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EDITED TRANSCRIPT

ADI.OQ - Q2 2023 Analog Devices Inc Earnings Call

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OVERVIEW:

Co. reported 2Q23 revenues of $3.26b and adjusted EPS of $2.83. Expects 3Q23 revenues to be $3.1b, plus or minus $100m and adjusted EPS to be $2.52, plus or minus $0.10.

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PRESENTATION

Operator

Good morning, and welcome to the Analog Devices Second Quarter Fiscal Year 2023 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. Michael Lucarelli, Vice President of Investor Relations and FP&A. Sir, the floor is yours.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thank you, Liz, and good morning, everybody. Thanks for joining our Second Quarter Fiscal '23 conference call. With me on the call today are ADI's CEO and Chair, Vincent Roche; and ADI's CFO, Prashanth Mahendra-Rajah.

For anyone who missed the release, you can find it and relating financial statements and schedules at investor.analog.com on to the disclosure. 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 and other periodic reports and other materials filed with the SEC.

As results could differ materially from these forward-looking statements. And 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. Our comments today will also include non-GAAP financial measures, which exclude 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.

And with that, I'll turn it over to ADI's CEO, Chair Vince.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Thanks, Mike, and good morning to you all. Well, I'm very pleased to share that ADI continue to execute well in the second quarter. We delivered our 13th consecutive quarter of revenue growth and record earnings per share. Notably, revenue was $3.26 billion, growing 10% year-over-year. And once again, this was driven by record results in our industrial and automotive sectors.

Gross margin was nearly 74%, and operating margin surpassed 51% and reflecting the innovation premium, our portfolio commands and our strong financial discipline and EPS increased an impressive 18% year-over-year.

Now I'd like to spend a moment on the current business conditions. We previously shared that our business was at an inflection point due to uncertain economic and geopolitical backdrop. After 3 years of steady growth, customers are beginning to adjust their forecasts and rebalance their inventories. This is most pronounced in Asia, while North America and Europe demand is moderating but at a more measured pace. We expect this normalization of revenue will persist through the second half of 2023. Importantly, given our customer conversations and proactive decisions to improve lead times and rightsize our backlog, we're in a position to deliver on our goal of delivering a soft lending.

Stepping back, we've successfully navigated macro challenges many, many times before. Today, ADI has an even more durable franchise defined by an unmatched diversity of products, customers and applications a hybrid manufacturing model that better adapts to demand fluctuations and, of course, a fortified balance sheet.

These characteristics instill a resiliency that helps ADI mitigate market weakness and invest through our economic cycles in critical areas that will define our future.

Notably, unlike previous economic cycles, we have numerous concurrent secular growth drivers across all of our markets that drive more semi content per dollar of CapEx. And we have exposure to sectors that will transcend the macro uncertainty, including areas like digital health care, aerospace, defense and the electrification ecosystem.

So to that end, I want to highlight our digital health care business, which resides in our industrial end market. Health care is a market that is ripe for innovation and is one that requires the highest levels of performance. Now currently, the United States leads the world in health care spending with more than $4 trillion spent in 2022 alone. Approaching 20% of GDP. This amount has steadily increased over several decades and unfortunately, does not correlate to world-leading health outcomes.

Both the U.S., along with most international health care systems are still reliant on serving the majority of patients with critical or chronic conditions in large centralized acute care hospitals, where specialized expertise and equipment reside. The pandemic highlighted the fragility of this system, underscoring the urgent need for remote physician consultation and distributed clinical-grade patient care. This vision of a decentralized system to improve the accessibility, affordability and efficacy of global health care can only be realized through the proliferation of edge-based diagnostic and therapeutic technologies.

ADI saw this promising opportunity early and made digital health care a strategic focus area over a decade ago. Over that time, our R&D investments have expanded our portfolio from core signal processing, sensing and power technologies to more highly integrated application-specific products to now full system-level solutions. The results, our health care franchise has delivered 7 straight record revenue years, generating $900 million annually and we're on track to achieve a new high watermark in '23 despite the macro backdrop.

Importantly, ADI has become an industry leader in 3 primary areas. The first is medical imaging, where our highly integrated products perform critical functions. This includes enhancing image quality, minimizing radiation dosage, improving system assembly and simplifying field maintenance.

Today, we have strong share positions in areas like CT scanners, digital x-ray and ultrasound. Next is automation and instrumentation. For example, our broad portfolio enables us to create the optimized signal chains required in applications such as infusion pumps, ventilators and defibrillators. Third is personal health monitoring. Here, our highest performance products are used throughout the operating room and the ICU, while more compact versions with lower power are designed into wearable devices, performing both clinical and consumer wellness monitoring functions.

Now let me share some of the examples of how we're seeing ADI solutions shape the future of health care. The ultrasound industry is migrating from large cart-based equipment to more compact mobile systems. Recently, ADI won the design as a market leader for their compact ultrasound system. Our solution leverages our complete portfolio, including high-speed signal chain and high-voltage power technologies, to deliver the highest quality images at the lowest power in a smaller footprint. We're also developing an echo to beat technology to untether the ultrasound modality from the hospital and enable hospital grade care and even the most remote locations. Our solution uses proprietary ultra-low power analog technology that performs both the data acquisition and beam forming functions at extremely low power levels with embedded software algorithms. This allows the user to get cart-based performance in a handheld form without compromising image quality, resolution or functionality.

Now turning for a moment to robotic surgery. Currently, only about 15% of the world's surgical procedures use robotic technology despite the many benefits. These include greater precision, flexibility and control during surgery, and shorter hospital stays, fewer complications and lower levels of pain for patients.

We're already designed in at the largest robotic surgical suppliers with our suite of precision motor control, signal processing, power management and sensing solutions. And with content per system in the thousands of dollars and performance demands increasing exponentially, this application is poised to deliver significant growth in the years ahead.

In the area of personal health monitoring, clinical grade vital signs monitors are converging with consumer wellness wearables. Now this is an emerging market for our comprehensive suite of technologies. Including our sensor AFEs, microcontrollers and ultra low-power technologies, which has been strengthened by the integration of Maxim. For example, in diabetes management, ADI has long been a leading supplier of blood glucose monitoring technology.

Now we're working with key customers in the next generation of continuous glucose monitoring. Our solution increases the level of robustness accuracy and power efficiency of the glucose sensor, thereby extending its life from days to weeks. And there is much, much more to come. We're extending our reach into innovative medical products that connect our hardware with cloud-based connectivity, analytics and service.

I'm delighted to share with you that our first noninvasive chronic disease management device is undergoing marketing clearance with the FDA, and I look forward to sharing more as this new market has the potential to significantly expand our health care set. So big picture, we're shaping the digital revolution in health care.

ADI's ability to go from component to system supplier underscores our deep domain expertise and unrelenting focus on innovation, setting us apart from the pack, not only in health care but in all of our markets.

So while there's near-term uncertainty, we're excited about the long-term opportunities that lie ahead. The center of gravity for data processing is shifting from the cloud to the edge. And ADI where data is born, is at the center of this evolution, enabling the next waves of innovation for our customers.

Now before I hand over to Prashanth, I want to address our announcement that he will be leaving ADI at the end of the fiscal year. I want to recognize Prashanth for his many contributions and for his partnership over these past 6 years. He's played an important role during a period of extraordinary growth and value creation for ADI, including help build a robust finance function and fostering strong investor community engagement. Please know that Prashanth will be remaining in its full capacity and continuing to engage with all of you while we identify our next CFO through a search process that is now underway.

And with that, I'll hand it over to Prashanth.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Thank you, Vince. It has been an honor to serve as the CFO of this phenomenal company and lead this world-class finance organization. As Vince mentioned, I'm fully committed to ensuring a smooth transition, and I look forward to engaging with all of you during the coming quarters. I do want to express my deep appreciation to Vince, both as a coach and a mentor but also for introducing me to this magical world of semiconductors. As my boss often says, we truly are the bedrock upon which the global technology industry is built.

Now turning to our second quarter results. As usual, my comments today, with the exception of revenue will be on an adjusted basis, which excludes special items outlined in today's press release. We delivered another very strong quarter, record revenue of $3.26 billion exceeded the midpoint of guidance and represented ADI's 13th consecutive quarter of sequential growth. On a year-over-year basis, we grew 10%, led once again by all-time highs in industrial and automotive.

Breaking it down by market, industrial, our most diverse and profitable business represented 53% of revenue and finished up 3% sequentially. Year-over-year growth of 16% was broad-based, notable gains in sustainable energy, aerospace and defense. These markets, in addition to health care, which Vince just highlighted, are much better positioned to withstand cyclical slowdown. And together, they represent roughly 40% of industrial revenue.

Automotive, which represented 24% of revenue, once again exhibited broad-based strength, growing 10% sequentially and 24% year-over-year. Secular tailwinds fueling content growth continue to drive ADI's leading battery management and in-cabin connectivity solutions, which combined, increased nearly 40% year-over-year. Communications, which represented 14% of revenue decreased both sequentially and year-over-year due to the ongoing inventory corrections across this end market.

And lastly, consumer at 9% of revenue was down more than 20% sequentially and year-over-year. After several quarters of softness, consumer revenue is close to its COVID load, suggesting that the correction is nearly complete.

Moving on to the P&L. Gross margin of 73.7% was up slightly sequentially due to favorable product mix, OpEx at $733 million was in line with last quarter and op margins of 51.2%, up roughly 100 basis points year-over-year, set a new record. Non-op expenses were $48 million and our tax rate was 11.4%. Remember that Q2 is typically our lowest rate. All told, EPS came in at $2.83, up an impressive 18% year-over-year.

Moving to the balance sheet. We ended the quarter with approximately $1.2 billion of cash and a net leverage ratio of 0.8. We've discussed many times our decision to hold more finished goods inventory versus restocking the channel. Thus, our days of inventory increased to 168 and channel inventory weeks were basically unchanged. As we outlined a quarter ago, we expect inventory dollars will decline in the second half as we balance the replenishment of die bank and moderate external purchases.

Moving to cash flow. CapEx was $284 million in the quarter and $930 million over the trailing 12 months, representing 7% of revenue. As a reminder, we outlined at our Investor Day that we expect CapEx to be high single digits as a percentage of sales in 2023 and then decline in subsequent years to our longer-term target of mid-single digits. These investments will support our long-term growth plans and enable strategic swing capacity between our fabs and our foundry partners. The flexibility of our hybrid model across different geographies enhances our resiliency. It offers our customers additional optionality, and it provides an important financial shock absorber during times of volatility.

Of note, our CapEx spend to date does not include the benefits of both the U.S. and the European tax credit and grant funds that we anticipate from both the U.S. and European chip SoC. Over the trailing 12 months, we generated $4 billion of free cash flow or 31% of revenue. We've returned $5.1 billion to shareholders, $3.5 billion in buybacks and $1.6 billion via dividend. We remain committed to our shareholder-friendly policy of returning 100% of free cash flow over the long term.

Now before moving to the outlook, I do want to provide some additional details on the evolving business conditions. As Vince shared in his remarks, customers are adjusting forecast and rebalancing inventory. At the same time, our lead times continue to improve, with over 70% of our portfolio now shipping in under 13 weeks. This gives customers high confidence into the timeliness of our supply. The result book-to-bill, as we outlined last quarter, remains below parity in all markets and our backlog due in the current quarter has returned to its typical coverage range. As a result, total backlog continues to decline, but at just under a year of revenue, it's still 2x regular levels. And lastly, after a strong start to the second quarter, demand quickly deteriorated in Asia, impacting channel sell-through. As a result, we plan to reduce channel inventory in this region. And in the third quarter, we are planning for sell-in to be below sell-through for the total company.

Given these dynamics, we are guiding third quarter revenue to be $3.1 billion, plus or minus $100 million. At the midpoint of our outlook, we expect industrial and auto to be down low to mid-single digits sequentially, communications down around 10% sequentially, while consumer will increase sequentially. Op margin is expected to be 48.5%, plus or minus 70 bps. The decline in op margin relates to our annual merit increases, changing product mix and a reduction of manufacturing utilization given the softer environment. Our tax rate, again, between 11% and 13%. And based on these inputs, adjusted EPS is expected to be $2.52, plus or minus $0.10. While the near-term operating environment is a difficult one, our diversification and exposure to key secular trends is expected to help mitigate the revenue impact.

In addition, we have key levers to help us minimize margin volatility. This includes our flexible hybrid manufacturing model which allows us to quickly reduce spend on external wafers and moderate the impact on internal utilizations. Our variable compensation program, which has a true accordion-like function, allowing us to reduce spend while still investing in key long-term areas. As a result, we expect a durable earnings stream and solid free cash flow generation. Enabling us to take advantage of any share price dislocations.

Before handing off to Mike, I want to remind folks that in June, we will be doing a deep dive on the burgeoning opportunity for ADI in the construction of Gigafactories. And with that, let me pass it to Mike for Q&A.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Prashanth. I want to echo Vince's comments to thank you for the partnership over the past 6 years, but I will warn you is not done yet. We have called more earnings calls together. So with that, let's get to the Q&A session. (Operator Instructions) With that, we have our first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Vivek Arya with Bank of America Securities.

Vivek Arya - *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

Just to Prashanth. So my question really is, I'm trying to understand where is the incremental weakness? Is it limited to Asia. And within Asia, is that industrial or automotive or both? And what about non-Asia demand? How has that changed versus what you thought 3 months ago?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Yes. Thank you, Vivek. It's been a pleasure to work with you, and we still have a few quarters together. Everyone is focused on the quarter-over-quarter. But before, I guess, to your answer, I do want to take a step back and look at the year-over-year because I do think that tells the story of share gains and the increasing content per dollar of CapEx which is what we believe delivers that long-term shareholder value.

If you look at our industrial and auto business, they are up year-over-year at the midpoint of guidance. Industrial, I'll call it, roughly mid-single digits and auto mid-teens year-over-year. And this comes at a time when PMIs are below 50 and auto SAAR is relatively modest.

So while the economics in the cycle dictate the number of units our customers sell, which will impact our business, our share gains and our increasing content per dollar of CapEx is what we expect to help us outperform, which means we're going to decline less in bad times and accelerate in good times. To your specific question, China definitely was the sort of the piece of new information that has developed over the more recent period. We are -- we've had 3 quarters of decline in China, and we're expecting a fourth. We did see an uptick following kind of the resumption or the return to office after Chinese New Year, but that did fade quickly. And the result was we've got inventory a little higher in the channel there than we expected.

Very confident that this is not a share issue. This is a reflection of what's going on in those markets, and it's broad-based across both industrial and auto. Outside of China, I'd say that industrial and auto is holding up relatively well, especially North America, Europe and Japan. Not as strong as it was prior quarter, but it's not falling rapidly. And I would characterize it more as a measured slowdown. Comms and consumer, we've been talking about those in all those geographies, those remain weak.

Operator

Our next question comes from the line of Tore Svanberg with Stifel.

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Prashanth, it's been great working with you. Wish you all the best. I know we're together for a fewer months, but anyway, we wish you all the best. My question is on utilization and inventory levels. So could you give us a sense of where utilization is today? What's your plan for the second half? You did talk about inventory in dollar terms coming down in the second half. But if you could give us any color on the extent of that, I would really appreciate it.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Yes. Thank you, Tore. It's great working with you. So as we think about inventory, inventory is going to remain higher than normal because we're keeping the channel lean. This is something we started 2 or 3 quarters ago. From a dollar basis, inventory has peaked in second quarter, as I mentioned in my prepared remarks, and you should see dollars start to trend down from here given the actions that we're taking, which is both reducing our external wafer bills, which is an opportunity that we have because of our swing capacity in our hybrid manufacturing model. And that also allows us to balance out the die bank building in our internal factories with softer demand and tap the brakes on in utilization.

Utilization, I would say, still are at elevated levels, so we expect them to start getting closer to what we would consider normal levels in the -- in our fiscal fourth quarter.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

So to give you a little context, in the outlook we gave -- we talked about 48.5% operating margin. That assumes gross margins come down from where they are today. That's mix and also it is utilization, as Prashanth mentioned. And then OpEx was up a little bit in the third quarter based on merit increase, offset some by the variable compensation. So that's how kind of the math around that. And then as you say, as you look out, utilities probably don't go higher from -- in 4Q after 3Q. Just to kind of give you a feel for the back half of the year. Thanks for the question, we'll have the next one.

Operator

Our next question comes from the line of Ambrish Srivastava with BMO Capital Markets.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Hi Ambrish, we hear you.

Ambrish Srivastava - *BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst*

Sorry, Sorry, I lost the first step. Thank you, Prashanth. Pleasure working with you as well. I just wanted to come back to the backlog. And you just went through this comment a little bit too quick for me. So the backlog, as you said, 2x regular levels, but book-to-bill below and it is where the typical coverage range is at this point. So I was unsure what that means. More importantly, book-to-bill should then be trending lower as we go over the next couple of quarters. Is that the right conclusion I should take away from those comments?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

What I would -- I guess, let me -- let's do this in 2 pieces. First, let's talk about our view on this correction. Obviously, no correction is the same. But if you look over at history, Ambrish, most of these sort of downturns last forward somewhere between 2 to 4 quarters and it's our view that we're going to have a weakness for the second half. But a couple of points around that.

First, we are really seeing this as a rolling correction across the market because obviously, no market is fully immune, but I do think that we're better positioned. Comms and consumer, I think we -- you would agree with us, the worst is largely behind us. We -- we've seen those correct over the last couple of quarters, and we're actually being a little bit more optimistic about consumer as we go forward.

Industrial and auto, we're starting to see some softness but that's probably not going to just last a quarter. It's important to point out that we do have some areas of strength in industrial. We mentioned that in the prepared remarks. And auto really is going to continue to be a function of the SAAR activity. From a bookings and backlog standpoint, the takeaways you want is bookings overall continue to decrease, but they're basically sitting at about a year of revenue, the total backlog.

What that means is that the backlog for the current quarter is now to normal levels, which means that we're back to a point where we will be relying on some book and ship to hit the guide, and that's back to normal pre-COVID levels. And on a book-to-bill, we're below parity, which we had said for a couple of quarters now that this was coming, and that's pretty broad-based. It's sort of all markets, industrial and auto are a little bit better, but all markets, all geographies. I did call out on -- in I think Tore's question that China is certainly the weakest of that.

Ambrish Srivastava - *BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst*

Got it. Thank you, I'll hit you back for another follow-up.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Next question.

Operator

Our next question comes from the line of Joseph Moore with Morgan Stanley.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Let me add my congratulations to Prashanth. Can you talk about the backlog being out over a year when 70% of lead times are below 13 weeks. How much -- I know you've been pretty aggressive scrubbing that backlog. How confident are you that, that reflects real demand? And then can you sort of describe -- it seems like you're still getting a pretty decent amount of bookings considering that people have booked out 52 weeks and can get product within 13 weeks. Can you just kind of -- are people still placing orders beyond lead time to try to assure continuity?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Great question, Joe. Thank you. So first, yes, you're exactly right. When we talk about backlog being out kind of roughly a year in value, that's phased over several quarters. So we have delivery dates from customers that are in future quarters, which sort of gives us confidence to what the future looks like. And now we're sort of back to that stage that we've always operated in pre-COVID levels where there is a percentage of the current quarter's revenues that comes from turns business.

So we're back to that state of abnormal with the lead times down as they've improved with our manufacturing capacity additions. Now there's no incentive for customers to keep giving us orders out with a significant advanced notice. They can get most of what they need pretty quickly. And that's the transition that you're seeing being reflected in the book-to-bill rate.

But Again, as I mentioned, we are expecting and Vince has talked for a couple of quarters now that we were expecting the macro impact to hit us, but we remain very confident that content story we have is going to help mute the impact relative to others.

And given our end market exposure, as I mentioned, it's sort of going to be rolling through us. Consumer and comms are largely behind us. We will see auto pressure on units for a couple of quarters -- sorry, industrial pressure on units for a couple of quarters. And auto, we can't give you a good sense of, except to say we know we have a phenomenal content story growth there, and it really will depend on consumer purchases.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. I think, Joe, at the margins, I think our customers have changed the behavior. It used to be that the world expected to be able to operate on a very rapid turn cycle. No, I think that will persist. But what will also persist is the change in behavior around aligning long customers aligning their longer-term demands with supply. And those are conversations that we're having continuously. So I think the behavior has changed somewhat, and perhaps we've got a new normal.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Joe. Next question.

Operator

Our next question comes from the line of Chris Danely with Citi.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

I'll add my congrats to Prashanth. I wish I was retiring too. I just had, I guess, a question or some more color on the correction. What do you think triggered it? Do you think it was just a function of the shortages going away and people always had a little bit of inventory out there, and now they're going to start to cancel orders? And then how bad do you think it could get?

I mean your auto business has tripled in your industrial business has doubled in the last 2 years and change. So what should we be thinking for like the October quarter and beyond?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Yes. Chris, I don't know that I would call it a trigger per se. I think that, as I mentioned, we've been sort of rolling through this. It is just that there's been enough growth in sub parts of our market that have overshadowed the pressure we've seen on comms and consumer. Now industrial, which is really the flagship starting to feel a little bit of the impact from the higher interest rate environment.

So that's coming through. But again, I would call out that we've got a pretty sizable portion of that industrial market that is very recession resistance. That's the health care business, which Vince talked about, the aerospace and defense as well as our energy business.

I think what I mentioned, I think, to Ambrish's question is the piece that perhaps was most surprising to us is we were expecting a stronger bounce in China as they reopened from COVID and they got on the other side of Chinese New Year, and that recovery has not happened. And again, as I mentioned, we know that it's not a share issue is a macro issue to that market. And what was the second part of your question?

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Just how bad do you think it could get any color on October and beyond?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

I'm going to turn to the 40-year veteran of this business who has seen multiple cycles and let Vince take that.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. Chris, I think first and foremost, what we're seeing now in our business is that the troughs are not as deep, and the peaks are steeper than they used to be. There's more and more content in every one of the market segments that we participate in. So I think that's the way to look at it. The troughs are probably going to be -- they're probably going to be shallower. Also, we've been very careful at managing our factories and making sure that we don't necessarily build inventory and ship product that perhaps isn't needed. So my sense is we've set ourselves up for a softer lending just given how we've managed through the cycle and trying to match demand of our customers as tightly as we can with the supply system. So I think perhaps just given where PMIs are at, we would see at least a couple of quarters here of muted demand. And my sense is when the sentiment begins to turn, it will turn quickly.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Yes, Chris, I'll add to that one. Unit demand for the couple of quarters here. It's good to think like we've grown 13 quarters relative. I think investors and sell-side people forget that you do have down quarter sometimes. And we're kind of going back to, I will call it, a bit more normal. And a more normal 4Q, you kind of -- you see industrial kind of flat to down from 3Q all is about flat.

Comms not much activity happening right now in that market and consumers use up a little bit. And if you look at our 1Q a normal 1Q for us, the B2B markets, which is industrial, auto and comms are down kind of low mid-single digits and consumer is down a bit more due to holiday builds. And then you get a 2Q pickup. Now that's not an outlook. That's just kind of what the normal shape was pre-COVID.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. I can tell you as well, Chris, from conversations with our industrial and automotive customers, their sentiment is quite strong. I met the CEO of one of the largest industrial automation companies very, very recently. And they see tremendous secular growth drivers.

There's a rebound in demand from the pandemic stage, where a lot of factory, the CapEx to improve factories, efficiencies and so on was not spent. So that continues. The whole sustainability challenge is on everybody's mind. So there are many reasons to believe that we're going through a short-term period here of reconciliation, normalization of demand and supply.

But my sense is things will recover in the industrial market pretty rapidly. And in automotive, it's a case of we're getting more and more share in the areas that count with our connectivity products, the electric vehicle portfolio that we've got. And there's still reasonable demand, I would say, for mid- to high-end automobiles. So we see this as a relatively short-term reset.

Operator

Our next question comes from the line of Ross Seymore with Deutsche Bank.

Ross Clark Seymore - *Deutsche Bank AG, Research Division - MD*

Just want to echo the congrats for Prashanth. A quick clarification then a question. The clarification is, when you talk about the second half being a little bit weaker, is that fiscal year or calendar year? And then the true question is on the automotive side of things. You've mentioned a couple of times that it's kind of SAAR dependent, but the bigger trend in automotive over the last few years has been mainly content and you guys have benefited from that as well.

I think you're one of the first companies in the semi side to guide that down, albeit minimally on a sequential basis. Has something changed there that you're seeing that others aren't? Is it inventory? Is it demand? Just any more color on that would be helpful.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Yes, I'll go the first part, Ross. I gave a little bit of comments around kind of what I thought would be -- our fiscal 4Q and fiscal 1Q outlook based on kind of normalization. So you can kind of take from that and parse that with your question about is it fiscal second half, calendar second half and put it along that, it's both. With that, I'll pass it to be on the auto side.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

I'll take it. All right. Yes. So look, we've grown 10 quarters in a row, and the growth for the last quarter was very broad-based, again, across all applications. As we think about the outlook, we are beginning to see some softening, though the underlying content growth continue and our top line should still prove to be a strong multiple of SAAR. There is some decline that relates to our strong position in China EV.

So when you ask about what's different for EI Ross, I think that the share position we have in China EV is probably one of those differentiating factors. And that is going through an adjustment as well. While China EVs are still expected to grow, it's not going to be growing as fast as we had originally thought.

And so as this market comes back, it's going to provide the tailwinds we need for our automotive businesses because we have a very high share. Again, take a step back. We remain very confident that this is a business with the strong product portfolio we have, battery management in cabin connectivity with GMSL, it will be an functional safe power. These represent about half of our business. And in a flat sour environment, we are still going to be able to do double-digit growth.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Ross. And this could go to our last question, please.

Operator

This question comes from the line of William Stein with Truist Securities.

William Stein - *Truist Securities, Inc., Research Division - MD*

Two quick ones, if I can squeeze them in. First, I wonder, you've been very optimistic or relatively optimistic about pricing in the past few discussions we've had, essentially highlighting that boundaries are either still raising or certainly not lowering and you're having no problems passing that on? I'd like you to comment if there's any update in that regard? And then the other is just to try to get a linger a moment and get a better understanding for what happened in China because earlier in the quarter, I think you've met with us and some other investors and discussed how business there was recovering.

What -- how can you explain how quickly this seems to have changed from improving in China to suddenly getting even worse?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Thanks. I'm going to do the China one first. So Vince can address the pricing. The China one is pretty straightforward. We as most of the industry, we were watching the recovery coming out of the multi-quarter shutdown in China as well as the Chinese New Year activity looking to see business begin to return to normal levels, given that we had, had a couple of down quarters. We saw a pop in activity and order activity in the -- as we came out of Chinese New Year based on that, we made supply available to the channel. That supply did not move as things kind of quickly got softer or didn't move as much, I should say, it didn't move as much. And therefore, that's why we've now said for the current quarter, we're going to ship in less than we sell through to help readjust that level in -- primarily in Asia.

And with that, I'll hand off to Vince to take the pricing question.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. Thanks, Prashanth. Yes. Well, I think that the headline on pricing is that it is very, very resilient, and I expect that to persist. In general, we're getting we're passing more value to our customers. We're giving more value to our customers. And in fact, the core ASP of our product portfolio has been increasing, not including incidentally the inflationary costs that we pass to our customers. So I think one thing we can say for sure about our franchise is our products are very, very sticky. Our products persist for many, many decades, for example, in the industrial sector. And we're in the post Moore's Law Europe, where the economic conditions have changed fundamentally. So I expect the pricing area to be very steady across the industry in general in the years ahead. And we will look for opportunities to pass on inflation, which is going to be persistent in the industry I believe in the coming years.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Will. I thank everyone for joining us this morning. A couple of -- I let you go on your way. First, we are planning to combine our general ledger ERP systems this quarter. This represents one of our final steps for the Maxim integration. Given our typically fast reporting cycle, we're giving ourselves an extra week to ensure everything runs smoothly. As such, we plan for our earnings call to be held in the third week of August versus the second.

Also, I want to flag that during these more uncertain times, and consistent with our commitment for transparency for our owners, we plan being even more available for investors. Vincent, Prashanth will be New York, Boston, the Bay Area and London in the next quarter. Please reach out to the IR team if you be notified when we are in your neighborhood.

And with that, a copy of transcript will be available on the website. Thanks again for joining us and your continued interest in Analog Devices. Have a good day.

Operator

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