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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Richard Puccio *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Michael Lucarelli *Analog Devices Inc - Vice President - Investor Relations and FP&A*

CONFERENCE CALL PARTICIPANTS

Timothy Arcuri *UBS Securities - Analyst*

PRESENTATION

Timothy Arcuri - *UBS Securities - Analyst*

Good morning. We're going to get started. I'm Tim Arcuri. I'm the semiconductor analyst here at UBS. Very pleased to have ADI with us. With ADI, we have Rich Puccio, who is the CFO; and we have Mike Lucarelli, who is the IR. So thank you for coming.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Thanks for having us.

QUESTIONS AND ANSWERS

Timothy Arcuri - *UBS Securities - Analyst*

So maybe let me start. Some of your peers still don't sound very good about business. And yet, you sound pretty confident that things have stabilized, and you had your earnings call last week, and you sounded relatively okay. So what kind of gives you that confidence that your business is stable and is largely seasonal, really?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So I take it back a little bit when we started talking about our bookings trends. We've had a pretty good run of continued growth in bookings, and then we had a drop-off in auto bookings in Q3, which took us down overall from a bookings perspective. Well, we -- I think we started to talk -- to see at the end of the quarter, a little bit of a pickup in the auto, and that actually continued into the Q4 and grew throughout the quarter. So getting back to growth, growth in auto for us was really important given that was an offset. So we feel good about the growth we've seen in bookings across the business.

The other thing that gives us a lot of confidence of where we are, certainly with -- we said we'd grow sequentially. We've grown sequentially twice. We've talked about this before. We were very early reacting to the inventory situation, both at our end customers and our channel. So we've got inventory down to a pretty low level. We're seeing good bookings activity. Our near-term outlook has us back in a really good place from a demand perspective as we're getting good signal because we've got normalized lead times.

And if you break down some of the strength, particularly in China, right, you think about what happened in China. China was the first one to go into the decline. I think we had seven straight quarters of decline in our China business. Now, that has come back and grown two straight quarters in double digits, right?

But if you think about that piece in particular, the auto business in China has been strong as you think about what's happening in cars, more and more of the features where we have a lot of content ADAS related, those are going down into the next tiers of automobiles.

So that's creating additional content growth, right? We talked about we had gained back some share in China. And so that's been a positive driver for us. When you think about it, we've got a really good leading position in the optical space, providing into the suppliers in China who supply the US data center companies. We feel good about that. And we've got inventory in the channel down just a little bit below our target of seven weeks. So we feel like we're well positioned for the rebound here.

At some level, we're pretty comfortable right now with the lower levels in the channel from an inventory perspective. Just given we've still got -- although we've made a ton of improvement, we still got a pretty significant amount of inventory on our balance sheet. We've got the capacity so we can handle some of this increased upside if we are fortunate to see the macros turn. A little bit of the thing that's keeping us from growing better is we're obviously a big industrial business. The broad part of the industrial just isn't coming back, be in demand.

Timothy Arcuri - *UBS Securities - Analyst*

Right. Can you talk about China EV and how sustainable that is? There are some investor concerns that some of this might be pulled forward given some tariff years. Can you just talk about sort of if you peel back the onion, does that seem possible that they're pulling in because of tariff years?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

I guess, it's plausible, but we haven't seen it, right? Like I said, we saw significant declines in now rapid acceleration. Look, a big part of our business is tied to the EVs and all of the incremental growth in EV that's happening, that's happening in China, right?

Now, we've got this weird dynamic that's maybe tempering the growth a little bit, which is plug-in hybrids are growing faster than full EVs, and we get more content out of a full EV versus a plug-in. But we've been very fortunate to grow our content pretty significantly. If you go back to 2019 to now, we've significantly grown our content in the vehicles, and we have gained back share there.

Again, as I said, we're pretty low from an inventory perspective, but I feel like we're well positioned. If something geopolitical happens, certainly. But what we're seeing right now is real demand because we don't have a ton of excess out there.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

I think I'll say one thing. Folks because everyone focus right now in automotive is very strong in China, right? And we did talk about share gains, as Rich pointed out, on the BMS side ahead of that. We had share gains on top of stronger demand than we thought. So that's driving automotive business. The flip side in China, the industrial market for us is still very weak in China and the channel inventory there is also very low.

So I think what you're going to see in China is going to broaden out adjustment an automotive growth driver for China to also the industrial market, which is a big part. Over 40% of our China business is industrial, and that is still weak.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Sorry, I think that I have a bit of an expectation that the stimulus activity the government taking is going to drive some industrial growth there.

Timothy Arcuri - *UBS Securities - Analyst*

Got it. Can we just talk about China and just the sort of melting ice cube concern that everyone has -- not just for ADI but for everyone in your sector just as concerned that China is going to indigenize all of this stuff and just as a -- your China business is just a melting ice cube. Can you talk about how you see yourself positioned in China? I know you did have the teardown that actually we did, and you did lose the share on the domestic car. That was a high profile, but probably not representative of what your overall position is in China. So can you talk about that?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Sure. So there's a lot of conversation about the investments China is making to indigenize. One of the things that makes that a particular challenge competing against us is one, the industrial is highly fragmented, right? Tons of SKUs, tons of customers, and analog is very hard, right? So you're not going to be able to come in -- we even learn this, right, displacing folks in the analog space is hard. Our products, in particular in the industrial, which is roughly half of our China business, average product life, 17 years. We command innovation premium, so we have higher ASPs. So I think that we will continue.

Look, when you need highest performance, you're going to pick analog regardless of territory, and that applies in China. Even where we had lost some share previously in China, we gained it back because they realized they needed our performance levels for parts of the cars. The higher-end cars, you need higher performance, you needed our solutions. So I feel very good about where we're positioned. Am I always going to be, as a CFO, hyper-focused on that, their continued drive to do that?

Yes. But I think in the near term, we continue to win, and we continue to see our pipeline grow. We've got double-digit growth in our pipeline which leads me to -- and that's a good proxy for our multiyear outlook on revenue. And I still continue to feel good about that.

Timothy Arcuri - *UBS Securities - Analyst*

Great. Nobody really asked on the earnings call about distribution. Is there anything to call out in the disti channel. Most of the disties are still trying to reduce inventory. I think you took down channel by maybe $30 million. What are you seeing in terms of inventory inside of distribution?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So we saw the -- we reacted pretty quickly when we started to see the downturn and went to address the inventory situation. So we've been at that pretty hard. And if you think about sort of full year fiscal '24, we took about $300 million out of the channel, right? So we feel like we're in a really good place from an inventory perspective in the channel in that regard. I don't expect that we'll start shipping a ton into the channel more than we're seeing in the end demand until we see a significant improvement in the macros in the background.

But I'd like to -- and I just heard we actually got a positive PMI post but I'd like to see a little bit of a trend there before we start doing anything different than what we do in the channel. I want to see the pickup accelerate. So we don't exacerbate any potential lingering inventory issues out there. But even talking to our channel partners, I think we've done a really good job managing the inventory through the cycle, and I think they would tell you the same.

Timothy Arcuri - *UBS Securities - Analyst*

Great. Can you talk about just the geopolitical risk around tariffs? I'm asking all the companies this question, so not just ADI. You've qualified 70% of your products to run internal or external and I think 95% of the products made outside of China and Taiwan. But what if the tariffs do come about, do you have enough capacity to offset what touches China? I know you're gearing up TSMC fabs in Japan. So how do you think about the relief valves you might have?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Sure. So I'm going to do two clarifications, two important ones. First is we set a goal to get to about 70% of our products qualified. We call it -- you'll hear us use this term swing capacity, meaning we can manufacture internal in one of our third parties. We expect we will get to that 70% by the end of this year. We're not there yet. And on the 95%, an important word you left out is we will be able to manufacture 95% of our product outside of the Taiwan, China.

Now, getting fully to the 95% requires us to get online with the capacity we signed up with TSMC in the Japan fab. But to be clear, we don't want to not be manufacturing those places. We will go there. This is for the black swan event because obviously, almost by definition, you move away from semi manufacturing in Taiwan. Every step farther you go back towards the United States, it gets more expensive. So they've got a great ecosystem, they're a great manufacturer so we will be able to.

And that's what our customers want, right? We went through a pretty significant resiliency plan. And we've talked about this before, right? We had significant amounts of CapEx spend over the last couple of years as we've built the resiliency plan, doubled our internal capacity, did all those things. But today, say we're 50-50 internal, external. We expect we'll continue to stay on something close. And unless we have to, we don't plan to move out of the Taiwan-based manufacturing.

Timothy Arcuri - *UBS Securities - Analyst*

Great. One of the bigger idiosyncratic pieces of your story is the potential revenue synergies from the Maxim deal, of which you realized hardly any so far. You've been winning designs that will start to revenue over the next few years. So you have visibility on that, but you haven't really reaped those benefits yet. So can you kind of talk about that? Is the $1 billion by 2027, is that already on and it just does a matter of time until this stuff starts to ship?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

I'll go back to the start. So we have had very mild amounts in the 20s of millions of dollars of synergy -- revenue synergies in the current period. We expect that to significantly accelerate in fiscal '25. But again, still more in the hundreds of millions, not close to the $1 billion. We still are on track to get to the $1 billion. Because what we've seen is when we apply -- have applied our field application engineers and field resources, particularly as we look at things like GMSL, we continue to see a ton of growth.

As you said, we've got a very strong design pipeline that's going to start producing. We're benefiting, obviously, from the power portfolio as we look at the gains we're making in data centers in other spots. So we are -- actually, we're right about where we thought we'd be at this point and still feel like we're on track to get to that synergy number, $1 billion in '27.

Timothy Arcuri - *UBS Securities - Analyst*

When you think about content growth in autos, how much of the content growth is electrification related such as BMS and things like that? And how much is an area like infotainment and ADAS that are sort of more agnostic to powertrain?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So if you think about how it's picked up for us over -- I go back to 2019 time frame and you think about our content across those pieces, it's say it was, I don't know, $30 or $20 to $30 per vehicle. You look at that content today, it's closer to $100 a vehicle. And then if you think about if you move -- continue to move to the right, if we get a BMS solution and that adds another $40-ish to the solution. And if they go all the way to a wireless BMS, which we are starting to see more and more traction in the wireless BMS, that's another $100 piece of it. That's the way I'd frame it. And total Mike, what -- sorry.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

To Rich's point, the way we look at the models and kind of say, what's the content per car, we talked about nodes per vehicle, a node for us is defined as a camera, radar, a microphone or speaker or display. Those nodes in every car are increasing a lot. To Rich's point, you look at '19 today, that content increase of just nodes, it's increasing a lot. What does that mean? It means you need more GMSL connectivity, you need more A2B, you need more functionally safe power. That's happening across all vehicle types, whether ICE, EV or hybrid.

That's what Rich has talked about as you think about $20, $30 going to $70, $80, $90, $100, It doesn't matter what vehicle type it is. You get like a 5x content increase because of more nodes per car, then you layer on top of that, if that car has a powertrain that's electric. We had another $40 and the use wireless BMS of $100. So there's another content expansion on top of just node as the car moves to being electric as well.

Timothy Arcuri - *UBS Securities - Analyst*

Got it. I wanted to ask, because there's a question from the field that is a question, and this is sort of the last China question that I'll ask. But this is a question like half the time you talk about analog, the debate is around China and with then building so much at the lagging edge. How do you -- and the question really is how do you ward off that threat? Is it that you say, okay, you know what, we're going to have to price just more competitively in China? And you think you won't lose share, but that pricing will have to come down, and therefore, you have to find ways to take out costs so you can maintain margins? How do you sort of think about that?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So certainly, the most aggressive price pressure is, in my view, is in China auto, right? That is what we're seeing. And look, we look at our pricing across our portfolio. We've talked about this pricing has been restable in '24. We expect it in '25.

That's a combination of puts and takes, right? There will be some price down activity in autos. There'll be some price down just for volumes across our business. But at the same time, we'll also have some offsetting price increases in some of the legacy stuff.

But I think the moving away from the pricing, where we will continue to compete in that space is if you need domain expertise and application-specific solutions, high-performance then you're going to come to us, right? We're not chasing the high volume, right, which if I'm building factories in China, I'm going after the volume, less complex stuff.

Do I worry about it? Like I said, over the longer term, absolutely. But today, I think our -- the innovation we have, the innovation premium we get. The other thing, even at those nodes, it's a very diverse product portfolio and customer set, which makes it hard to come in as a new competitor against -- particularly, right, analog is hard. We have 60 years of experience designing and analog.

Timothy Arcuri - *UBS Securities - Analyst*

You talked about 300-millimeter. You've taken a little different manufacturing approach than some of your peers have, I will say. I mean, I think it would take for you probably take quite a long time to fill up a 300-millimeter fab because so much of what you do is at nodes greater than 90 nanometers. So how do you think about your manufacturing strategy and how it could evolve going forward?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So first, you're correct, right, building a 300-millimeter fab would not make sense for us, right? The majority of our stuff is in the 180-nanometer space. So it would be very hard for us to fill, right?

The other thing is a lot of our stuff is smaller volume production, which would make that very difficult. That said, we use our we use our foundry partners, right? Because we are building on 12-inch wafers. We're building more than we historically built on 12-inch wafers. And I expect that what we build on those will continue to grow moderately. The economics just wouldn't work for us.

And look, we have historically run a very CapEx-light model, right? I think we've talked about in the last couple of years, we invested heavily from a resiliency and a capacity perspective. but we're going to get back into running inside of our 4% to 6% of revenue from a CapEx perspective. So that is not building more fabs for our model. And that works, and we have great partnerships with our outside parties. And our ability to swing in and out has been fundamental to how we perform, right?

So in the time of hyper accelerated growth, and we need extra capacity, we can go outside. In times, we've like we've just been through with the big drops, we're able to swing some of that capacity back in, which has helped moderate the impact on our utilization. I mean we're still -- we've talked about this on the earnings calls. We're coming off of a trough from a utilization perspective in our second quarter. Had we not had a had the ability to swing capacity back in using our factories, the utilization challenges would have been even worse. So that swing is super important, and we really like the relationship we have to leverage others' capital.

Timothy Arcuri - *UBS Securities - Analyst*

Great. Just on that point, I wanted to ask about incremental gross margin off the bottom. I would think utilization is the biggest driver. However, industrial is a little higher gross margin than auto. So maybe there's a little bit of leverage to industrial from that point of view. How do you think about incremental gross margin? Or would you just say, look, don't worry about incrementals, just think about 70% at $2.7 billion a quarter?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

70% at $2.7 billion is a good thing to have in your mind, but that also would assume we get some growth in the industrial side. You're absolutely right. Industrial is a much higher business margin business for us. And a good portion of our pressure downward was utilization, also mix. If you look back a year ago and look at fiscal '23, industrial is well over 50% of our business, significantly lower, 8 points lower as a percent of our business. In '24, that is a margin headwind.

Now, if we see industrial start to come back and see that rebalance, that will give us more acceleration on the gross margin. But getting back to the -- the previous high kind of margins, really, we need to get -- we need the macro to pick up and the broad industrial and start buying things to be able to do that. But we will, as revenue volumes increase as we progress throughout the year, we would continue to expect to see gross margin increase.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

On the industrial side, it's a double kicker or whammy, depending where you are in the cycle. Right now, it's the downside, meaning industrial is low as a percent of mix, and it also drives a lot of our utilization internally. So as industrial comes back throughout this year, that helped from a mix perspective, it also drive utilization. So you get the double whammy on the upside as you come out of this. And utilization is -- the good news is it's not going down anymore and it's very low.

We get a lot of incremental gross margin expansion as we start turning the factories higher. We're not planning on turning many lower given what we did in inventory this year already and given we're thinking the inventory at our customers on industrial is now leaned out. So it's expansion from here on the gross margin side. The question is the pace. That pace will be a lot dictated by the industrial market.

Timothy Arcuri - *UBS Securities - Analyst*

Got it. Okay. So this is just a question about sort of what you learned, and I compare and contrast you to other of your peers. When you look back over the past couple of years and how deep this cycle has been and how it evolved and how crazy it was during the peak, what have you learned and taken forward that will make the company better over the next five years?

If you look at some of your peers, some of them had preferred agreements with some of their suppliers and they had LTSAs, and that's come back to be not so great now. Others didn't have enough capacity in the peak, and so they're building a lot of new fabs. You see -- you're kind of somewhere in the middle. So how do you look at what happened in the past few years? And how does that inform you on how the company ought to look over the next five years.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

So I'll give you my nine-month look back, and then I'll let Mike go back to prior years, what he's learned from what has happened before.

So one of the things we certainly learned going through this, and I think the team did a really nice job in a difficult situation, right, managing the inventory. If you think back to what we had -- and I said on the other side of the buyer in the supply chain. And I just remember getting the phone call saying, year lead time is not 13 weeks ending more, it's 26. And it went from 26 to 52 weeks. And it went 52 weeks to longer. And if you're a business is dependent turning on a machine, you have to have the equipment, you make a lot of buying decisions that in hindsight don't look that great, right? Just relative to what happens.

So I think what our team did, which was they worked really hard. I mean, it's very hard to call a customer and say, I know you want to order this, but we don't really think you need it. But ultimately, they say, ship, you got to ship it. But what happened is we got much closer to customers and now we are involved much earlier in all of the processes with our large customers, which gives a signal. We have also, as I mentioned before, we have learned that keeping more of this inventory under our control and on our balance sheet will be something we want to do going forward because it gives us tighter control.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

No. The other thing is I was like, there's a huge inventory build at customers, what can you do differently on the revenue side. It's very tough. And we've spent a lot of time with customers them asking them about what you need, what don't you need? And it was just yes, yes, no.

And it's hard to control that side, the customer is a customer. But what we can do better is control what's in our control, OpEx, CapEx, utilization I think we can react faster to reading the tea leaves at our customers will have in revenue to react faster on the OpEx line, deploying less CapEx and dropping utilization faster so that you don't have as much balance sheet inventory build. Your OpEx doesn't go up as much and you need bigger cuts later.

So what's in your control, we can manage better and rich point also, our balance sheet inventory, keep more at [die] bank, because that is good for upside demand. So really what's in your control and focus more on that while working with the customer on the revenue side, group revenue takers at the end of the day. We do our best to manage that, but the customer is the customer.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

And you see the result of what -- in what Mike and the broader teams were doing, right? We took a lot of inventory of our balance sheet, which helps us from a free cash flow perspective, right? We got back up 33% for the year, free cash flow margin. And I expect that we'll get back into our long-term model for free cash flow margin for '25. And a lot of that is built around the resilience behaviors that came as a result of the supply chain fracture.

Timothy Arcuri - *UBS Securities - Analyst*

It seemed like you were a little more proactive in terms of -- and I don't know whether it was that you were -- the customer said they want a 10 and you would ship seven, and they would get mad of you for only shipping seven even though you could have shipped 10. So I don't know if there was a proactive effort on your part, but it seemed like you were more proactive in sort of reading the tea leaves, as you said. And is that a systems thing? Is that -- or just -- you're just closer to the customer than maybe some of your peers are?

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

Yes, it was -- it's both. We're very close to customers. That definitely helped. We also did a very good job managing the channel. The channel is one removed from the customer. And we talked to a customer, and we'd ship it less in the channel they wanted. So I think we did a good job managing the channel inventory.

Yes, it got high we really manage that closely and didn't ship them everything they wanted. The direct customer is a little more challenging, but we did. We say, we've shipped you this much product. Are you sure you need it? Someone say, actually, you can take it down so that we need it.

So there's a balance there closest to customers, looking through the channel and really managing your business and watching yourself versus what your customer is saying is what helped us get through it. And I'll give operational team a lot of credit, bringing our lead times back to 13 weeks, very fast. We got 13 weeks end of last year, so a year ago. That was painful, the standpoint a lot of cancellations, but it got us through the inventory correction faster.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Yes. And I think you're doing a little bit of the history as I was coming on board, the company spotted the start of the cycle going other way, pretty early and pretty aggressively started managing down the channel, right? So we've been aggressively managing down the channel for over a year. and talking to our channel partners, not all companies took that approach.

Timothy Arcuri - *UBS Securities - Analyst*

For sure. Yes. Can you just sort of talk about the industrial market in general. I know there's 15 different submarkets within industrial and some are better than others. But can you talk about industrial, it seems like on the whole, it's not really getting any better. It's still quite mixed. Can you talk about that? Are there any green shoots in industrial?

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Yes. I would say I agree from a broad macro perspective, the broad pub piece is not picking up. But if you think about what's going on for us, I'd say there's a couple of things. One, we had been talking about how significant the drops in automation, industrial automation was for us. We actually had a growth this quarter in industrial automation. That is a good green shoot, right? We really want to see that pick up. We continue to do well in aerospace and defense, which has been one of our most resilient businesses on the industrial side.

And then -- and Mike mentioned it a little bit before, in the test space, given the growth in all the AI-related stuff, whether it's high bandwidth memory, high-performance compute, those are more complex testers have more of our content. And so we're actually on track for -- had a record year in '24 in that test space. and we expect that momentum to carry. So those are the three areas I'd highlight. Look, the broad industrial is so soft.

Now, that said, we have still had two straight quarters of growth in industrial coming off our trough. and we are at a very low level of inventory in the channel. So I'm optimistic, and we've sort of talked about the math before. If you go back to 2019 to today, we've been undershipping the channel -- excuse me, undershipping demand by something like 20%. So I think there's -- that gives me optimism, but we need the macros to improve.

Timothy Arcuri - *UBS Securities - Analyst*

Got it. Well, we're out of time. Again, thank you to you both.

Richard Puccio - *Analog Devices Inc - Chief Financial Officer, Executive Vice President*

Thank you for having us.

Timothy Arcuri - *UBS Securities - Analyst*

Appreciate it. Thanks, everybody.
