Initiating Coverage:

ON Semiconductor Corp.

"Electric" Growth in AI Automation

Key Takeaway: Onsemi reports 3rd quarter results above expectations with increased quarterly revenue and margin growth despite falling EPS. 75% of free cash flow has gone to shareholders through significant stock repurchasing. Rising power demands have caused Onsemi to focus on increasing internal efficiency to stay competitive in the constantly evolving markets they are attempting to gain share in. Onsemi's product focus on enhancing power efficiency aligns with the rising demand for high-performance, energy-efficient solutions. Despite headwinds, Onsemi's automotive and industrial segments demonstrated strong resilience, with the Intelligent Sensing Group (ISG) showing notable growth of 11% from Q2. Even though ISG only represented 16% of total revenue in 2023, the segment holds substantial growth potential as demand increases for AI-driven automation across automotive and factory applications.

Potential Market Upset: The likelihood of US Tariffs being implemented on Chinese EVs, which make up roughly 58% of the market, continues to go up daily due to Trump winning the 2024 presidency. The EV industry has indirectly carried Onsemi recently as the race for fully autonomous self-driving vehicles has expanded drastically. Autonomous EVs require specific and extremely efficient imaging systems that Onsemi provides through its ISG sector. These tariffs could have an overall positive effect as Onsemi is a global player despite being US-based. Foreign demand should not change much but domestic demand should increase due to its artificially bolstered competitiveness with the current largest EV producer.

A growing market: Onsemi has been shifting its sales model, with direct customer sales growing while sales through distributors have decreased. In 2021, sales to distributors were nearly 30% higher than direct sales, but by 2023, the two sales types were nearly equal. In 2024, Onsemi could generate more revenue from direct customer sales than through distributors for the first time. This change enables Onsemi to interact more closely with customers, offering tailored solutions and potentially improving its profit margins by eliminating intermediary costs. The emphasis on direct sales strongly positions Onsemi. U.S. demand for imaging systems could increase due to Chinese EV tariffs, resulting in heightened domestic EV production and image-sensing system demand. By providing customized systems through direct sales, Onsemi can deliver products that meet specific needs. This focus on direct sales strengthens Onsemi's position as domestic demand for customized imaging systems grows, especially as tariffs on Chinese EVs encourage more U.S.-based production.

Valuation: We initiate coverage with a $116 PT.

CONSORTIUM EQUITY RESEARCH

Consortium Equity Research
TMT | Semiconductors
December 20th, 2024

Stock Rating:	Overweight
Price Target:	$116

Price:	$66.63
Potential Upside/Downside:	74.1%
Ticker(s):	$ON

Market Cap:	$28.37b
Shares Outstanding:	425mm
Free Float (%):	99.6%
Dividend Yield:	-

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Our PT is based on the assumption that Trump's promised tariffs will increase domestic demand for EVs and as a result, autonomous vehicles. These tariffs should boost the domestic supply of EVs, which will lead to increased demand for imaging systems, directly benefitting Onsemi.

Our upside case assumes that one, Trump will impose tariffs, and two, these tariffs will benefit domestic EVs while not largely impacting the foreign market for Onsemi. Further, Onsemi is posed to benefit from tailwinds in their imaging sector from the race for fully autonomous vehicles.

Our downside case is that either these tariffs are not imposed, or they do not have the proposed effects on Onsemi. It is possible that the tariffs disrupt the free market equilibrium to such an extent that any benefits are outweighed by an overall economic downturn, specifically in the automotive industry.

Peer Comparisons

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Analog Devices (NAS: ADI)	$ 106,543	$ 112,099	64.64x	$ 9,700	$ 4,204
Vishay Intertechnology (NYS: VSH)	$ 2,171	$ 2,469	25.77x	$ 3,008	$ 338
Qorvo (NAS: QRVO)	$ 6,546	$ 7,411		$ 3,948	$ 375
MACOM Technology Solutions (NAS: MTSI)	$ 9,738	$ 9,644	129.33x	$ 730	$ 141
ON Semiconductor Corporation	$ 29,644	$ 30,260	17.28x	$ 7,378	$ 2,595

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Analog Devices (NAS: ADI)	26.66601861	57.9%	43.3%	21.5%	(24.4%)
Vishay Intertechnology (NYS: VSH)	7.300455989	22.8%	11.2%	4.4%	(13.4%)
Qorvo (NAS: QRVO)	19.76610425	39.2%	9.5%	1.6%	26.1%
MACOM Technology Solutions (NAS: MTSI)	68.42329769	54.0%	19.3%	10.1%	12.5%
ON Semiconductor Corporation	11.65958386	45.8%	35.2%	26.6%	-11.5%

Company Overview

Onsemi provides intelligent power and intelligent sensing solutions with a primary focus towards automotive and industrial markets. Their intelligent power technologies enable the electrification of the automotive industry that allows for lighter and longer-range electric vehicles, empowers efficient fast-charging systems, and propels sustainable energy for the highest efficiency systems. Their intelligent power solutions for the automotive industry allow their customers to exceed range targets with lower weight and reduce system costs through efficiency. Their intelligent sensing technologies support the next generation of industry, allowing for smarter factories and buildings. They also enhance the automotive mobility experience with imaging and depth sensing that make advanced vehicle safety and automated driving systems possible. They aim to be an evolving force in the automotive industry, with advancements in autonomous driving, ADAS, and vehicle electrification. Through sensing integration, they attempt to achieve superior efficiencies compared to their peers. This integration allows lower temperature operation and reduced cooling requirements while saving costs and minimizing weight. In addition, their power solutions deliver power with less die per module, achieving a higher range for a given battery capacity. Essentially, Onsemi targets creating efficiencies wherever possible and differentiates itself by doing so better than their competitors.

Industry Overview

Rising EV sales: The electric vehicles market is on the rise globally. The increase in demand of EV's leads to an increase in parts needed to create them. Electric vehicles will increasingly require specialized conductors as they become more efficient. Onsemi is positioned to benefit due to the increasing demand for parts required for powertrains, battery management systems, and autonomous driving. These technologies require increasingly sophisticated and energy-efficient solutions. Looming Trump administration EV tariffs could bolster domestic EV sales further, creating synergistic effects.

Rising Importance of Semiconductor Applications in Industrial Automation: The industrial automation sector is undergoing a rapid digital transformation, with growing adoption of AI-driven systems and smart factory solutions. This is driving demand for semiconductors capable of delivering precision, reliability, and energy efficiency in factory and industrial settings. Manufacturers are seeking energy-efficient solutions which places Onsemi to grow along with broader industry needs.

Geopolitical risks: The semiconductor industry faces supply chain disruptions stemming from constrained manufacturing capabilities and geopolitical tensions. Onsemi attempts to mitigate manufacturing risks by investing in internal efficiencies. Onsemi mitigates geopolitical risks, specifically, U.S.-China trade relations and potential export restrictions, with U.S.-based production and global diversification.

Investment Theses

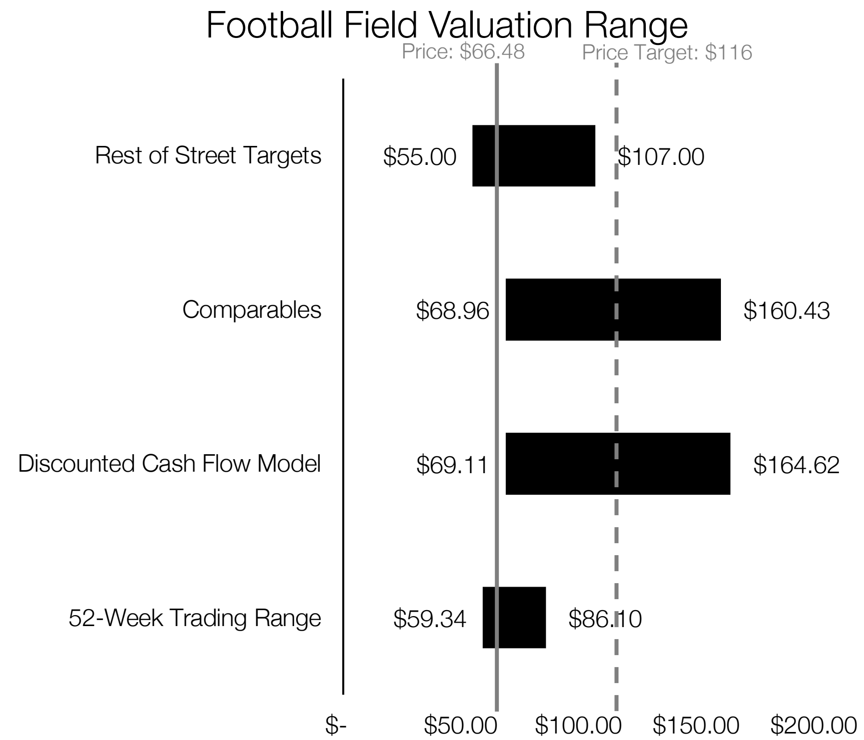
Energy-Efficiency Tailwinds: Despite headwinds in the automotive and industrial segments Onsemi faces strong tailwinds with enormous growth potential in their energy sector. Onsemi places great emphasis on power-efficient and energy-saving solutions, which aligns with growing global demand. Demand for sustainable energy is on the rise as impact investing and ESG ratings become more prevalent. Despite a decrease of 29% in year-on-year revenue in their Power Solutions Group (PSG), a strong bounce back can be expected as the economy as a whole continues to pick up. PSG is posed to benefit from growth in many high-demand markets. Automotive, factory automation, smart infrastructure, and other industrial applications position Onsemi to capture diversified growth while potentially offsetting automotive and industrial headwinds and creating synergistic effects for their intelligent sensing group (ISG).

Financial Confidence: Onsemi returned 75% of free cash flow to shareholders through aggressive stock repurchasing. This indicates strong financial confidence in operations and stability. Onsemi has been focusing on internal efficiency and cost management, reducing costs through layoffs and consolidation amid headwinds in their historically largest sector (PSG). This shows that Onsemi is capable of increasing margins and investing in high-growth areas like ISG while rewarding shareholders in a down turn period.

Global Stability: With the potential for U.S. tariffs on Chinese imports looming, Onsemi stands to benefit as domestic demand for imaging and sensing systems in autonomous vehicles may shift to U.S.-based suppliers. Given its U.S. presence and global reach, Onsemi is well-prepared to meet this demand, creating a potential upside should U.S. manufacturers shift sourcing preferences to reduce tariff exposure. Comparatively, the foreign market for sensing systems will remain very similar as China will move to export EVs to other countries to make up for US tariff-caused disruptions. Essentially, foreign EV supply will remain stable while US demand for image systems increases.

Price Target & Valuation

Our analysis gives $ON a price target of $116 and an Overweight rating.



Potential Downsides to Our Rating

Geopolitical tension: Onsemi mitigates many of the potential geopolitical risks regarding semiconductors, automation, and electric vehicles. However, an industry-wide disruption in any of these sectors would undoubtedly have negative effects that Onsemi's efforts could not fully shield. Volatile tensions with China remains the greatest risk heading into a second Trump presidency.

Tariffs: Tariffs should theoretically help Onsemi as it will bolster domestic demand without a great impact on foreign demand. However, Tariffs could act as a major market upset, hurting the entire industry, specifically foreign demand of Onsemi's products.

Industry Automation Race: Onsemi is posed to benefit from their solutions being the most efficient in industry automation. If they were to be beaten at their own game – energy-efficient industry automation solutions – they would lose out on market share and a major, high-growth, revenue stream.

Our Price Target: $116

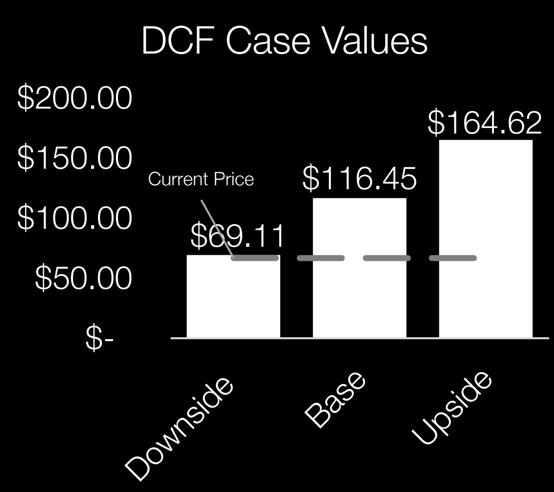
Our PT is based on the assumption that Trump's promised tariffs will increase domestic demand for EVs and as a result, autonomous vehicles. These tariffs should boost the domestic supply of EVs, which will lead to increased demand for imaging systems, directly benefitting Onsemi.

Our Upside Case: $164

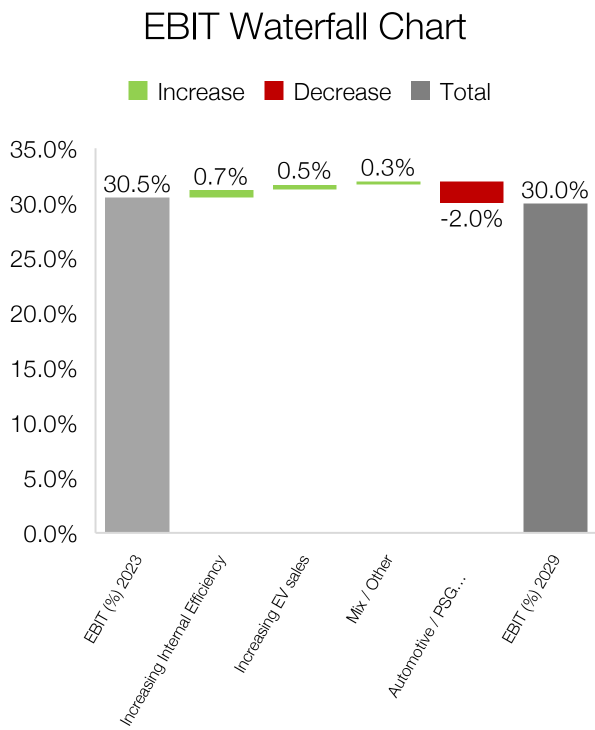
Our upside case assumes that one, Trump will impose tariffs, and two, these tariffs will benefit domestic EVs while not largely impacting the foreign market for Onsemi. Further, Onsemi is poised to benefit from tailwinds in their imaging sector from the race for vehicle and factory automation.

Our Downside Case: $69

Our downside case is that either these tariffs are not imposed, or they do not have the proposed effects on Onsemi. It is possible that the tariffs disrupt the free market equilibrium to such an extent that any benefits are outweighed by an overall economic downturn, specifically in the automotive industry.



Projections



Income Statement ($mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	307,158	277,500	310,786	346,897	385,848	2.0%
EBITDA	100,172	106,822	117,202	133,072	150,520	3.4%
EBIT	88,226	90,000	98,070	111,392	126,044	2.9%
EBIAT	30,646	33,411	64,013	63,486	76,304	15.4%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	32.6%	38.5%	37.7%	38.4%	39.0%	37.2%
EBIT Margin	28.7%	32.4%	31.6%	32.1%	32.7%	31.5%
Revenue Growth	9.4%	-9.7%	12.0%	11.6%	11.2%	6.9%
EBIT Growth	17.9%	2.0%	9.0%	13.6%	13.2%	11.1%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
EV/Sales	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
EV/EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
FCF Yield	3.4%	4.6%	5.1%	5.7%	6.2%	6.8%

About $ON

ON Semiconductor Corp. (NASDAQ: ON), founded in 1999 and headquartered in Scottsdale, Arizona, operates globally with a significant presence across North America, Asia, and Europe. The company specializes in intelligent power and sensing solutions, catering to automotive, industrial, and other high-growth end markets. ON's core business segments include the Power Solutions Group (PSG), Advanced Solutions Group (ASG), and Intelligent Sensing Group (ISG), with a strong focus on silicon carbide (SiC) for electric vehicles and imaging systems for autonomous technologies. Its products aim to enhance energy efficiency, power management, and automation, driving advancements in electric vehicles, industrial automation, and sustainable energy infrastructure.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

ON Semiconductor Corporation

Discounted Cash Flow

Active Case:	**2 Base**
Current Share Price	$66.63

DCF Analysis ($mm)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Stub						0.02	0.02	0.02	0.02	0.02	0.02
Discount Period						0.01	0.52	1.52	2.52	3.52	4.52
Revenue	5,517.90	5,255.00	6,739.80	8,326.20	8,253.00	7,900.00	8,767.00	9,770.38	10,931.22	12,274.22	13,828.35
Revenue Growth	*0%*	*-5%*	*28%*	*24%*	*-1%*	*-4%*	*11%*	*11%*	*12%*	*12%*	*13%*
#REF!	2,788.30	2,606.10	3,439.10	4,208.20	4,449.00	3,800.00	4,073.60	4,395.41	4,773.42	5,217.35	5,739.08
Revenue Breakdown 2	1,972.30	1,910.40	2,399.90	2,841.30	2,488.50	2,800.00	3,136.00	3,512.32	3,933.80	4,405.85	4,934.56
#REF!	757.30	738.50	900.80	1,276.70	1,315.50	1,300.00	1,557.40	1,862.65	2,224.00	2,651.01	3,154.71
EBIT	414.70	340.10	1,286.80	2,441.60	2,517.50	2,200.00	2,630.10	2,931.12	3,279.37	3,682.26	4,148.50
EBIT Margin	*8%*	*6%*	*19%*	*29%*	*31%*	*28%*	*30%*	*30%*	*30%*	*30%*	*30%*
Tax Expense	62.70	(59.80)	146.60	458.40	350.20	303.00	552.32	615.53	688.67	773.28	871.19
Effective Tax Rate	*15%*	*-18%*	*11%*	*19%*	*14%*	*14%*	*21%*	*21%*	*21%*	*21%*	*21%*
NOPAT	352.00	399.90	1,140.20	1,983.20	2,167.30	1,897.00	2,077.78	2,315.58	2,590.70	2,908.99	3,277.32
D&A	593.10	625.10	596.70	551.80	609.50	642.00	692.70	749.97	814.45	886.85	967.98
Capex	528.10	375.10	478.00	976.90	1,535.10	1,177.00	1,132.61	1,068.81	979.38	856.71	691.42
Changes in NWC	302.10	(76.80)	98.80	(177.50)	1,159.00	650.00	590.22	511.65	408.95	275.63	103.71
UFCF	126.00	(52.00)	761.00	828.80	1,791.20	712.00	1,047.66	1,485.10	2,016.81	2,663.50	3,450.17
PV of FCF						711.26	997.01	1,285.28	1,587.36	1,906.46	2,245.85

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.24%
Beta	1.63
Risk Free Rate	4.60%
Cost of Equity	11.16%
Weighted Average Cost of Debt	1.85%
Tax Rate	21.00%
Cost of Debt	0.04%
Total Equity	$28,371
Total Debt	$896
Equity/Total Capitalization	96.94%
Debt/Total Capitalization	3.06%
WACC	11.20%

Terminal Value	
Perpetuity Growth Method	
2029 FCF	$3,450
Growth	8.00%
Terminal Value	$ 107,689
PV of Terminal Value	66622.3993
PV of Projection Period	$8,733
PV of Terminal Value	$66,622
Implied TEV	$75,356
(-) Debt	$3,366
(+) Cash	$2,470
Implied Equity Value	$74,459
Basic Shares Outstanding	426
Implied Share Price	174.8704917
Upside/Downside	162%

Implied BF EV/EBIT	34.25

Terminal Value	
Exit Multiple Method	
2029 EBIT	$4,149
EV/EBIT Exit Multiple	17x
Terminal Value	$70,525
PV of Terminal Value	43630.53618
PV of Projection Period	$8,733
PV of Terminal Value	$43,631
Implied TEV	$52,364
(-) Debt	$3,366
(+) Cash	$2,470
Implied Equity Value	$51,468
Diluted Shares Outstanding	426
Implied Share Price	$120.87
Upside/Downside	81%

Implied PGR	-0.05

Blended Share Price	
Perpetutity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	$120.87
Upside/Downside	81%