

Amphenol

Company Overview:

Amphenol (NYSE: APH) is a technology leader in cables. Basically, the company produces cables to connect a whole bunch of stuff. But cables seem commoditized, right? Well, yes. Unless you're "spec'd" in. Amphenol focused on high value cables and interconnects in important designs so that it's not easy to remove the specialized part.

Name	Ticker	Yield	Growth	D + G
Amphenol Corporation Class A	APH	0.52%	15.00%	15.52%

Highlights:

We think that one of the best ways to describe what this company is doing is from a recent earnings call quote:

"We're more encouraged than ever by the company's position in the global IT datacom market ... And the revolution in AI continues to create unique opportunities for Amphenol, given our leading high-speed and power interconnect products. In fact, whether high-speed power or fiber optic interconnect, our products are critical components in these next-gen networks, and this creates a continued long-term growth opportunity."

The company is engrained in relationships with NVIDIA. For example, the next-generation NVIDIA GB200 NVL72 AI rack, Amphenol supplies the custom-engineered spine cable, a copper cable cartridge that provides high-bandwidth interconnects for up to 72 GPUs. Also, Amphenol is an integral part of NVIDIA's NVLink Fusion initiative, which allows third-party hardware to integrate into the Grace Blackwell ecosystem. But to say that Amphenol is just benefitting from Nvidia is to shortchange the company. Its cables and interconnects are important pieces of a whole bunch of industries. As they continue to do tuck-in acquisitions, focus on decentralization and diversification, the company can see where the economic engines are and try to make their products integrated so that they're difficult to replace. It sounds simple but the complexity of this business is astounding.

Bull Case:

- **Fundamentals Show it's Not a Commoditized Industry** – Simply said, the company is doing 37% gross margins, low 20% operating margins, and 20%+ ROIC's for years and years - proving that its interconnects aren't commoditized.
- **Attractive Core Growth Holding** - Through a strong focus on technology, robust acquisition program, and unique entrepreneurial culture, Amphenol has established a demonstrated track record of growing 2x+ faster than the company's underlying markets (with growth sustaining at higher levels in recent years amid several positive paradigm shifts), with a view toward sustained long-term value creation.
- **Technology-Focused; Numerous Secular Growth Opportunities** - APH is a technology leader and enables across a diverse set of secular growth opportunities, including vehicle electrification, in-vehicle electronics, and various antenna applications; increasing electronic and electrical content in industrial applications; AI and cloud computing; and next-generation 5G technology (further enhanced by recent Andrew acquisition).

Bear Case:

- **Economic Sensitivity** - We believe the company's end markets carry various degrees of cyclical risk, including what we view as relatively higher cyclicity in the auto, commercial air, industrial, and mobile devices markets. In addition, the company's broadband and mobile networks businesses are exposed to capital spending, also adding higher cyclicity. The company's overall diverse end-market exposure helps to mitigate these cyclical risks to some extent, however, as does the overlapping of shorter- and longer-cycle businesses.
- **Competition** - Amphenol competes in a highly competitive market based on several factors, including technological innovation, product quality and performance, and price, among others. Competitors include both larger companies with greater financial resources and potential new market entrants and often differ by end market and/or product.
- **Technical Change** - The company's focus on technology and innovation also carries risk, in so far that APH is unable to keep pace with rapid technological change. Underscoring the importance of innovation, management estimates that products introduced in the last two years account for approximately 25% of sales.

Overview:

We believe the stock is an attractive core growth holding, rooted in APH's strong focus on technology and unique entrepreneurial culture. APH is also an active acquirer, which we view positively given a focus on companies with strong management teams and diversification qualities. Recently, fundamental trends have continued to accelerate (with Industrial inflecting to a tailwind in 4Q24 and growth accelerating further mid-2025), and we now also see an even greater conviction in the opportunity for what we've dubbed the company's "paradigm shift" portfolio, given APH's rapidly growing AI franchise/technology leadership position, and also see Defense as an area demonstrating sustainable step-function growth. Bigger picture, APH's end-market diversity and flexible business model are key strengths, already-completed M&A provides a 10%+ 2025 sales tailwind, and AI comps remain easy for the next several quarters.

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