

# Executive Snapshot: Allegro MicroSystems, Inc.

## (ALGM)

The Executive Snapshot provides a concise, high-level overview of Allegro MicroSystems, Inc. (ALGM), encapsulating our core investment thesis and key takeaways. It serves as a quick reference for investors to grasp the essence of our contrarian view and the compelling opportunity we see in this premier sensing and power semiconductor leader.

### Company Profile at a Glance:

- Name: Allegro MicroSystems, Inc. (ALGM)
- Ticker: ALGM (NASDAQ)
- Sector: Technology / Semiconductors
- Core Business: A global leader in designing, developing, and manufacturing sensor ICs and application-specific analog power ICs. Its devices are essential for motion control and energy-efficient systems, with a dominant position in the automotive and industrial markets.
- Key Segments: Automotive (~75% of sales), Industrial, and Other (including consumer and computing).

### Our Investment Stance: **BUY**

- Current Price (23-Aug-2025): \$32.50
- Price Target: \$48.00
- Implied Upside: ~48%
- Recommendation Rationale: Our BUY rating is driven by a profound belief that the market fundamentally misprices ALGM. This mispricing stems from a myopic focus on near-term automotive inventory corrections, a critical undervaluation of its proprietary and defensible manufacturing processes, and a complete oversight of its strategic, content-rich positioning within the most powerful secular megatrends—vehicle electrification and industrial automation. We see

Allegro as an analog semiconductor compounder with a deep moat, poised for a significant re-rating as cyclical headwinds abate.

### **Core Contrarian Arguments:**

1. **Fab-Lite Model as a Moat, Not a Liability:** Unlike the consensus view that punishes capital-intensive semiconductor models, we view Allegro's ownership of a specialized wafer fabrication facility as the very source of its enduring competitive advantage. This vertical integration allows it to develop proprietary, BCD (Bipolar-CMOS-DMOS) processes optimized for its high-performance, high-reliability magnetic sensors and power ICs. This creates performance and cost advantages that are virtually irreplicable by fabless competitors, ensuring long-term pricing power and market leadership in its niches.
2. **Hidden Sum-of-the-Parts Value in Megatrends:** The market values ALGM as a simple, cyclical auto supplier. Our analysis reveals a company with distinct and valuable exposures: a dominant franchise in traditional automotive (e.g., current sensors for braking, transmission) and a hyper-growth franchise in electric vehicles (e.g., current sensors for traction inverters, battery management) and industrial automation (e.g., current sensing for motor drives, robotics). The growth and margin profile of the latter segments are being masked by the former and are not valued appropriately.
3. **Cyclical Inventory Correction, Not Secular Decline:** The 2024-2025 slowdown in automotive revenue is a classic semiconductor inventory correction cycle, not a sign of secular decline. The powerful long-term secular drivers—the exponential increase in semiconductor content in EVs (Allegro's content is 5-10x higher in an EV vs. ICE vehicle) and the automation of industrial motion—are intact and accelerating. Allegro is strategically positioned for a sharp earnings recovery as automotive inventories normalize and these trends reassert themselves.
4. **Design Win Dominance Translates to Future Cash Flows:** The market is focused on quarterly shipment data, ignoring the prolific number of strategic design wins the company continues to secure, particularly in next-generation EV platforms and solar/energy storage systems. These design wins, with their long lifecycles (5-10 years), provide unparalleled visibility into future revenue and high-margin aftermarket sales, forming an annuity-like revenue stream that is profoundly undervalued.

### **Key Growth Drivers:**

- **Electric Vehicle Content Growth:** Rapid adoption of EVs, where Allegro's content per vehicle is significantly higher due to the proliferation of advanced current sensors, position sensors, and gate drivers.
- **Industrial Automation & Clean Energy:** Increasing demand for precision motion control and energy efficiency in industrial systems, robotics, and solar inverters.
- **Market Share Gains:** Continued displacement of less integrated or lower-performance solutions from competitors due to Allegro's superior technology and system-level expertise.
- **New Product Innovation:** Successful ramp of new products in areas like isolated gate drivers and high-resolution position sensors, addressing new TAMs.

### **Primary Risks to Monitor:**

- **Prolonged Auto Cycle:** A deeper or longer-than-expected downturn in the automotive market, its largest end market.
- **Customer Concentration:** Revenue is concentrated with a number of large automotive Tier 1 suppliers and OEMs.
- **Cyclicality:** The business remains exposed to the inherent cyclicality of the semiconductor industry.
- **Competition:** Competition from larger semiconductor companies (e.g., Infineon, TI) and other sensor specialists.

### **Financial Outlook (2027E Bull Case):**

- Revenue: \$1.6B (+50% from trough levels)
- Gross Margin: ~58-60%
- EPS: \$2.25 (+100%+ from trough EPS)
- Stock Price: \$65 - \$75

Allegro MicroSystems, Inc. represents a compelling investment for long-term investors who can see through the cyclical inventory headwinds and appreciate the fundamental strengths of a differentiated semiconductor leader. Its proprietary technology, deep automotive moat, and unparalleled exposure to the electrification of everything are poised to deliver significant shareholder value as the cycle inevitably turns.

