

Initiated 2026-09-21 · Price \$263.43 (as of 2026-09-18, stockanalysis.com quote) · Mkt cap \$12.93bn · Information technology / semiconductor process control · Model: verified

## Rating: Sell — Conviction: Medium

An excellent business at a price that needs the AI-packaging capex cycle to run further and longer than any case I can honestly build. Revenue is inflecting hard — Q2 2026 up 35% year over year, backlog above \$1bn for the first time — but the market capitalizes a non-GAAP stream that excludes ~\$80mm a year of recurring merger and restructuring charges, and looks past how slowly growth converts to cash: working capital absorbs about 40 cents of every incremental revenue dollar. Discounted at a 5% risk-free rate, even a bull case with 25% multi-year growth and mid-30s EBITDA margins lands ~30% below the price.

### MODEL VALUE RANGE VS PRICE



## Business overview

Onto sells inspection, metrology and lithography systems plus process-control software to chipmakers; it was formed by the 2019 Rudolph–Nanometrics merger. Demand splits into Advanced Nodes, Specialty Devices and Advanced Packaging, and software/services. In Q2 2026 Advanced Nodes revenue grew 50% sequentially to a record, and Specialty Devices and Advanced Packaging hit historic highs on 2.5D logic, HBM and silicon photonics. Three variables drive earnings: process-control intensity at advanced nodes and in packaging, systems-versus-software mix, and the working-capital cost of scaling a long-lead-time systems business. In August 2026 Onto paid ~\$720mm for 27% of Japan's Rigaku Holdings from a \$1.3bn+ 0.00% convertible; the stake is fair-valued, not consolidated.

## Bull case

- AI packaging and HBM intensity** — each layer of 2.5D/3D stacking adds metrology steps, so revenue outgrows wafer starts. Plays out if accelerator-driven HBM and packaging capacity additions run through 2027; backlog above \$1bn already reaches into 2027. *Model: rev\_growth*
- Advanced Nodes share gain** — the 50% sequential jump was broad-based across logic and memory, which reads as design-win conversion, not one customer's pull-in. Plays out if Q3/Q4 hold the run-rate. *Model: rev\_growth*
- Leverage as charges roll off** — management targets non-GAAP operating margin of at least 33% by year-end against 30.0% in Q2, and the \$4.3mm/quarter of merger expense is transitory. Plays out if restructuring decays with it. *Model: ebitda\_margin*
- Rigaku broadens the served market** — X-ray addresses the exotic materials and buried 3D structures optical metrology struggles with. A years 3–5 effect. *Model: rev\_growth*

## Bear case

1. **Working capital eats the growth** — receivables plus inventory less payables have run 45.7%–61.8% of revenue since FY2021, \$577mm in June. FY2026 consumes ~\$140mm of cash in working capital alone, so free cash flow lags the margin story in exactly the years the multiple assumes cash. *Model: nwc\_pct\_rev*
2. **The price capitalizes non-GAAP earnings** — the 25.6x forward P/E rests on EPS adding back \$19.6mm a quarter of merger and restructuring charges. Onto creditably does *not* exclude share-based compensation (\$17.0mm in H1), so the add-backs are operating charges. On GAAP-inclusive EBITDA the stock is at 40.5x trailing. *Model: ebitda\_margin*
3. **Air pocket after a pull-forward** — semicap revenue mean-reverts: FY2022's \$1,005mm fell 19% to \$816mm in FY2023. A 42% year is usually followed by digestion; bear assumes one down year in FY2027. *Model: rev\_growth*
4. **Duration risk at a 5% risk-free rate** — beta 1.58 at 11x sales, 10Y at 5.00%, 16 of 18 FOMC participants expecting another hike. Why S3 and S12 dominate the stress test. *Model: wacc, exit\_ev\_ebitda*

## Valuation & balance sheet

| Metric (definition)                             | Current                      | Own history (range or 5y avg) | Peers                                    | Source, as-of                                    |
|-------------------------------------------------|------------------------------|-------------------------------|------------------------------------------|--------------------------------------------------|
| Forward P/E (consensus non-GAAP EPS, NTM)       | 25.6x                        | n/a (unverified)              | KLA 33.8x · Camtek 35.6x                 | stockanalysis statistics / GuruFocus, 2026-09-21 |
| EV/EBITDA (TTM, EV \$12.52bn)                   | 40.5x                        | n/a (unverified)              | KLA ~42.9x · Nova ~36.6x · Camtek ~30.4x | stockanalysis statistics / GuruFocus, 2026-09-21 |
| EV/Sales (TTM revenue \$1.12bn)                 | 11.2x                        | n/a (unverified)              | n/a (unverified)                         | stockanalysis statistics, 2026-09-21             |
| EBITDA margin (GAAP op. income + D&A / revenue) | 19.2% FY2025 · 23.2% H1 2026 | 19.2%–30.0%, 5y avg 25.0%     | n/a (unverified)                         | SEC EDGAR XBRL + Q2 2026 release, 2026-09-21     |
| FCF yield (TTM FCF \$252.5mm / mkt cap)         | 2.0%                         | n/a (unverified)              | n/a (unverified)                         | stockanalysis statistics, 2026-09-21             |

**Model-implied value range** (from `model-summary.json` ; generic module, DCF-Gordon and DCF-exit-multiple, midpoints): Bear \$41.77 · Base \$104.13 · Bull \$185.44 per share, i.e. implied returns of ~84.1% / ~60.5% / ~29.6% vs \$263.43. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits above the bull case: \$263 needs the bull revenue and margin path and a 9% WACC and a 22x exit together.

**Rigaku is excluded from every case.** The stake is deducted from cash at its ~\$720mm cost and never added back, because the generic module has no line for a fair-value holding. That understates all three cases by ~\$14.50 per share at cost, and does not change the direction of the call.

**Balance sheet:** net leverage 1.60x FY0 EBITDA (0.8x on base FY2026E); coverage not meaningful — the only borrowing is a 0.00%-coupon convertible, modeled EBITDA/net interest 240x in Y1. Liquidity \$1,162mm of cash and securities pro forma for Rigaku against \$1,471.7mm of notes, the whole stack maturing at once on 2031-06-01. No agency rating retrieved this session.

**Model note:** built and LibreOffice-verified (3,188 formula cells matched, 0 failing error checks). One warning check fails: `market.cash` is unverified, derived as the 2026-06-30 balance of \$1,882.2mm less the ~\$720mm Rigaku payment. No assumptions lack a basis; no scenario CHECKs remain. Two judgment inputs are weaker than the rest and say so in their `basis` : capex at 3% of revenue, and the 15% cash tax rate inferred from Q2. Cost-of-debt is charged on *net* debt only, ignoring ~\$45mm a year of interest income on gross cash. Generator note (2026-09-24): in this module `share_change` , `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

## Scenario stress test

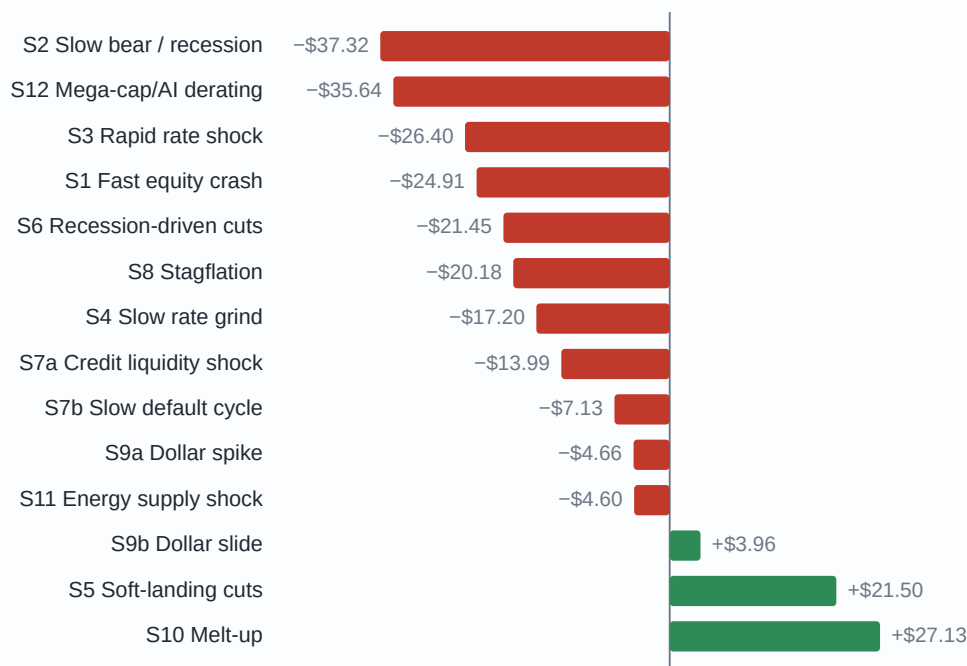
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

| Scenario                   | Effect | Mechanism                                                                                                 | Magnitude | Model $\Delta$ value vs Base (\$/sh) |
|----------------------------|--------|-----------------------------------------------------------------------------------------------------------|-----------|--------------------------------------|
| S1 Fast equity crash       | –      | Beta 1.58 at 11x sales: multiple compresses on de-risking, backlog untouched                              | High      | –\$24.91                             |
| S2 Slow bear / recession   | –      | Customers defer deliveries; backlog stretches instead of shipping, underutilization hits margin           | High      | –\$37.32                             |
| S3 Rapid rate shock        | –      | Long-duration equity de-rates on the yield spike; no floating debt, so no interest-cost channel           | High      | –\$26.40                             |
| S4 Slow rate grind         | –      | Same channel, slower and shallower, across the full horizon                                               | Med       | –\$17.20                             |
| S5 Soft-landing cuts       | +      | Cheaper money plus intact fab investment is the best regime for a high-multiple equipment name            | High      | +\$21.50                             |
| S6 Recession-driven cuts   | –      | Capex cuts dominate the discount-rate relief                                                              | High      | –\$21.45                             |
| S7a Credit liquidity shock | –      | Mostly a multiple event: no maturity before 2031, no revolver to roll                                     | Low       | –\$13.99                             |
| S7b Slow default cycle     | –      | Large chipmakers are investment grade, but levered OSAT and specialty buyers slow orders                  | Low       | –\$7.13                              |
| S8 Stagflation             | –      | Input and labor inflation squeeze margin faster than system pricing resets; discount rate rises           | Med       | –\$20.18                             |
| S9a Dollar spike           | –      | Asia-concentrated revenue translates lower; the yen-denominated Rigaku stake marks down                   | Low       | –\$4.66                              |
| S9b Dollar slide           | +      | Mirror image: translation tailwind plus a yen-asset gain                                                  | Low       | +\$3.96                              |
| S10 Melt-up                | +      | Rewards exactly this profile: high beta, AI-levered, narrow leadership                                    | High      | +\$27.13                             |
| S11 Energy supply shock    | –      | Freight and energy input costs on globally shipped systems; no direct demand channel                      | Low       | –\$4.60                              |
| S12 Mega-cap/AI derating   | –      | The re-rating rests on AI packaging and HBM intensity; a leadership unwind takes multiple and orders both | High      | –\$35.64                             |

Magnitude labels re-ranked 2026-09-25 to match the model's dollar deltas (skill 3a-v-b item 7; the 2026-09-24 generator fix enlarged multiple-shock rows): S5 Med → High.

**Currently active/on watch per the playbook:** S3 partially active (10Y 5.00%, price leg met, pace legs short); S8, S10, S11 on watch, S11 escalated after the 2026-09-19/20 Houthi strikes on Riyadh and Yanbu.

## MODEL VALUE CHANGE VS BASE, BY SCENARIO



## What would change the call

**Upgrades if:** the bull operating profile shows up — revenue above a \$1.6bn annualized run-rate, GAAP-inclusive EBITDA margin above 30%, working capital below 38% of revenue — while the price de-rates into the \$185–235 bull range; or a sustained fall in the 10Y resets the discount rate the whole group is capitalized at. **Downgrades if:** conviction goes to High rather than the rating changing — backlog below \$1bn, restructuring above \$15mm a quarter into FY2027, or the GAAP-to-non-GAAP gap widening on new charges.

## Watch items

- **W1:** "Restructuring expenses and other" (\$15.3mm Q2, \$30.7mm H1) — below \$8mm/quarter, and any disclosure of what it is — Q3 non-GAAP reconciliation and 10-Q — late Oct/early Nov 2026 — *Model: ebitda\_margin*
- **W2:** Working-capital intensity (AR + inventory – AP over annualized revenue, 42% in Q2) — under 38% supports bull, over 46% confirms bear:1 — quarterly balance sheet — *Model: nwc\_pct\_rev*
- **W3:** Backlog, above \$1bn and reaching into 2027 — holds and extends, or erodes — Q3 earnings release and call — *Model: rev\_growth*
- **W4:** Amortization, \$19.7mm in Q2 against \$39.4mm for all of FY2025 — what drove the step-up, and does ~\$79mm annualized persist — intangibles note, Q3 10-Q — *Model: da\_pct\_rev*

## Sources

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*Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.*