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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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CONFERENCE CALL PARTICIPANTS

Timothy Arcuri *UBS AG - Analyst*

PRESENTATION

Timothy Arcuri - *UBS AG - Analyst*

All right. We're going to get started. I'm Tim Arcuri. I'm the semi and semi equipment analyst here at UBS. I'm very pleased to have Rich Puccio with ADI, Rich is the CFO. So thank you, Rich. Thank you.

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

Thanks for having me. Appreciate it.

Timothy Arcuri - *UBS AG - Analyst*

So Rich, let's just start with the question that I and you are probably getting in every meeting, which is you just had a very strong earnings report. You were one of the few to guide above seasonal last week for your January quarter. Can you speak to what you're seeing in the business? And some of the key segments and what's allowing you to outperform your peers?

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

Sure. So maybe I'll take back a little bit. If you go back to Q2 '24 when we said, hey, we think we've hit the bottom here. We're largely through our inventory correction. We expect that we'd start to see sequential growth in the back half of our '24. We see more growth in '25, and we were expecting we'd see a more significant acceleration in the back half.

And in fact, that is exactly what has played out for us. And for us, what we're seeing, and I think this is really important is we've seen a broad -- really broad-based recovery, if you think of where we were at the trough and where we got back to this year. So if you all take them by the end markets and give you a little bit of the description, I think about the industrial market, we've been talking about for better than a year, green shoots where we were seeing things in our industrial, right?

And what we were seeing was green shoots in aerospace and defense and in our test business. Okay? And as the year progressed, we started to see growth in some of the businesses that probably were still having some inventory correction. So automation, a big part of our industrial business.

I talked about this a couple of quarters in '24 where it was actually a laggard and hadn't started to see any real rebound and then started to rebound. So we've now had three straight quarters of growth in automation. And by the time we get to the end of the year, we are -- we have growth across all of those submarkets within Industrial. We exited Q4 with a book-to-bill above one industrial, which also helps explain what we're seeing for the above-seasonal guide in Q1 in our industrial.

And that strength, we expect to see that continue. Given the position we are and particularly as you look at the tailwind line, even the two I just talked about in the test business, the AI capital boom is happening, and we are benefiting pretty significantly in the test space because the more SoC, the more high bandwidth memory, more tests for us.

And given our share there and our products, we feel like that's a really strong position for us. On the aerospace and defense side, the world isn't getting any more civil and there's quite a bit of increased defense spending globally. So we think that given that with our position in aerospace and defense, really feel good about that. The other piece has been a really strong grower for us is you go to our communications business. Two-thirds of that communications business is wireline basically our data center business.

And that is an area where we've seen tremendous growth because also because of this AI infrastructure boom. And if you think about that portfolio, that's sort of split between our optical products and our power products. And if you think about the way that growth is happening, we feel like we're really well positioned with our product portfolio already in the data centers and then some of the newer products that we've had designed into the data centers. So feel really good about that.

In fact, we've talked about the size of those two businesses. I think the -- we've talked about the test business is an \$800 million kind of business coming out of year-end. The aerospace and defense is eclipse the \$1 billion business in the year-end, and we continue to see that growth tailwind behind this going into the next year. On the consumer side, consumer has been very strong. It was one of our highest growth rate areas for all of '25.

And that is largely attributable to the design in and the new sockets we've gotten. It's a much more -- if you think about post some of the wireless things that were going on. You think about the breadth of our consumer portfolio. Now it's not just handsets, it's handsets, it's hearables, it's wearables, it's gaming. And we've seen that growth happen throughout the year.

Now we will expect in Q1 a seasonal decline, obviously, on the consumer side. But if you look broadly across the business, we feel like we're really well positioned from a technology perspective, from a customer relationship perspective. And then if you look at the cyclical piece of it, particularly on the industrial side, we've been running very lean in the channel.

As a matter of fact, we were very early on in managing down inventories in the channel. I think we undershipped our channel for two years. In fact, this quarter was the first time in two years that we actually shipped into the channel to get ourselves back up to a sort of 6-week level in the channel. So I feel like the cyclical pieces are in place. And the other thing is we're seeing more of the broad mass market stuff come back in industrial, which is also another good cyclical indicator for us.

QUESTIONS AND ANSWERS

Timothy Arcuri - UBS AG - Analyst

Yes. I guess if I aggregate the AT business, aerospace and defense as well as data center, it seems like those in aggregate contribute something like incrementally \$200 million year-over-year. That's very unique to you. Is that fair?

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

Yes. And I think it is fair, and I think what has differentiated us and those are two areas that require really high performance chips. And so you think about in the test space, as we've described, you got to be able to test the most complicated things, which means you have to have the most sophisticated technology been a leader there. We have an incredible share there. That is a real ADI, idiosyncratic thing.

Then if you go look at aerospace and defense, that's one of those areas. It's a perfect example for ADI of us working up the stack, right? If you think about what we're delivering in that space is more and more much higher ASP modules and solutions.

And so that is a big driver for growth for us. And obviously, we've got that tailwind I mentioned as defense spending continues to increase. And our teams continue to innovate there. And that's one that captures a bunch of our different products, and we get much more value when it's a system solution. And I think that's broadly -- and I can talk about this probably in any one of our end markets. It's our ability to innovate and be there first with the hardest solutions that is separating us out from a lot of our competition.

Timothy Arcuri - UBS AG - Analyst

Great. Let's talk about China and geopolitics. So fiscal '25 just closed. Your China business was up -- sorry, China was 26% of revenue. Your China business was up 26%. And in a year where your total revenue was up 17%. So China actually outgrew your total revenue. Yet we hear the drumbeat of local displacement getting louder and louder, especially in autos.

Can you talk about that? Are you -- I mean, obviously, you see some of that, you do fly above some of what's getting displaced. But can you just talk about China?

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

Yes. So look, China was one of the first businesses into the decline and it was one of the first ones to come out for us. It has been a fantastic year, another record year revenue-wise for us in China. And then even within that, we've had our second record year in China auto. And that aligns very well correlates with what we've seen and where new vehicle production has been happening.

And when you get all that incremental -- excuse me, vehicle production in China and you add on top of that, our share gain and our content gains that are coming through, that's a really, really powerful growth story for us. The interesting thing is we've done that and set that high level of growth.

And outside of auto, the rest of the end markets in China are still significantly below their prior peaks. So we feel knowing that, knowing that we've had significant design in growth and double-digit design in growth again this year. We actually feel like the medium and long-term growth will continue for us in China.

And look, it continues to be an area just like everywhere else where ADI competes, if companies need products, they still need ADI's products. So they still come to us for their most complicated solutions help us take out some of the complexity. And when we can do that, they become very sticky sockets, and we are able to hold on to those.

We're also able to capture higher value because we are there with the most important technologies and you look across the franchises, we see that in all of them. Do we all worry? I worry, we all worry about the digitization, sure. I think we've been worried about that for many years. You hit it right.

We don't have a huge portion of our business in that low volume -- excuse me, low value, high-volume part of that market, which is I think where the local competition has come first. We tend to play at a higher end. Our ASPs are -- tend to be 4x the average at a global level and it's probably pretty consistent there.

So that is a strong position for us. And also, they'll continue to get better, but it's going to take them a while to get to where they can replace the high-performance stuff because of for us, it's 60 years of experience designing in the Analog world that separates us out from that competition.

Are we hypervigilant about it? Of course. And what really matters, as I said this part matters in China, it matters everywhere else is being there first with the most -- in the most complex areas and capturing that innovation premium, which is why you see in our numbers we just published, record amount spent on R&D, a record percent of our revenue spent on R&D, I think, and we continue to hire engineering talent to make sure we are there as the innovation leader.

Timothy Arcuri - UBS AG - Analyst

So of the outgrowth in China, would you say was it driven by any one market? Was it driven more by autos?

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

For us, certainly, auto, given that it's had its second record year, our China auto is actually now about one-third of our I guess, 30% of our global auto business. So it has grown very strongly. And part of that, if you think about what's happened in the China auto market is they are pushing down some of these complex ADAS Level 2 plus ADAS and the immersive cabin experiences, down into even lower and lower priced vehicles.

So you think about in the US, some of those features you don't see in a moderately priced car. You see those in China. So that's a real benefit for us because those are places where we lead. And it's -- we talk about but it's GMSL. It's functionally safe power. It's the connectivity, whether it's [AB2B] or A2B. So those are things where we've gained share and continue to have the best products.

And I think that's helped drive that outside China auto growth. Also, most of the incremental vehicles produced last year were produced in China. And so that's actually is good for us.

Timothy Arcuri - UBS AG - Analyst

Yes. Can we talk about the maximum revenue synergies? I think you said a few \$100 million for fiscal '25. I think Vincent on the call said he thinks you can get to the \$1 billion target even earlier than '27 actually or at least by '27, if not earlier. Does this mean like we could be exiting calendar '26 annualizing \$1 billion in synergies?

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

So, good memory, and we set the target at the Investor Day. The (inaudible) wasn't there. We set the target at Investor Day that we'd get \$1 billion of synergies out of the Maxim acquisition by ['27]. You are right, hundreds of millions is what we've seen in the current year. And when we look at the conversion of the pipeline and what we still have in the pipeline and you model it out, it looks -- we are ahead of where we thought we'd be at this point.

Could we exit '26 there? Possibly. But we don't -- I don't have the kind of visibility still. This is good and bad, right? Our lead times on our -- most of our products are still inside of 13 weeks. So we don't get a ton of fill in the out quarters, which is why we don't guide out past the next quarter. So I don't know if it will all convert and get us \$1 billion in '26. But certainly, we feel very confident that in '27, we will have \$1 billion at least \$1 billion of revenue synergies.

Timothy Arcuri - UBS AG - Analyst

And can you give an example of that, how do you -- well, just give an example of something that you know as a revenue synergy. So when you're like measuring that number, how you --

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

It's a great question. A very good example is GMSL, right? That is a product where the cross-sell opportunity and our expanded efforts to sell that product as a result of an unbelievable revenue growth from a GMSL perspective. We've talked about how big that GMSL business is and the continued growth there.

Another place -- another example of that would be matching up the maximum low power with the ADI vital signs monitoring. And so you'll see products that are coming out in the hearables and wearables space that do vital sign monitoring. That's a synergy.

The vertical power is a result of synergies across the businesses. And then there's one more, Jeff. I was using an example data center, sorry, in the conversion -- power conversion. So those are 4 good examples of things that are easy to understand the combination of the Maxim and ADI businesses from a synergy perspective.

Timothy Arcuri - UBS AG - Analyst

Got it. On the call, you also talked about pricing. It sounds like this is actually quite strong, especially for the new products. Can you talk about this? Are you using strategies to push customers?

I know some of your peers are increasing pricing on the old stuff to sort of push them under the new stuff. But can you talk about what's actually happening for you where pricing on the new stuff is strong.

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

Yes. So certainly, if you look at our -- and we tend to categorize it sort of the 10 and newer -- 10 years and newer and 10 years and older. And certainly, if you look at the 10 or even if you look at the ASPs on the products in those categories have continued to increase because we continue to add more features, functionality, solve more complicated solutions.

And if you think about the life cycle and how things turn somewhere like industrial, it may take a little bit longer because the products tend to be stickier and last longer. But as companies move and migrate to the more advanced technologies, we expect for the foreseeable future, we'll continue to see that blended average ASPs increase because some of those markets will move even faster given the consumer and auto life cycles are shortening pretty dramatically.

Auto is moving in some areas, some of the auto features are moving closer to more consumer-like features from the speed of development. So we'll continue to see that. If you step back and look at it in aggregate, we've talked about pricing for us being relatively stable post two years in '22 and '23 with pretty significant pricing increases. We have been very disciplined on not giving that back. And I think that's a little bit of what Vince was mentioning is we've -- we feel like we're delivering a premium value.

And the other piece of it is there's nothing that -- basically nothing in the supply chain in semiconductors. It isn't inflationary. So to be able to continue to keep our margin, we got to be really strong with our pricing, and I think the teams have done excellent job in that space for us.

So I do think that's a good story. If you think about our -- you go back to the Investor Day and we said, hey, this is how we're going to help step up our long-term growth rate is by not giving back -- and we've seen this. Some of our competitors have come out publicly and said, hey, we're going to go back to giving out 2%, 3%, 4% price reductions every year. That is not the way we're doing it. So we've been very, very disciplined in how we use price.

But to your question about pushing people off, look, we've historically on the vintage products had some price increases because the newer products come out and they have better features and functionality, but it's complicated to change and some folks don't want to. We don't force them to. You might have to pay a little more to keep your vintage product, but we don't -- we're not trying to push them off. And lots to change.

But based on the sentiment change we've all seen for how long some of our products last in the market, plenty of them are happy to hang on. Begins, just think about context-wise, often talking about dollar part in a \$1 million machine, he's a lot of work to design that out and put a new one in. So that's why that's so sticky for us.

Timothy Arcuri - UBS AG - Analyst

And if I take your January guidance, and I just apply normal seasonal throughout the rest of calendar '26 or throughout all the calendar '26, I get you growing somewhere in the range of 20%. I mean, it's much higher than what I think the consensus would be that the Analog market will grow. I'm actually a little more optimistic than most people on what Analog grows next year.

But do you have a sense -- I mean, you talked about what's driving your outperformance. But do you have a sense of what the market will grow next year? You're not saying that you're going to guide 20%, but that your supplying normal seasonal, but you're obviously going to outgrow the market. Do you have a sense of like how much you alter the market next year?

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

That's a great question. I mean, look, if you in your model if we were to take that seasonal model and then you look at the -- we've talked about this a bunch, actually, we've talked about it on what that sort of consumption line would be for the industry, say that over time, that's something plus or minus CAGR kind of number, even at the number you described, we're going to be well better than double what the market might grow.

And I think that is what I would attribute that to. I'm not saying that's what we will do. But in that scenario, what backs that up is we're aligned really well to a bunch of the big macro drivers, and we've got those idiosyncratic growth areas, right? You think about what's going on in our auto record years in some of our sub-businesses given where we play in the infotainment and ADAS, the test business, aerospace and defense business, the consumer expansion. Even in -- like I said, even in the wireless, we're seeing growth.

So I think there's a number of these areas that will continue to support that growth. And we go back and look in the places we're competing, and we can see we're gaining some share. And we're also seeing strength in our pricing. So I think that's a big part of the formula for us to outgrow the market.

Timothy Arcuri - UBS AG - Analyst

And can we talk about data center it's not necessarily unique to you, but relative to your size, it does seem like your data center exposure is a bit bigger than some of your peers. And I -- and I want you to kind of double-click on that. I know you have the electrical the electro optical interfaces and then just generally in the rack. I mean, if that grows another 50%

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

[5%] of growth --

Timothy Arcuri - UBS AG - Analyst

That's a huge, huge piece to grow. So can you just talk about that?

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

Yes. So if you think about the data center for us, our exposure there is pretty much evenly split between the optical and the power pieces. And if you think about -- for us, for the optical, we've got a very strong business in the existing sort of \$400 optical controllers.

We've got the design in that we've talked about at 1.6 terabyte and we're actually already building on working on the engineering forward 3.2 because the speeds just continue to increase the pressure from these AI data centers to move things across at higher speeds is incredibly intense. Then you go below that and you look at the other half of that portfolio is on the power side, right?

So it's dealing with the high-voltage power that's out there and actually as they're going to pump 800 volts in, they're going to need that power protection that power hot swap is going to be really important for us. the conversion, right, the step down from the power coming into the data centers and going into the racks, really important piece of business for us.

So we are very well positioned across the -- sorry, and then power delivery. So those three areas on the power side are about half of our data center exposure and the optical is the other half. And as we said that business has grown 50% quarter -- year-over-year for three straight quarters for us.

Timothy Arcuri - UBS AG - Analyst

Yes, amazing. Can we talk about M&A? You were pretty active back in the 2010 time frame, not as much lately. I mean the broader Analog market is pretty fragmented. Nobody has more than 18% share.

Do you see areas where you can be a consolidator and what would the characteristics be of a business that you might look to buy?

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

Sure. So I'll start with my traditional opening is we're very happy with our Analog, mixed signal and power portfolios, right? We don't feel like we've got any major gaps there that we need to address. The area where we continue to look from a potential M&A opportunity also aligns pretty well with what we're investing in organically internally. So we certainly, over the last two years, have invested very hard in software and digital capabilities and AI capabilities.

And so we continue to look for opportunities to accelerate our time to market, identify a technology, a platform or teams. And so those would be some of the more obvious areas for us to be able to accelerate in those three spaces. But I would tell you one of our primary objective still is make it back to your earlier question, is making sure we maximize those maximum synergies. So that's how we're thinking about M&A.

Because I do think if there's opportunities in those areas to help us accelerate because what we see is the combination of software and digital with our Analog foundation is that, that opportunity to provide solutions at a higher level, which what we hear from customers, and Vince talks about this all the time is it's a very complex world when you're dealing with the Analog and if and the add-on of software and digital help us decomplexify it, make it simpler, bring us a solution, which is why those are important areas for us. And we are investing heavily organic but would also spend money if we identified the right kind of acquisition externally.

Timothy Arcuri - UBS AG - Analyst

And let's talk about gross margins. So fiscal Q1 is flattish if you assume normal seasonal in fiscal Q2, not that that's what you're guiding. But if you assume that, that is probably about flat, let's say, 70%, maybe some upside as you move through the year from mix and from utilization as things get better. So where -- like if we did play out where you grew seasonally through the year and in that scenario where you're up 20%, where can gross margin go to in that scenario?

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

In your hypothetical of growing at that 20%, I think we'd see margins in the high part of the 70%, closer to 71%, would be my guess. Yes. I mean if you just think about the -- and it still is important and -- the mix element for us is really important just given the difference in profitability of industrial versus auto.

But if that growth comes in a balanced way, led by our communications and our industrial, then I would expect to see that more margin accretion. We do actually think even in a lower growth scenario than the one you described, we will continue to get margin accretion.

Our global operations team has done a very nice job offsetting a chunk of the additional depreciation headwind we got from our resiliency campaign. So I think there will be margin accretion even in a lower growth rate environment in '26.

Timothy Arcuri - UBS AG - Analyst

And maybe talk about OpEx. It was up a lot this year. It was up mid-single digits pretty much throughout the year. I think some of that was going from a no bonus environment to actually paying bonuses this year. So probably the comp is a little tough as you kind of go into next year. How do we think about how much OpEx will grow relative to what occurred this year?

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

From a rate perspective, significantly less one of the big components you hit on is the variable comp. We went from a very low number to a significant number. Our plan is based on revenue growth and margin, both of which we had in two. And I think I said back actually in one of our quarters in that quarter when we had one of those big incremental growth increases, \$57 million increase with all variable comp.

So it has been a very significant headwind to margin accretion -- operating margin accretion. Despite that, we did grow operating margin 100 bps this year. So I feel good about that. The opportunity going forward is for more accretion because we now have it baked into the baseline compare a robust variable comp in '25. So the increment from '25 to '26 is a fraction of what we have had from an increment in '25.

Timothy Arcuri - UBS AG - Analyst

Great. I wanted to sort of end by talking about book-to-bill and bookings. You don't give us an actual book-to-bill, but you did say it's a little -- it was a little less than one for fiscal Q4.

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

I think parts of our business were a little bit less. Our overall book-to-bill exiting Q4 was above one in -- and if you think about the businesses, and this won't surprise you based on how I've described where we think Q1 would go, Industrial was above 1.

Communications was above 1 and actually communications was the strongest from a book-to-bill perspective. auto below, and that's where we see that guiding sub-seasonal from an auto perspective, and the consumer is always sort of low double digits seasonally down. And so that had to build sub 1. But in aggregate, company-wide, we were above 1 book-to-bill.

Timothy Arcuri - UBS AG - Analyst

Okay. That explains why you're guiding above seasonal then for fiscal Q1. So I guess the next question is, how have bookings progressed throughout this quarter? Have they been strong? Is it consistent with the book-to-bill being above 1 like it was last quarter, a little bit above one?

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

For the -- I don't update intra-quarter in the quarter. But from a linearity perspective, actually, the linearity of bookings in 4Q was pretty solid linear. Not a lot of noise. We had some noise as we talked about with bookings in the prior two quarters around the China auto, but what we saw was pretty stable growth in the bookings. And which is why we have the outlook we have.

Timothy Arcuri - UBS AG - Analyst

Got it. And then just within aerospace and defense. Can you talk about how big this is within the industrial segment. I think this is very unique exposure to you through the Hittite deal that you did. How big of a piece is that within your --

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

It's about roughly 20% of our industrial is aerospace and defense. And that's one of those areas. I think Vince talked about it on the call, right? The acceleration we've seen in aerospace and defense after the Hittite acquisition because you think about the RF and microwave and the applications in the aerospace and defense that use that. very strong growth driver and our ability to incorporate those technologies into modules, which sell at dramatically higher ASPs than our average portfolio has been a key growth driver for us.

Timothy Arcuri - UBS AG - Analyst

Great. Well, thank you, Rich. We're out of time.

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

Thanks for taking the time. Appreciate it, everybody.

Timothy Arcuri - UBS AG - Analyst

Thank you. Thank you very much.

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