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ADI.OQ - Q3 2026 Analog Devices Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Analog Devices' third quarter fiscal year 2026 earnings conference call, which is being audio webcast via telephone and over the web.

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

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thank you, Danny. And good morning, everybody. Thank you for joining our third quarter fiscal 2026 conference call.

Joining me today is ADI's CEO and Chair, Vincent Roche; and ADI's CFO, Richard Puccio. For anyone who missed the release, you can find it at investor.analog.com, along with related financial schedules.

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 grow margin, operating and nonoperating 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 will 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*

Thank you, Jeff. And a very good morning to you all.

Well, as you've seen, third quarter revenue, profitability and margin earnings all exceeded our outlook with growth across all of our end markets, led by data center and industrial propelling us to the first $4 billion quarter in ADI's history. Demand for our solutions continues to grow supported by robust AI and defense spending, cyclical momentum, and underlying secular content growth across our diversified end markets.

Through targeted R&D we continue to extend the limits of technology performance and accelerate the pace with which we are delivering more comprehensive solutions to our customers' toughest problems. In tandem, investments in our hybrid manufacturing network have enabled us to increase the agility and responsiveness of our supply chain and consistently capture above seasonal growth for more than two years.

Now for the rest of my remarks today, I'll focus on how we're helping customers meet unprecedented and still accelerating demand for AI infrastructure and energy systems. The fact that data center capacity is now measured in gigawatts rather than flops and tops underscores one of the most defining challenges of the AI era. Our availability has become the primary constraint to further AI progress. Solving this challenge requires more than simply adding more energy, however, it demands a group to chip system-level approach that encompasses both improving the availability and delivery of energy and extracting the maximum computing power from every watt delivered.

Now let me walk you through some of the key elements of our grid-to-chip strategy starting at the grid where the AI bottleneck begins. As electricity networks become more complex, visibility, efficiency, and resilience are becoming critical challenges. Customers are turning to ADI's grid monitoring solutions to illuminate the flow of energy across the network, providing real-time insights into voltage, current, power quality and system health. And our higher-value solutions are helping utilities, energy operators, and infrastructure providers to improve efficiency, reliability, and utilization.

An increasingly essential part of the grid and one of the fastest-growing sectors is energy storage. Here, customers choose ADI's industry-leading battery management technology to help maximize usable energy, improve system efficiency, extend battery life, enhance safety, and, of course, improved ROI. Standing and modernizing the traditional grid alone, however, is not enough to keep pace with the speed of AI infrastructure deployment. To accelerate time to power, hyperscalers are increasingly exploring dedicated microgrids which are opening up additional avenues of growth for ADI. We believe this trend of localizing power will augment our $500 million-plus energy business, which began inflecting in 2025 and has been delivering accelerating growth this year also.

Importantly, our strong and growing positions across both energy and data center make us a more critical AI ecosystem player spanning the entire electricity value chain from generation, transmission and storage to distribution through rack power and ultimately, processor power delivery, essentially the vascular system of the data center.

Now once the grid mix contact with the data center, AI's extreme energy and information density requirements make ADI's deep expertise and innovation in high-performance power management, sensing and telemetry as well as optical connectivity even more critical. So let me start with our optical franchise as I begin to unpack for you how we're growing our data center business and opportunity by helping our customers resolve the tremendous challenges of energy and information density.

When we think about the journey of data through the infrastructure, there are two critical pathways, the data path of electro optics and the control path, which guides, optimizes, and ensures the integrity of the data path. Our focus is on the control path where we've been setting and extending the industry's performance envelope for decades. Today, the complexity of efficiently moving data at ever higher speeds within and between RECs and across data center campuses is growing exponentially.

Customers are increasingly relying on ADI to provide essential timing, power management, data conversion, monitoring and control capabilities that enable lasers and transceivers to operate with precision, reliably, efficiently, and at the necessary scale for AI workloads. And as customers seek to further increase the amount of optical lanes, signaled bandwidth or both, to accelerate network speeds from 800 gig to 3.2 terabits per second. We believe that we're very well positioned to benefit threefold from unit growth in pluggables and coherent light modules increasing BOM content and greater share as these transitions unfold.

As new architectures, such as optical circuit switching and co-packaged optics gained traction in next-generation large-scale AI clusters, complexity expands even further and our long-term opportunity continues to grow. Based on current design wins and customer commitments, our OCS revenue is poised to approximately double this year and we're targeting a similar level of growth in '27. In the nascent CPO space, which we view as a semi-tender, the criticality of ADI's precision control technology further increases as thermal and serviceability challenges rise.

So in short, the combination of market growth, expanding content, increasing share and differentiated value creation across data center optics reinforces our confidence that this segment will remain a strong growth vector for ADI over the coming years.

Now let me turn to our power franchise. The need for customers to convert and deliver precise increasing levels of power at the rack and compute layers efficiently and safely is driving continued broad-based growth across our portfolio. Customers are leveraging ADI's products and solutions to push for greater than 98% conversion efficiencies, multi-kilowatt power delivery with peak power levels up to 2 times the rated load and comprehensive protection, telemetry, and fault recording capabilities that enhance system reliability and maximize uptime.

To put just one of those differentiators in context, the 1% difference between 97% and 98% efficiency may not sound like very much, but a 97% conversion efficiency loses roughly 50% more energy through heat than a 98% solution. Over time, of course, that difference compounds in terms of the need for additional cooling infrastructure, stress on equipment, and operating costs. And we believe our opportunity will continue to grow substantially as power density demands of AI clusters continue to increase.

The industry's architectural transition toward 800-volt DC power distribution, for example, plays directly into ADI's power management expertise and portfolio. And we're seeing a significant design and uptick for our protection and 800-volt to intermediate power conversion technologies, which can deliver 20 kilowatts of power at industry-leading power densities exceeding 2.5 kilowatts per cubic inch.

And at the intermediate to core conversion layer, which is one of the fastest and largest growing analog opportunities in the AI era, our combination of advanced power conversion, intelligent system control and real-time telemetry is critical to achieving the necessary power density, efficiency and reliability requirements for next-generation processors to operate at 6,000 amps and sub 1 volt.

Our Empower acquisition further enhances ADI's vertical power story by enabling us to take power into the processor package itself. In large-scale AI deployments, these architectural advantages can reduce compute power consumption and temperature by approximately 10% to 15%, which equates to roughly $30 million in annual savings in a 1-gigawatt data center. As with optical, our power pipeline is growing rapidly, and the direction and rate of our R&D investments reflects our belief in the size of the SAM opportunity before us and our confidence that data center power can remain a strong growth vector for ADI over the coming years.

So in summary, we believe the architectural shifts underpinning the evolving AI era are increasing ADI's role as a critical partner across the-grid-to-chip ecosystem and driving extraordinary opportunity. Our current assessment is that our 2030 data center and energy set has more than doubled from what we had envisioned just one year ago. This dramatic expansion is not simply a function of increased AI infrastructure CapEx. It reflects the impact of new markets and architectures that require orders of magnitude more analog content delivered via higher-value solutions.

Now stepping back to frame this growth on the larger landscape of ADI's continued evolution, grid to chip is but one facet of the first generation of AI characterized by applications largely focused on data centers. The ATE growth we've recently spoke to on these calls is yet another facet. As great as the impact of Generation 1 AI has been so far for ADI. However, we continue to believe that the bigger prize may be in the second generation as AI extends its reach from the data center to the physical world in the form of pervasive robotics, digital health, autonomous mobility and so on and so forth.

In this now emerging phase, AI must not only support higher level learning and analytics, but also real-time sensing, inference, and responsiveness to complex real-world signals. Our ability to tackle this challenge through our products and solutions and edge-based reasoning informed by deep physical intelligence will extend our AI value proposition across the entire addressable space.

We're able to pursue this horizon of AI opportunity as a result of the tremendous optionality built into ADI's business model, which is designed to support both upside growth asymmetry as well as cyclical downside resiliency. This optionality is founded by leveraging our cutting-edge technology stack and domain expertise at the electrophysical interface as well as long-term partnerships with our customers. Our success in AI to date is the latest proof point, and I believe the best is yet to come.

And with that, I will hand it over to Rich.

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

Thank you, Vince. And let me add my welcome to our third quarter earnings call.

Revenue in the third quarter was $4.02 billion, finishing above the high end of our outlook and increasing 11% sequentially and 40% year over year. Growth was broad-based across markets and regions. Industrial, which represented 49% of our third quarter revenue finished up 10% sequentially and 53% year over year. We saw year-over-year growth across all our industrial businesses, led by ATE, electronic test and measurement, aerospace and defense, and automation.

Automotive represented 25% of revenue, finishing up 14% sequentially and 16% year over year. Our higher content and share positions globally continue to result in growth well above SAAR. We are seeing diversified strength across customers and products in key secular growth areas, including next-gen AS and infotainment systems and also in electric powertrains.

Communications represented 16% of revenue, finishing up 18% sequentially and 84% year over year. Data Center, which now accounts for 80% of our communications revenue continued to accelerate with more than 100% year-over-year growth in both optical and power.

In Wireless, we delivered more than 25% year-over-year growth as we continue to execute against cyclical tailwinds.

Lastly, Consumer represented 10% of quarterly revenue, flat sequentially and up 6% year over year. Our diversified consumer business showed strong resilience despite memory-driven challenges. We achieved year-over-year growth across smartphones, hearables, and wearables and saw accelerated growth in our B2B like prosumer franchise.

Now on to the rest of the P&L. Third quarter gross margin was 72.5%, down 50 basis points sequentially and up 330 basis points on a year-over-year basis, driven by higher revenue, utilization and favorable mix. OpEx in the quarter was $907 million, resulting in an operating margin at the high end of our outlook or 50%, which is up 100 basis points sequentially and 780 basis points year-over-year driven by improved gross margin and execution discipline. Nonoperating expenses were $69 million, and the tax rate for the quarter was 13.1%. All told, EPS finished at the high end of our outlook for a record $3.45, up 12% sequentially and 68% 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 decreased to $2.3 billion, driven by the successful closing of our Empower Semiconductor acquisition on July 7, where we paid $1.5 billion in an all-cash transaction. Our net leverage ratio now sits at 0.9.

We increased inventory $83 million sequentially as we continue to build strategic die bank to support accelerating demand. We exited fiscal Q3 with record balance sheet inventory and increased inventory at our distributors. Despite the increases, our days declined to 156, and channel weeks fell below our six- to seven-week target.

Over the trailing 12 months, operating cash flow and CapEx were $5.5 billion and $0.6 billion, respectively. We continue to expect fiscal '26 CapEx to be within our long-term model of 4% to 6% of revenue.

Free cash flow over the trailing 12 months was a record $4.9 billion or 36% of revenue. Over that same period, we returned more than 100% to shareholders through dividends and share repurchases. As a reminder, the durability and strength of our financial model allows us to target 100% free cash flow return over the long term, aiming to use 40% to 60% to support our annual dividend and the remainder for share count reduction.

Now moving on to our fourth quarter outlook. Revenue is expected to be $4.3 billion, plus or minus $100 million. Operating margin at the midpoint is expected to be 52%, plus or minus 100 basis points. We expect nonoperating expenses of approximately $80 million and a tax rate of 12% to 14%. Based on these inputs, adjusted EPS is expected to be $3.86, plus or minus $0.15.

In closing, our record results and outlook underscore our ability to capitalize on cyclical and secular tailwinds across the AI ecosystem, defense, core industrial, and automotive markets. We will continue to balance execution discipline with strategic growth investments to navigate a dynamic macro and geopolitical environment while delivering on our attractive financial model.

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

QUESTIONS AND ANSWERS

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thank you, Rich. Now I'll get to our Q&A session. (Event Instructions) With that, operator, can we have our first question, please?

Operator

(Operator Instructions) Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Congratulations on the continued solid execution. On the strong operating margin guidance and therefore strong implied gross margins, I'm sort of rolling up to about 73.5% gross margins for October, 100 basis points improvement. Your utilizations are already at high levels. You've talked about mix and volume as the primary drivers going forward. Are these two dynamics driving most of the 100 basis points plus step-up in gross margins in October? Or is the team implementing more price increases beyond the actions that you took at the beginning of the year, and this is also maybe contributing to the strong gross margin profile as well?

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

Thanks for the question, Harlan. I will take this one. As we described for Q3, gross margin came in as expected. We are actually expecting a gross margin increase of about 150 bps to about 74%. You were spot on, this is driven by favorable mix, higher fixed cost absorption, obviously following the higher revenue, and our price adjustments.

So if we look to medium term, I would remind you that we do have a seasonal shutdown coming up in our first quarter, which does create some drag on gross margin and are expecting more cost increases coming. Inflation is still a persistent factor.

That said, the full extent of our price action, which has been announced, is not captured in Q4. So we will get a full quarter of shipments in Q1 with some trailing impact as we review contracts. Overall, we see gross margin hanging in at the Q4 exit level, as long as we maintain the revenue and mix that we expect.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thank you, Harlan. Move to our next question, please.

Operator

Vivek Arya, Bank of America Securities.

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

Vincent, I am very interested to hear your thoughts about fiscal 2027. If I look over the last two years, ADI's top line has accelerated, I think, almost every quarter on a year-on-year basis. And how much of that do you think has been secular? How much of that has been cyclical? How much of that has been pricing?

If I were to just take your Q4 outlook midpoint and just assume normal seasonality, it suggests at least a 20% or so plus growth year into fiscal 2027. Just curious to hear what your high-level thoughts are. Are there any areas of constraints? If I could seek in something related to that, is there more operating leverage left if indeed your top line were to grow 20%?

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

Well, we will take the rest of the call, Vivek, answer those questions. What I will say is, let me unpack a little bit of the story, and then Rich can add some of his own commentary as well.

Since we called the bottom in the second quarter of '24, we have seen our particular strengths manifest through the following areas. So we are clearly a beneficiary of the defense and the AI super cycles, which I think will persist for many, many years to come. Who knows what the trajectories will look like, but right now, the aerospace and defense, the ATE, and data center businesses, they are about 30% of ADI, and our portfolio is exposed and I think poised for greater growth and more content and more share gains.

Although, of course, we are gaining share right across the spectrum of the car types, the combustion as well as EVs. Also in consumer. We turned a corner in consumer two or three years ago, and we are seeing both content and share gains there right across the high-end, mid to high-end smartphone, gaming, hearables, wearables, and so on and so forth.

I have mentioned several times before as well, the Maxim synergies. We had said our expectation when we announced the acquisition of Maxim, that we would generate $1 billion worth of synergies. Well, we are well on track. We will generate about $700 million this year. I expect that we will hit $1 billion-plus in 2027 as well.

I think as well, the overall cyclical tailwind, I think, is also very strong across the board, and given the breadth of our portfolio, that lifts all the bolts aside from the asymmetric tailwinds that we have. As Rich talked a little bit about as well, we have got a very favorable backdrop in terms of pricing. So I think we have capitalized on the vectors of growth, and I think our portfolio is more critical than ever to our customers.

I will point out as well that our lead times are in good shape. As Rich said, we are sitting on record inventories, but at the same time, our inventories are very intentionally placed, built in place. That is thanks to the manufacturing agility that we have built in with our hybrid model and that we continue to extend the scope of.

Rich, maybe you will want to add a little more color.

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

Yeah, I guess, Vivek, what I would add is as we have been talking about the inventory position, the important piece to consider is with the significant demand we are seeing, we still think that we have not seen really any restocking activity from inventory from our customers. They continue to run very lean, and I think that our work over the last two years to balance out the inventory, both on our balance and in the channel, has really been helpful. As we look into the next quarter, we will continue to stage more inventory in the channel, given the acceleration going there. So I think there is still a lot of opportunity.

If you look at where we are from a consumption pattern, as Vince described those three big secular drivers that are specific to our business, we can see real end demand, right? We are seeing the massive increase in AI infrastructure spend. We are seeing the aerospace and defense business grow. So if you extract those pieces out and then look at the broader parts of our business, most of our business is still shipping well below historical consumption levels. We think we still have room here on both the cyclical part of the upturn, when we look at the broader markets I just described, and we continue to see strength across, obviously, the aerospace defense, ATE, and data center businesses.

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

So I think in summary, we believe we are very well-positioned as a company. I think the things that are under our control, I think we are executing well on. There is a lot of things that can happen with the macro. There is heightened geopolitical risk and rate hikes, of course. There is a lot of volatility, as we all know, in the financial markets. Perhaps AI CapEx could slow or decrease. All that said, our expectation is that we will have a brisk growth year in '27.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

All right. Thank you, Vivek. We'll move to our next caller, please.

Operator

Stacy Rasgon, Bernstein Research.

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

On the data center side, you said that 80% of your comm business was now data center, which I found interesting. I mean, that data center piece is, I don't know, it's doubling, is growing 100%. Is that the kind of growth rate I ought to be thinking about now for at least the comm segment next year, '27, given that the vast majority of it is data center? Do you think that that comm segment should be growing close to 100% year over year as I start to think about 2027? I guess maybe within that question, if you could give us any color on what you're expecting for the segment, at least in the near term into Q4, that'd be helpful as well.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Yes, Stacy, maybe we'll start with the near-term stuff and kind of the end market outlook, and then we can maybe pass it to Vince for the AI outlook or the data center.

Yeah, I can take that one. So basically at the midpoint of our outlook, we're expecting industrial to be up high single digits, communications to lead the growth, obviously led by data center up about 10%, consumer up high single digits, and automotive to be up low single digits.

As for the growth and kind of how to model data center, which is basically your question on a longer-term basis, at a high level, there's many growth vectors. First of all, the market's strong. The end market's growing double digits, if you look at CapEx, what have you.

Importantly, as Vince talked to on his call, the analog BOM content is increasing significantly, particularly as we transition to 800 volt, et cetera. Obviously, the investments we're making, we're targeting to increase share in a lot of places. So at a high level, we expect strength in data center for multiple years to come.

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

Yeah. So I think, Stacy, rather than give you a number for '27, we're almost double X on a pace to be 2x in '26. My sense is that we'll see an extended runway to at least 2030 for strong double-digit growth across the data center market, as well as the energy space, by the way, which today is about a $0.5 billion revenue for ADI. I think by the end of the decade, that business will double.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Okay, Stacy. Move to our next question, please.

Operator

Tore Svanberg, Stifel.

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

Vince, I had a bit of a longer-term question for you as it relates to analog. It's an industry that historically has grown high single digits. But with analog now benefiting significantly more from AI infrastructure, and then to your point, eventually also from physical AI, should we assume that the underlying growth of the analog industry is clearly shifting upwards here, both from a unit and a pricing perspective?

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

Yeah, I think it is. Tore, thanks for the question. I think it's possible for the analog business to be in the double-digit zone compounded for several years to come. You just look at data center alone. If I just take data center, there's expected to be 100 gigawatts equivalent infrastructure built for data centers between now and 2031.

Each gigawatt generates a $1 billion to $1.5 billion analog SAM. And the problems are becoming more complicated in data center. So it's going to increase the sophistication and the pricing capabilities of the solution. So yeah, my sense is it's not unreasonable. We had in our earnings day, which was 2021, I think it was, we had said we thought our business could grow 5%-7%. We're contemplating something higher in the out years from here.

Operator

Mark Lipacis, Evercore.

Mark Lipacis - *Evercore Inc. - Equity Analyst*

Maybe if I could follow up on that. Vince, thanks for putting a number out there in a double-digit range. The last time ADI revenues were above that long term 5% to 7% trend line, was back in the late 90s to early 2000. There were similar arguments being made about the build-out of the Internet and there's telecom deregulation.

I am wondering, Vince, if you could just go back in time and compare what is the difference between the secular dynamics you see today and what many people saw back then, which ended up bringing analog revenues, not just yours, but the industry back down to that 5% to 7%.

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

Yeah. I think first off, because I looked through that myself, the concentration was quite high at the time. What I am seeing now, if you look at the industry in the intervening period of time, more and more intelligence has been brought into the world of information technology, more edge, more intelligent edge. That has increased, I think, just the time and the SAM for the analog sector. With every bit of information that has been processed, the value of that content has increased with every bit, with every watt.

What we are seeing now, and if you look at ADI just as a company, the breadth of our portfolio, the depth of our portfolio, the number of places in which we play, is far, far greater. As I said in my prepared remarks, what we have built into this company's business model is optionality. We get to pick or the markets choose us for the asymmetries, then we have these compounding businesses that make the company extremely resilient.

I think from our perspective, the industry, it is broader, it is deeper. Analog is much, much more important. We think over the next 25, 50 years, a lot of economic growth is going to be built on externalized intelligence, the gravity field of AI pulling everything with it.

But I think the pervasiveness of what the analog industry offers now in general is much, much greater. We have got this gravity field irrespective of what might happen from a cyclical perspective in the coming years. My sense is we have never, ever had a cycle like we have now got, just its breadth, its depth, and this gravity field of AI to pull it along.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thank you, Mark. Appreciate the thoughts.

Operator

Blayne Curtis, Jefferies.

Blayne Curtis - *Jefferies LLC - Analyst*

Same question. I wanted to ask, just going back to the data center, but I guess you in the past have referred to AI exposure that includes ATE. As you look at the growth calculus, and you have the data center part growing triple digits, curious how to frame the opportunity for ATE, and I don't know if you're willing to break out how big that was.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Yeah, Blayne. So in the past, you're right. We've talked about this AI exposure as ATE plus our data center business. Combined, those are 20% of ADI. Without giving numbers for four years of growth, I think clearly we've got a lot of confidence, which importantly is backed up by our design and activity, right? It's not just hopes and dreams.

If we look at our pipeline, the design activity with customers is strong in ATE as well as across data center, not just in power, but optical as well, right? You heard Vince on the prepared remarks. So at a high level, that 20% of ADI has got a really strong growth tailwind behind us, and we feel like it's multi-year, right? And again, that's confidence because of our design activity, because of our backlog, our pipeline, and the bookings momentum.

Thanks, Blayne. We'll take our next question, please.

Operator

Matthew Prisco, Cantor.

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

There's lots of talk about this really strong demand backdrop for years to come. So how do we think about ADI's supply capabilities today as these revenues continue to tick higher? At what point do we need to start thinking about capacity additions and are there any constraints arising in the supply chain today or any areas that you see potential pressure in as we move forward?

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

Yeah. Well, clearly, Rich. Yeah, sure. I'll start, Matt, and then Vince maybe can talk some more about the longer-term piece.

But from our perspective, we really are executing well from a supply chain. As we've talked about, we've been able to deliver above seasonal growth for nine straight quarters, and we're guiding to a 10th. We're continuing to build inventory, reflecting our ability to expand our internal capacities as we've talked about. We continue to install new tools in available spaces as we are, and we're also getting more wafers externally. So we feel like we're very well-positioned for the near and medium-term demand.

Obviously, across the industry, there's some soft spots and lead times have started to extend, but we're working really hard to keep them in check. Obviously, this demand acceleration is pretty unprecedented in recent memory. But we think we're very well-positioned. We have a book-to-bill, as we've talked about, that's above one, but we're not in that sort of unusually high space from a book-to-bill perspective. We are also, and this helps us from a manufacturing efficiency perspective, we are getting a bit better visibility. We have some more orders coming in a bit longer term.

Frankly, we asked our customers to help us by doing that. It gives us the ability to be more precise in leveraging the capacity we have. So we feel like we're in a good position. We do continue to add capacity as we go. I'll give my two cents. We are scenario planning what this could look like if this kind of growth sustains and how we would balance across our hybrid manufacturing with additional external wafers, but also whether we need to add capacity beyond what we're already doing and have been doing for the last three to four years.

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

Yeah, I think, in addition, not only do we look to continue to increase the scope of our internal manufacturing capabilities, we have a number of great partners externally as well that we work with, both on the front ends and back ends. We're, I would say, jointly planning with our partners to take a long view to how we support all the various nodes that are critical to ADI from the lithographically insensitive nodes, if you like, kind of 6 micrometers, that kind of level, right down to 5 nanometers and 3 nanometers. That's what we did during the COVID cycle, just that we continued to extend the capability of that hybrid manufacturing system. That is our strategy going ahead.

Just remember a couple of years ago, it was expected that the semi industry in totality might reach $1 trillion by 2030. Well, that's kind of in the wake at this point, and we're looking to something much, much bigger. The industry has a big, big task to get ahead of what we now think the new growth trajectory is, including ADI.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thank you. We'll take our last question, please.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - *Cowen and Company LLC - Analyst*

Congratulations on the very strong results and guidance. The 74% gross margin outlook is pretty staggering and back to those 2022 peak levels. It's also coming without all that much incremental utilization to work. I guess bigger picture through cycle, is that a number that you think you can sort of hold and grow off of? I guess as we think longer term, can you speak to how you're prioritizing revenue growth versus margins if you are? Is this low to mid 70% level one that you intend to manage to long term, I guess?

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

Sure. I do think, as I previously mentioned, Joshua, we can continue to grow, excuse me, continue to maintain that sort of roughly 74% level. We will continue to focus, and I said this in the last call, we will continue to focus on growth investments, which some of them may put some pressure on margins as we expand revenue growth dollars.

But when you look at the balance of our portfolio and the parts of the portfolio that continue to grow, the opportunity to maintain that margin exists. We are getting, as you mentioned, a ton of benefit by running the factories at the higher utilizations, which we expect will sustain throughout this upcycle. So we feel pretty good we're going to balance the investments we need to make to grow with maintaining that, relatively maintaining that margin.

I said this last quarter, and I will repeat it here. I do not think, for instance, there is a ton of room to get more margin accretion out of utilization. But we are still only in a 49% industrial mix, so if the mix shifts, there is potential for upside or at least to be able to offset any potential headwinds. Because the other thing that is going to happen is we expect that the inflationary environment will continue. Now, we will continue to monitor and track and focus on that as we have historically. But I do think we are in a pretty balanced position for the medium and long term here.

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

Yeah, I think just one other comment. The origin of the high gross margin structures is the innovation premium that we attract. So our job is to keep that premium moving. The cycles help get the efficiency in manufacturing and so on support. So those two things, one is obviously very strategic, the other operational. But those two parts we see having a lot of legs for a lot of years to come.

Our customers are asking us to tackle more difficult problems, take on more of the work, so to speak. The breadth and the depth of the high-performance portfolio have positions as well to continue to make that early stage, the origin of the gross margin, a continuing critical part of ADI's value proposition.

Operator

This concludes the question-and-answer session. I'd now like to turn it back to Jeff Ambrosi for closing remarks.

Jeff Ambrosi - *Analog Devices, Inc. - Head of Investor Relations, Senior Director*

Thanks, everyone, for joining us. A copy of the 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, investor.analog.com.

Thank you for your continued interest in Analog Devices. And have a good day.

Operator

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