TTM earnings, net of cash, and 21x 2007's earnings. We reiterate our Buy rating and believe the shares would likely continue their ascent due to a sizable share buyback and improving earnings outlook.