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ADI.OQ - Q4 2025 Analog Devices Inc Earnings Call

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## OVERVIEW:

Company Summary

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**Jeff Ambrosi** *Analog Devices Inc - Director of Investor Relations*

**Vincent Roche** *Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer*

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

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**Christopher Danely** *Citibank Cameroon SA (Douala Branch) - Analyst*

**Timothy Arcuri** *UBS AG - Analyst*

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**Joshua Buchalter** *Cowen and Company LLC - Analyst*

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## PRESENTATION

### Operator

Good morning, and welcome to the Analog Devices' fourth-quarter, fiscal-year 2025 earnings conference call, which is being audio webcast via telephone and over the web.

I'd like to now introduce your host for today's call, Mr. Jeff Ambrosi, Head of Investor Relations. Sir, the floor is yours.

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**Jeff Ambrosi** - *Analog Devices Inc - Director of Investor Relations*

Thank you, GG, and good morning, everybody. Thanks for joining our fourth-quarter, fiscal 2025 conference call. Joining me on the call today is ADI's CEO and Chair, Vincent Roche; and ADI's Chief Financial Officer, Richard Puccio. For anyone who missed the release, you can find it and relating financial schedules at [investor.analog.com](http://investor.analog.com).

The information we're about to discuss includes forward-looking statements, which are subject to certain risks and uncertainties as further described in our earnings release, periodic reports, and other materials filed with the SEC. Actual results could differ materially from the forward-looking information, as these statements reflect our expectations only as of the date of this call.

We undertake no obligation to update these statements except as required by law. References to gross margin, operating and non-operating expenses, operating margin, tax rate, earnings per share, and free cash flow in our comments today will be on a non-GAAP basis, which excludes special items.

When comparing our results to our historical performance, special items are also excluded from prior periods. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's earnings release. References to earnings per share are on a fully diluted basis.

And with that, I'll turn the call over to ADI's CEO and Chair, Vincent Roche.

**Vincent Roche** - *Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Jeff, and good morning, everyone. So our fourth-quarter results reflect the ongoing business recovery with continued growth in revenue and earnings per share, both of which finished above the midpoint of our outlook.

Now widening the aperture to our fiscal '25, revenue accelerated throughout the year and returned to meaningful growth despite the persistent macro and geopolitical headwinds. All of our end markets increased by double digits, reflecting both cyclical and company-specific drivers, including strong execution against our maximum revenue synergy targets.

Top-line strength, combined with margin expansion, resulted in earnings per share growth of more than 20% in fiscal '25. Our strong operating results and reduced CapEx enabled us to generate record free cash flow of more than \$4 billion or 39% of revenue. We also returned more than \$4 billion to our shareholders, supporting an 8% dividend increase as well as share count reduction.

Innovation has always been integral to ADI's brand and our value proposition, forming the foundation for strong financial performance. Consequently, R&D activities received capital prioritization, with record investments made in FY25 to advance our leadership in analog, mixed signal, and power technologies.

We've also intensified our focus on software, digital, and artificial intelligence capabilities to strengthen our core franchise, enabling us to address increased customer complexity and expedite their innovation cycles and time to market.

Our comprehensive technology portfolio, combined with extensive application domain expertise, uniquely positions us to proactively identify and resolve the most complex engineering challenges for our customers. As a result, we're realizing stronger value capture as reflected in the increase in our average selling prices, particularly in new products, where ASPs significantly exceed those of legacy offerings.

Beyond product innovation, our dedication to customer success encompasses ongoing investments to streamline and accelerate their product development activities. To this end, we are rapidly expanding our development support environment from research to deployment with a combination of proprietary ADI tools and leading ecosystem and open source platforms.

Furthermore, following the acquisition of Maxim, we've allocated over \$3 billion in capital expenditures to substantially enhance capacity, optionality, and resiliency for our customers, supporting our long-term vision for sustained growth. Now as you've seen, our relentless focus on driving customer success translates to strong results and a diverse design pipeline that grew more than 20% in fiscal '25.

So I'd like to share a few examples of our success this past year. Within Industrial, every sector grew, driven by improved cyclical dynamics and powerful secular trends such as AI, automation, and the drive for efficient and reliable energy generation, transmission, and distribution.

For example, the exponential growth in demand for AI and high-performance compute drove a record year in our automatic test equipment business, building upon and extending our strong position in the SoC and memory test markets. We anticipate further growth in FY26 due to our expanding design pipeline industry transitions to HBM4 and expected double-digit growth in hyperscaler CapEx.

In '25, robust automation design and growth was propelled by the burgeoning demand for enhanced productivity, efficiency, and reliability across key sectors such as manufacturing, logistics, and healthcare. This momentum was particularly evident within our Robotics segment, which saw notable expansion as customers increasingly prioritize automation to streamline operations and improve business outcomes.

As highlighted in our previous quarter, we foresee tremendous long-term opportunity as advancements in AI fuel the emergence of content-rich humanoid robots, positioning ADI at the forefront of the next wave of robotics innovation. Within Healthcare, the proliferation of robot-assisted surgical systems represents a vibrant vector of growth alongside our Imaging and Diagnostics segments.

Additionally, we expect growing demand for our suite of diabetes management solutions to continue to contribute to growth in FY26. Energy was our fastest-growing Industrial segment this past year, driven by high demand from the industrial, transportation, and data center sectors. Design and activity was especially strong for grid management and battery storage systems. And we anticipate continued growth in '26 and well beyond.

Aerospace and Defense achieved record results. And we expect further growth in the year ahead, driven by our expanding portfolio of advanced sensor, mixed signal, and power solutions, coupled with an increasingly strong opportunity pipeline. We also expect to maintain our strong presence in the growing low earth orbit satellite market.

Turning to Automotive, advances in autonomous driving and cabin digitalization led to a record year for ADI in fiscal '25, with growth outpacing light vehicle production. Our intelligent audio and video connectivity solutions, which avoid bulky and expensive cabling, drove multiple new growth awards across GMSL, A2B, and our signal processing and safe power portfolios.

Building on this success, our new E2B Ethernet bus is expanding our market, simplifying customer systems, boosting power efficiency, and lowering costs as it gains traction. In the Communications sector, AI CapEx investments led to a record year for our Data Center segment, with design and activity more than doubling.

Strong demand for high-throughput connectivity and power delivery solutions support our confidence in continued growth through '26. Wireless Communications is one of the few areas of softness in '25. But we believe customers have completed their inventory digestion phase and that the market bottomed during the year.

In addition, we see a positive impact of new products such as our software-defined, AI-enabled macro base station-on-a-chip solution, for which we secured design wins from leading OEMs and service providers, and see additional opportunity beyond telecommunications in private industrial networks as well as other secure communications applications.

And finally, as Consumer markets rapidly evolve, we're expanding our SAM and growing a diverse pipeline by delivering integrated solutions in hearables, wearables, gaming, AR, VR, and many related areas. For example, our new acoustics platform combines analog, power, digital software, and machine learning for advanced environmental awareness and adaptive noise cancellation.

We've secured design wins for these solutions in Consumer and Healthcare segments, enabling ADI to triple the value generated over legacy designs. We've also captured several new power management design wins in premium handsets and smart glasses in FY25, positioning us for further growth in '26.

So in summary, our diversified business model has proven agile and consistently capable of generating superior outcomes, reflected in both last year's resilient margins and this year's strong rebound in profitable growth.

While we're mindful of the macro environment and the continued impacts of tariffs and trade uncertainty, we remain confident in our growth in FY26 and beyond, as we continue to leverage our key differentiators, namely, an enviable technology leadership position at the intelligent edge, as it becomes a center of gravity for a host of secular growth markets, unrivaled application domain expertise, and the trusted brand that we have developed and strengthened with our customers over the decades.

And so with that, I'll pass it over to Rich.

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

Thank you, Vince, and let me add my welcome to our fourth-quarter earnings call. I'll start with a brief overview of our full fiscal '25 financial performance.

Revenue for the year came in at just over \$11 billion, up 17% from fiscal '24, with double-digit growth across all end markets. Gross margin finished at 69.3%, up 140 basis points driven by higher utilizations. Operating margin finished up 100 basis points at 41.9% and includes the headwind associated with the normalization of variable comp. All told, earnings per share of \$7.79 increased 22% versus fiscal 2024.

Now on to our fourth-quarter results. Revenue in the fourth quarter came in toward the higher end of our outlook at \$3.08 billion, growing 7% sequentially and 26% year over year. Industrial represented 46% of our fourth-quarter revenue, finishing up 12% sequentially and 34% year over year.

The stronger-than-seasonal results underpins the cyclical momentum we see across Industrial, as well as the secular growth unfolding in AI infrastructure, which drove record quarter for our ATE business. For the full year, Industrial increased 15% with growth across every major application, including record years for Aerospace and Defense and ATE.

Automotive represented 28% of quarterly revenue, finishing up 1% sequentially and up 19% year over year. Double-digit, year-over-year growth continues to be driven by our leading connectivity and functionally safe power solutions. For the full year, Automotive increased 16% to an all-time high, driven predominantly by a higher content and share position across Level 2+ ADAS systems globally.

Communications represented 13% of quarterly revenue, finishing up 4% sequentially and 37% year over year. Our Data Center segment surpassed the \$1 billion run rate this quarter and on a year-over-year basis, has now grown more than 50% for three consecutive quarters, fueled by continued strength in the AI infrastructure market.

Wireless revenue was up double digits year over year for the second straight quarter, owing to improving cyclical dynamics. For the full year, Communications was our fastest-growing market, increasing 26% driven by our Data Center segment, which had a record year, while wireless revenue was flat.

Lastly, Consumer represented 13% of quarterly revenue, finishing up 7%, both sequentially and year over year. For the full year, Consumer increased 19%, driven by strong growth in handsets, gaming, and a record year for our hearables and wearables segment.

Now on to the rest of the P&L, fourth-quarter gross margin was 69.8%, up 60 basis points sequentially and 190 basis points year over year, driven by higher utilization and favorable mix. OpEx in the quarter was \$809 million, resulting in an operating margin of 43.5%, up 130 basis points sequentially and up 240 basis points year over year. Non-operating expenses finished at \$60 million, and the tax rate for the quarter was 12.7%. All told, EPS was \$2.26, up 10% sequentially and 35% year over year.

Now I'd like to highlight a few items from our balance sheet and cash flow statements. Cash and short-term investments finished the quarter at \$3.7 billion, and our net leverage ratio decreased to 0.9%. As I discussed previously, we continue to build bank buffers for our fastest-growing applications.

As such, our inventories were higher by \$59 million sequentially, while days of inventory declined by 1 to 1.59. Channel inventory increased but remains lean at approximately six weeks. Fiscal '25 operating cash flow and CapEx were \$4.8 billion and \$0.5 billion, respectively, resulting in record free cash flow of \$4.3 billion or 39% of revenue, up from 33% in 2024.

In total, we returned \$4.1 billion to shareholders through dividends and share repurchases. As a reminder, we target 100% free cash flow return over the long term, using 40% to 60% for our dividend and the remainder for share count reduction.

Now moving on to our first-quarter 2026 outlook, revenue is expected to be \$3.1 billion, plus or minus \$100 million. Operating margin at the midpoint is expected to be 43.5%, plus or minus 100 basis points. Our tax rate is expected to be 12% to 14%. And based on these inputs, adjusted EPS is expected to be \$2.29, plus or minus \$0.10.

In closing, fiscal 2025 was a strong year, highlighted by a return to growth, margin expansion, and record free cash flow. Importantly, I'm confident in our ability to continue navigating macro and geopolitical challenges and believe we are well positioned to drive further profitable growth in 2026.

With that, I'll give it back to Jeff for Q&A.

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**Jeff Ambrosi** - Analog Devices Inc - Director of Investor Relations

All right. Thank you, Rich. Now let's get to our Q&A session. (Event Instructions) With that, can we have our first question, please?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Vivek Arya, Bank of America Securities.

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**Vivek Arya** - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Thank you for taking my question. I had a near and the medium term. On the near term, I think you're guiding Q1 slightly up, which is a little bit above seasonal. So I was hoping you could give us some color by segment, where you're seeing this trend. Because I do think Industrial was slightly below what you had thought in Q4. So just any dynamics going into Q1?

And then if we zoom out in, I mean, if I were to just annualize Q1 guidance, that suggests a very strong kind of 12%, 13% sales growth year in fiscal '26. And I was really hoping to get your perspective as you start the new fiscal year on what you're seeing from a broader macro perspective and whether this kind of growth rate is possible in fiscal '26? Thank you.

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**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Sure. Thanks, Vivek. Rich?

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

I'll take the first part of your question. So Q1, which is our weakest sequential quarter with normal seasonality typically down mid-single digits. And our outlook is up slightly quarter over quarter, reflects our seventh straight quarter of above seasonal growth.

And another key point is, additionally, our outlook assumes sell-in and sell-through are equal. So from an end market color perspective, Industrial, we expect to be up mid-single digits above seasonal. We expect Auto to be down mid-single digits below seasonal, where we continue to see some risk there around tariffs and some of the macro environment.

Comms, we expect to be up 10% above seasonal, again, as Vince mentioned, we're seeing real strength in the AI infrastructure and demand for our Data Center products. And then Consumer seasonally down low double digits. And then all markets we expect to be up year over year.

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**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So maybe if we look year over year, Vivek, so we believe we're well positioned to see broad-based growth in '26. And I think cyclical as well as many idiosyncratic factors giving us tailwinds. My expectation is that in '26, Industrial and Communications will lead the charge.

I think when you look at Industrial and Comms, the -- as I said, the cyclical dynamics are good, breaking inventories out there. I think both of those markets bottomed some quarters ago. Data Center, which is going to see again, we believe, a strong surge in CapEx. We've got good exposure to that sector, and it's two-thirds of our Comms business at this point in time.

Aerospace and Defense, as well as ATE, which are together, about a third of the Industrial market. We've got strong content growth stories in both and, coupled with the ADI demand surge in the ATE business, I think, is very, very well positioned.

I think as well in Consumer, we talked a little bit on the -- in the prepared remarks there about the higher content in key applications. And so we've got tremendous diversity in that business at a level we never had before as a company. So both in applications and customers and platforms, we're well positioned.

Last but not least, if I talk a little bit about the Auto sector, it's been -- I think SAAR has really been flat now for quite a while. We see that persist in '26. And given that we've been able to show against our 10% content growth per annum, we see that continue given the strength of the pipeline that we've got.

All that said, we've got a very uncertain macro environment. But my expectation is all the end markets will be up despite the outlook from a macro perspective.

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**Vivek Arya** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thank you.

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**Operator**

Joe Moore, Morgan Stanley.

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**Joseph Moore** - *Morgan Stanley & Co Ltd - Analyst*

Great. Thank you. Speaking of Autos, I think you guys had indicated when you guided the quarter that you'd be slightly down; you ended up slightly up. Can you talk about what's coming in a little bit better? And you guys have been pretty good about helping us understand pull-forwards and things like that. Any sign of any activity now?

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

Sure, Joe. I'll take that one. So for us, Auto has been our strongest market, right? Double-digit CAGR through cycle driven by secular content gains, compounded by our share gains, particularly in connectivity and power, for ADAS and next-gen infotainment systems.

Here, I would note we've had pretty significant share gains in China, which where you see a lot of the light vehicle share getting increased. So that's been beneficial. Near term, the market has been more resilient than we and many have predicted, right, evidenced by the stronger volumes on vehicles. We do think some of the upside we've seen in the volumes in our business this year was tariff and policy-related.

We've talked in prior calls about our view that there might have been some pull-ins. I can't be precise or certain, but we did make that estimation. Given this, we did approach Q4 with some caution and expected to see -- I think I said on the last call -- we thought we'd see some of this pre-buying unwind in the fourth quarter.

That did not appear to happen to us. Our results were fairly seasonal, and bookings were normal with a book-to-bill just below 1, which is actually pretty typical for Q4. We're still being a bit cautious on the market as it's unclear how the tariffs and volatilities we saw will ultimately impact us and our customers. And also just given short lead-time orders visibility tends to be pretty low right now.

So as we think about our Q1 outlook as a sub-seasonal quarter or down mid-single digits sequentially, but up year over year, and given the content gains in this market and the pilot of design win traction that Vince mentioned, we do think fiscal '26 will be another strong year.

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**Joseph Moore** - *Morgan Stanley & Co Ltd - Analyst*

Very helpful. Thank you very much.

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**Operator**

Stacy Rasgon, Bernstein Research.

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**Stacy Rasgon** - *Sanford C Bernstein & Co LLC - Analyst*

Hi, guys. Thanks for taking my question. I wanted to ask about gross margins. You sort of talked about being at 70%; gross margin is around \$3 billion. So you're sitting over there, and you're still -- I mean, even in the quarter, you came in a little below 70%.

As far as I can tell, the guidance implies gross margins relatively flattish around that 70% range. You can let me know if that's right or not. But I'm just wondering why we're not seeing more leverage on the gross margin line, especially as utilizations are going up and everything else? Like, why shouldn't we expect that more leverage on gross margins?

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

Okay, I'll take that one. So obviously, with our interesting lean in gross margins, where we can see the impact that we get from the innovation premium, we did increase quarter over quarter and year over year. And we did have higher utilization and some favorable mix. We didn't get to the 70% as planned, as the mix component wasn't as strong as we were expecting.

As we've talked about, we had a much stronger result in Auto, which kept the Industrial mix a bit lower than we planned. And that's what kept us from getting all the way to the 70%. Now if I look out to Q1, your margin percent for us is typically lower in Q1 seasonally, given the annual shutdown factories for required maintenance and around the holidays in conjunction with customer shutdowns.

However, based on our outlook, we are anticipating that the higher Industrial mix in Q1, which we think will offset the seasonal component and hold gross margin flat. So you're right, the embedded is a flattish gross margin where we get an offset from higher mix, which will offset the pressure from the shutdowns.

And then I guess, and the last piece, as we think about the continued go forward, Stacy, at this revenue level, one of the things I'd like to remind is we did have a pretty significant capacity expansion while we were addressing our resilience over the last several years.

And so it will take us higher revenue dollars to continue to expand beyond 70% and also, as we've talked about, the continued movement in mix. And given the strength we see in Industrial in going into '26, we expect that that share of our business will continue to increase.

**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I think just one other piece of color, Stacy, that pricing is in good shape. So it's really a question of mix and continuing to push the utilizations (multiple speakers).

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**Stacy Rasgon** - Sanford C Bernstein & Co LLC - Analyst

Got it. Thank you, guys.

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**Jeff Ambrosi** - Analog Devices Inc - Director of Investor Relations

Thanks, Stacy. We'll move on to our next question, please.

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**Operator**

Christopher Danely, Citi.

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**Christopher Danely** - Citibank Cameroon SA (Douala Branch) - Analyst

Hey, thanks, guys. Just a follow-up on Stacy's question. Has the relative gross margin levels, have those changed at all between the end markets? Have any of them gone up or down versus the corporate average? I guess, just to cut to the chase, have the Auto gross margins gotten a little worse relative to the corporate average over the last like two, three years or anything else changed?

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

Hi, Chris. I would say the way we've characterized the individual end market margins versus average has not changed, not in any meaningful way.

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**Christopher Danely** - Citibank Cameroon SA (Douala Branch) - Analyst

Okay. Thanks, Rich.

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

Sure.

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**Operator**

Timothy Arcuri, UBS.

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**Timothy Arcuri** - UBS AG - Analyst

Thanks a lot. Vincent, you talked about Maxim revenue synergies. Can you update us on that? I know you said you're on track, but maybe you can give us a sense of where that stands.

And then, Rich, can you tell us sort of what your sense of like a normal fiscal Q2? It seems like normal seasonal in fiscal Q2 is up like mid-singles. Is that sort of how you think about a typical fiscal Q2? And then maybe like what are the puts and takes as you kind of head into fiscal Q2? Thanks.

**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So, Tim, I'll start with the synergies. So we began the conversion process -- the conversion of the pipeline in '24 and began in earnest in '24. It contributed tens of millions of dollars to ADI's top line in '24. It's clearly accelerated in '25, and it's in the hundreds of millions against our \$1 billion target by '27.

And we expect an even stronger contribution in '26, given the momentum that we have in terms of new products and cross-sell. So we're seeing -- as we said, when we acquired Maxim, we saw tremendous complementarity in terms of some technology niches that Maxim filled, particularly in areas like power, these connectivity structures that we use in Automobiles and now Industrial products.

So the complementarity actually works for ADI right across the spectrum of applications, but particularly Auto, as I've just said, Consumer, Healthcare, and Data Centers. So I think we are well on track to meet our commitment, possibly, even a little earlier than what we thought.

Rich, do you want to take that?

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

Yeah. Tim, you're absolutely right. Our Q2 tends to be our seasonally strongest quarter, where we tend to be up mid-single digits. I think that's the right way to think about it.

**Jeff Ambrosi** - Analog Devices Inc - Director of Investor Relations

Thank you, Tim. Let's move on to our next question, please.

**Operator**

C.J. Muse, Cantor Fitzgerald.

**C.J. Muse** - Cantor Fitzgerald LP - Analyst

Yeah, good morning. Thank you for taking the question. Based on your prepared remarks, you talked about ADO drivers led by AI in the Data Center. And I was hoping you could perhaps speak a bit more to a framework that we should be thinking about across both Industrial and Comms.

Obviously, you dominate semi test analog. You've got some real design wins on the optical and power side, and then you also spoke about energy strength. So is there kind of a percentage of mix that we should be thinking about, that should be growing significantly faster than the rest of your business? And if there's kind of numbers around that, that would be very helpful. Thank you.

**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Maybe I'll just give some color, and Richard can give some numbers. Yeah. So, look, specifically when we talk about AI, there's the Data Center and the ATE businesses. And if I look at Data Center in '25, it grew by 50%. And the ATE business, which also benefits from the skyrocketing compute intensities, the new memory types that are being used, as well as new memory chips, that business -- so the ATE business grew up 40% last year.

And we believe we'll see that growth continue in '26. If I just talk about where we are Data Center, I think, as Rich said in the prepared remarks, is running about \$1 billion run rate at this point in time. And there are really two primary sectors. There are one is at the electro-optical interface, and

we're seeing tremendous upsurge in demand for 800 gig. Now we're seeing 1.6 terabit electro-optical interfaces that require very, very sophisticated power management and control systems.

And then there's power more generally. I think in the areas of protection, we're beginning to see a shift in very, very high-voltage technologies that require very sophisticated monitoring and control. There's power conversion and power delivery. And we're seeing our portfolios in those three areas gain significant traction.

On the delivery side, we have mentioned before, vertical power. That technology now is beginning to be adopted broadly. So we're at the kind of -- we use a term in the electronics industry -- we're at the knee of the curve. We're beginning -- I think we're in place to see exponential growth there.

ATE, \$800 million run rate. And as I said, very, very well positioned with all the key players, both the vertically integrated players as well as the OEMs in chip testing. And as the shift to HBM4 takes place, we're going to see higher pin count, more complexity, more speed, basically, more instrumentation compute density in our chips.

So I think we're in a good place from a customer engagement standpoint, from a technology standpoint. My sense is we should see double-digit growth in both those areas over the next few years. Rich, do you want to add anything?

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

I will add my concurrence on your view about the outlook for the next few years. (technical difficulty) if you look at the external factors, particularly around that the Data Center piece and the high-performance compute, the forecast continue -- forecast from all of the hyperscalers and the big buyers in the space continue to go up.

And even recently, several of the large hyperscalers have added even further increases to their CapEx plan. So I do think that that near, medium-term spend is going to continue. And we should be a big beneficiary given our strength there.

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**Jeff Ambrosi** - *Analog Devices Inc - Director of Investor Relations*

Thank you, C.J. Move on to our next caller, please.

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**Operator**

Harlan Sur, JPMorgan.

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**Harlan Sur** - *JPMorgan Chase & Co - Analyst*

Yeah, good morning. Thanks for taking my question. One of the other strong dynamics among several, which separates ADI from peers is, obviously, the strong exposure to Aerospace and Defense. This has been growth area for ADI during this last downturn.

I think the business is now driving well over \$1 billion of annualized run rate revenues or roughly greater than 10% of your total revenues. It grew strongly double digits in fiscal '25. Does the team anticipate continued strong double-digit growth in fiscal '26? And maybe help us understand, like, what are some of the ADI-specific product cycles here that's going to continue to drive the strong growth profile going forward?

**Vincent Roche** - *Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Thanks very much for the question. So yeah, the journey for ADI in that Aerospace and Defense market really took off in earnest when we acquired Hittite. And we've got Hittite's really high-quality RF and microwave portfolio, which is central to all the communications activities right across the Aerospace and Defense market from defense systems -- every type of defense system you can imagine to satellite communications.

The primary portfolios we have there are obviously microwave and RF sensors. The highest performance conversion products that we build on the precision and high -- very, very high-speed signal processing side are central. And increasingly, when we when we acquired LTC and Maxim, we were able to cross-connect with all the signal processing technologies, the power tech, all the power management technology.

So if you look then at the market drivers, you've got -- the world isn't becoming any more peaceful. So there's going to be increasing capital deployment to build defense systems globally. We're seeing very strong demand -- an increasing demand in Europe and beyond.

And we work with all of the primary OEMs. And so that -- all that, coupled with increasing ASPs -- I mean, some of these products we built attract tens of thousands of dollars per system. So I think that business has the capacity by the end of the decade to more than double.

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**Jeff Ambrosi** - *Analog Devices Inc - Director of Investor Relations*

Thank you, Harlan. We'll move on to our next question.

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**Harlan Sur** - *JPMorgan Chase & Co - Analyst*

Thank you.

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**Operator**

Joshua Buchalter, Cowen.

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**Joshua Buchalter** - *Cowen and Company LLC - Analyst*

Hey, guys. Thank you for taking my questions, and congrats on the strong results. I wanted to follow up on the comments about fiscal 2Q being the seasonal plus mid-single-digit percent. Could you maybe speak to what's driving the confidence and the visibility there? Any metrics you're able to give on lead times?

And then bigger picture, how has your visibility looking forward changed as the mix has changed? Like, do you think, compared to a couple of years ago, there's more of your exposure tied to ADO drivers like Aerospace and Defense and Data Center, and that's increasing your visibility?

I'd just be curious to hear. Because you mentioned there was some uncertainty on the shape of the year in the press release. I'd be curious to hear how you're feeling about visibility. Thank you.

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

Thanks, Josh. So first, I didn't guide for Q2. I confirm what the historical seasonality is. As we've been talking about, right, we still have don't have a ton of visibility beyond current quarter plus one, right? As we've talked about, the times are -- most of our products have lead time sub-13 weeks.

So we get a lot of orders in quarter. We got a lot of quarters -- a lot of orders with short lead times, which does reduce some of that visibility. So I think on the first part of your question, I don't think we've necessarily seen an improvement in visibility over the last two years, although I do agree,

I think, that the -- we've now got broad strength in a number of the ADO areas that Vince described. But given where we are from an inventory-on-hand position as well as our cycle times, we're not getting a ton of outside of a quarter visibility.

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**Jeff Ambrosi** - Analog Devices Inc - Director of Investor Relations

Thank you, Josh. And we'll move to our last question, please.

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**Operator**

Tore Svanberg, Stifel.

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**Tore Svanberg** - Stifel, Nicolaus & Company Inc - Analyst

Yes, thank you for squeezing me in. So, Vince, ADI has been always very thoughtful about allocating R&D dollars. And the economy is changing in front of our eyes structurally quite significantly here. So how are you thinking about prioritizing your R&D spend right now? And are there any areas you would like to double down and, perhaps, areas you would like to deemphasize as a company? Thank you.

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**Vincent Roche** - Analog Devices Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Thanks, Tore. Yeah, when I look at the analog space, in the core analog business, we continue to push the edges of signal processing, data conversion systems, and precision as well as very, very high speed. I think power management for ADI is still an opportunity with a lot -- a much, much bigger growth story.

So that is a place that, as we've gone through our strategy planning cycle in the last few quarters here, we're dialing down on for sure. There are areas as well of our digital portfolio where we see very, very strong niches for what we do in terms of, for example, low parallel latency, these heterogeneous compute structures, as well as our algorithmic technology.

So I mentioned during the prepared remarks, how we're enhancing the functionality of our core analog technologies by using machine learning techniques, for example, in base stations in the Consumer area as well.

So -- but I think most of what we do is making sure that we have the platforms to be able to compete globally across all the geographies, across the spectrum of markets that we find most attractive, some of the most important problems.

And what I can tell you is that our customers are asking us to do more and more to tame their complexity and help them speed up their innovation cycle. So that's -- when we think about the investment portfolio, we're very opportunity-rich. And we've got a very high-quality problem, which is picking the most valuable opportunities in that spectrum of -- that's replete with opportunity.

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**Jeff Ambrosi** - Analog Devices Inc - Director of Investor Relations

Thanks, Tore, and thanks, everyone, for joining us this morning. A copy of this transcript will be available on our website. And all available reconciliations and additional information can also be found in the Quarterly Results section of our Investor Relations website.

Thank you for your continued interest in Analog Devices, and happy Thanksgiving.

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**Operator**

This concludes today's Analog Devices conference call. You may now disconnect.

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