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ADI.OQ - Q2 2025 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' second quarter fiscal year 2025 earnings conference call, which is being audio webcast via telephone and over the web. I'd like to introduce Rich Puccio, Chief Financial Officer of Analog Devices.

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

Thank you, Josh, and good morning, everyone. Before we start to form a part of our earnings call, I'd like to say a few words about Mike Luccarelli. As many of you may know, this will be Mike's last earnings call, as he will be leaving ADI at the end of May to pursue a new career opportunity. I want to thank Mike for his many contributions over his 10 years at Analog Devices.

Mike has been instrumental in my transition into the company, and I will be forever grateful for his advice and guidance as I learned the ropes here. I'll miss Mike's insights, optimism, and relentless work on behalf of our stakeholders. Mike, I wish you the best in your new adventure.

I'll now turn the call over to Mike Lucarelli, Vice President of investor Relations.

Michael Lucarelli - *Analog Devices Inc - Director of Investor Relations*

Thank you, Rich. Good morning, everyone. I will say I've thoroughly enjoyed my time working in investor relations, that's because of all you on this call for investors, to the sell side, to my colleagues at ADI.

Vince, it's been a great 10 years, Rich, it was short and sweet, but it was good. And then my ADI crew, the Thunder Alley crew, thank you for everything for the past 10 years. It's been awesome.

Jeff, who I hired over six years ago from the sell side has been a great asset to the IR team and ADI overall. You'll be replacing me as Head of Investor Relations. Now Jeff, when I started, the stock is $50, it's now $225, 4x. That means you need to drive this stock to $1,000 and I trust you can do that.

So let me pass it to you, Jeff, to host today's call.

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

Thank you, Mike. It's been a privilege working for you. You've taught me many things about semis, ADI, and life in general. So I'm sad to see you go, I am excited for the opportunity and I'm looking forward to it.

Now, for anyone who missed our earnings press release, you can find it and relating financial schedules at 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 and our 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 margin, operating expenses, and non-operating expenses, tax rate, EPS, 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-gap 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 EPS are on a fully diluted basis.

Okay, 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 very much, Jeff, and very good morning to you all. Well, our second quarter results exceeded our expectations both on the top and bottom lines, revenue growth was broad based with double digit year over year growth across all end markets. Against the volatile operating backdrop, our favorable performance and positive outlook underscores the growing demand for our exceptional product portfolio and the resilience and agility of our business model.

While we believe the evolving tariff situation is impacting customers' decision making, the cyclical and ADI specific tailwinds I highlighted last quarter continue. And we're ever more confident that our revenues bottomed in 2024 and that we're returning to growth in fiscal '25.

The secret to our success over these many decades has been sensing business transitions early and adapting quickly to continue focusing our capital, where we can best increase our value to customers and improve our ability to capture that value. We invested substantial CapEx over recent years to enhance and scale our hybrid manufacturing model, which helps our customers navigate increasingly dynamic geopolitical and macroeconomic environments.

They expanded capacity at our existing fabs in the US and Europe, and added commensurate capacity in our backend facilities. Further, we deepened partnerships with trusted foundries around the world, including securing additional 300 millimeter fine pitch technology capacity at TSMC's Japan subsidiary. We've crossed qualified a significant portion of our broad product portfolio to be able to quickly swing production across geographies.

In short, our customers now enjoy greater supply optionality and resilience than ever before. On the [APAC] side, we're investing at record levels to further strengthen and extend our world-class technology stack and continue enhancing our customers' experience and engagement with ADI. These investments allow us to take maximum advantage of the incredible opportunities for profitable growth that we see across our end markets.

ADI plays a game that prizes leaps and innovation that transcends near term macro concerns. We focus on five key mega trends that are persistently driving the future of business the global economy and society, namely; autonomy, proactive healthcare, the energy transition and sustainability, immersive experience, and AI-driven computing and connectivity.

As the essential interface between the physical and digital domains, ADI is a critical enabler of these trends. We continue to define and pioneer the state of the art in high performance analog, mixed signal and power management from sensor to cloud, microwave to bits, and nano watts to kilowatts.

Today, customers are turning to us for more complete solutions. The combination of our extensive franchise with the exquisite creativity and broad-based expertise of our technologists gives us the ability to deliver elegant solutions to customer challenges that others struggle even to address. For example, as healthcare becomes more preventative and preemptive, our ability to accurately and reliably sense, measure, interpret, and connect clinical grade vital signs in ultra low par settings is driving robust content and revenue growth at key customers in the smart wellness wearable space.

Within clinical care settings, our cutting edge imaging and patient monitoring solutions are enabling earlier identification and diagnosis of disease, which can enable more effective treatment and better patient outcomes.

Turning to the autonomy trend, advances in automation within the industrial market, for example, are generating tremendous opportunity for ADI. The progression of robotics from fixed arm to autonomous and mobile to humanoid form factors requires ever greater quantities and integrations of sensing, edge computing, connectivity, and energy management, driving our content from hundreds of dollars in fixed robots today to potentially thousands in autonomous and humanoid robots.

In automotive, higher levels of autonomy are increasing demand for our sensing connectivity and functionally safe power solutions across all vehicle types; combustion engines, hybrids, and full EVs. Each new generation of automated system, be it industrial robots or car, dramatically expands our content and revenue opportunity.

And one final example from the AI-driven computing and connectivity trend, where the world's rapid adoption of AI continues to accelerate the growth of our ATE and data center businesses. Our leadership and success in ATE underscores the quality of our portfolio. As the winners in this market, our determined first and foremost by performance.

Our content protester stretches into the hundreds of thousands of dollars. And looking ahead, we believe our leverage of additional mixed signal and digital capabilities to further reduce test time and power requirements will result in an even more content protester. And with AI investments showing no signs of slowing, testing demand for GPUs, XPUs, and high bandwidth memory continues to increase, giving us confidence in a long runway for growth.

Beyond test, our data center customers are turning to us to solve the vast and complex power and connectivity challenges that come with high performance, always on AI computing. As a result, demand continues to grow for our innovative systems protection, optical control, and power delivery solutions.

These are just a few examples of how our solutions leverage persistent trends that transcend business cycles, drive an average selling price 4 times the industry average, and deliver differentiated results for both our customers and our shareholders.

So in closing, we've successfully anticipated the transitions of the ICT industry and invested ahead of the curve for decades. Today, we're well positioned to deliver the AI-driven intelligent edge solutions that will shape our future success.

You may have seen that we just celebrated our 60th anniversary, a milestone that fewer than 1% of public companies reach. But as thrilling as that accomplishment is, I'm even more excited about our future and the immense opportunity before us.

Now before I hand it over to Rich, I'd like to thank Mike Lucarelli, young Mike, for his distinguished and stellar contributions over the past several years to ADI's success, and I wish him well in his next adventure.

With that, over to you, Rich.

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

Thank you, Vince. Second quarter revenue of $2.64 billion came in above the high end of our outlook, up 9% sequentially and 22% year over year. Industrial represented 44% of our second quarter revenue, finishing up 8% sequentially and 17% year over year. Our industrial recovery broadened with all subsectors and regions increasing sequentially. On a year-over-year basis, we continue to see strong growth in aerospace and defense and ATE.

Automotive represented 32% of quarterly revenue, finishing up 16% sequentially and 24% year over year. This record result was fueled by continued strong demand of our leading connectivity and functionally safe power solutions, particularly in China. Additionally, we saw sequential growth in Europe and North America.

Communications represented 12% of quarterly revenue, finishing up 5% sequentially and 32% year over year. Wireline and data center, which makes up roughly two thirds of our total communications business, drove our strong growth as AI buildouts continue to increase demand for our power and optical control products. And while wireless revenue declined on a year over year basis, it did grow sequentially.

And lastly, consumer represented 12% of quarterly revenue, finishing flat sequentially and up 30% year over year, our third consecutive quarter of robust growth. This reflects our greater share and stronger content position across a diversified list of applications.

Now on to the P&L. Second quarter gross margin was 69.4% of 60 basis points sequentially driven by higher utilization. OpEx in the quarter was $744 million, up $57 million sequentially driven entirely by variable compensation, resulting in an operating margin of 41.2%. Non-operating expenses finished at $54 million and the tax rate for the quarter was 11%. All told, EPS was $1.85 up 32% year over year and above the high end of our guided range.

Now I'd like to highlight a few items from our balance sheet and our cash flow statements. Cash and short-term investments finished the quarter at $2.4 billion, and our net leverage ratio decreased to 1. Inventory increased $50 million sequentially as we continue to invest in [Dibank] to support our recovery. Days of inventory decreased to 169 and channel week's ticked lower.

In the near term, we are maintaining our strategy of balancing leaner channel inventories with higher levels of inventory on our balance sheet. Over the trailing 12 months, operating cash flow and CapEx were $3.9 billion and $0.6 billion respectively. We continue to expect fiscal 2025 CapEx to decrease materially from 2024 and be within our long-term model of 4% to 6% of revenue.

[Free] cash flow with the trailing 12 months with $3.3 billion or 34% of revenue. And during that same period, we have returned nearly $2.5 billion to shareholders through dividends and share repurchases. As a reminder, we target a 100% free cash flow return over the long term, using 40% to 60% for our dividend and the remainder for share account reduction. Before moving on to guidance for our fiscal third quarter, let me provide an additional color on recent demand trends given the current backdrop.

Unsurprisingly, buying behavior was a bit choppier than normal as we saw some increased activity around the tariff announcements. This was short-lived and orders have returned to more normalized levels. Overall, Q2 bookings grew sequentially across all markets and all geographies, and a backlog entering Q3 is higher than a quarter ago. These signals support our view that our revenue bottomed in 2024, custom inventories are lean, and we are in a cyclical upturn.

Now moving on to guidance. Third quarter revenue is expected to be $2.75 billion plus or minus $100 million. On a sequential basis at the midpoint, we expect industrial and consumer to lead our growth, communications to be up, and automotives to decline after a very strong quarter. Operating margin is expected to be 41.5% plus or minus 100 basis points. This includes the impact of our annual salary increases. Our tax rate is expected to be 11% to 13%, and based on these inputs, adjusted EPS is expected to be $1.92 plus or minus $0.10.

Now I'll pass it back to Jeff to begin our Q&A session.

QUESTIONS AND ANSWERS

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

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

Operator

(Operator Instructions)

Joseph Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

Great, thank you, and congratulations to young Mike. Can you discuss, automotive, the 16% sequential growth really stands out relative to what peers are seeing? What's driving that and kind of any sense for, if there's any tariff pull forward in that or just any mitigation that's happening there, just how are you growing so much in autos? Thanks.

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

Thanks, I'll take that one. So Q2 was notably stronger than expected. Bookings were strong, turns were a lot higher than normal, and given some volatility so within the quarter, we do think our auto results were aided by pull-in activity.

While it's difficult to delineate what was pull-in versus normal, our estimate for pulling upside is in the high single digit range. However, buying behavior, as I mentioned, has (technical difficulty) recur, and this is why we expect to decline in Q3 actually. Additionally, if you think about it, if you adjust for what we think the pull-in impact was we're really guiding, a seasonally flat Q3 for auto.

On the pull-ins, right around the 25% auto tariff news we saw an acceleration in auto sell through and orders, most notably in the Americas and in Europe, which were collectively up about 20% sequentially, much better than we had planned. And at the industry level, we saw stronger numbers than expected in the quarter, potentially also explained by consumers getting ahead of the higher prices. So our hunch is that the upside in auto right around tariffs was not a coincidence.

As for China, the other major markets for for auto, noted last quarter, we expect to continued growth and and we had another record, and that is what occurred in Q2. And there could have been some pulling activity, but not nearly as noticeable as what we're seeing in North America and Europe.

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

Thank you. Go to our next question, please.

Operator

Vivek Arya, Bank of America Securities.

Vivek Arya - *Bank of America Securities - Analyst*

So thanks for taking my question and thanks and best wishes to Mike as well. So first is, you mentioned that you are at a cyclical upturn. And I'm curious, how much do you think you are under shipping demand right now, is it 10%, is it 20%, and how many quarters until this kind of just under shipment impact normalizes?

So when do you think your sales will start to correspond more to end demand rather than just inventory replenishment? And I know you just spoke about autos, but I was hoping when you could give us some more color on the industrial side as well and the level of under shipment and then the normalization timing for that. Thank you.

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

Yeah. Thanks, Vivek. I'll take the first part of the question. So I think, look, we've seen -- we're in a period now where we've got cyclical tailwinds. We've kept the channel very lean. We've been under shipping industrial significantly actually, I think more so than any other market over the past two years. My sense is we're getting back to a more kind of a normalized convergence between demand and supply in that area. We're still keeping overall inventory, particularly in the channel, we're keeping it very lean, putting more and more, as Rich said earlier, putting more inventory on our balance sheet to be ready for the upside.

On the industrial side, so I think what we're saying is the franchise, the core franchise of the business, automation, broad base of customers recovering nicely. And we've also seen some excellent examples of green shoots in the aerospace and defense and the AI test area, which I alluded to in my script. And we've got a lot of new wins in healthcare and automation. So there's a good blend, I think, of kind of the legacy franchise and the new technologies pushing the company. So we've got cyclical tailwinds and we've got idiosyncratic tailwinds as well, given the new products in the new applications.

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

And what I'd add is I would say from a in a consumption perspective, we're probably still shipping 10%-plus below end consumption. But if you think about the outlook, if you take our guide, embedded in that guide is about 10% in growth in industrial. And in that, and at that midpoint, we will be shipping to end demand. And as we talked about, we'll continue to balance the channel inventory, but we will at the midpoint be expecting to ship into end demand in 3Q.

Next question, please.

Operator

Harlan Sur, JP Morgan.

Harlan Sur - *JP Morgan - Analyst*

Hey, good morning. Thank you for taking my question. And Mike, thanks for all the great support over the years, and best of luck in your future endeavors.

Industrial automation, I think you guys touched on it a little bit, which is one of your larger subsegments within industrial, I believe it's about 25% of industrial segments. This was one of the last large sub segments to show recovery, given the tie-in to global manufacturing activity. automation infected, I think in October of last year, it grew in January. Did you guys see further sequential growth in Industrial automation in April?

And then coincidentally, trade and tariffs historically has driven weakness in automation as manufacturers pull back in the face of uncertainty. Are you seeing any changes in industrial automation order trends recently, especially out of China?

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

So we have continued to see growth. And in fact, when we look at where we ended the quarter from an automation -- excuse me, an automation perspective, we actually have got a book to build in excess of one. We continue to expect that growth to continue in Q3. In fact, if you look at our industrial business across all of the sub-sectors of industrial, we have positive book to builds in all of those areas above one. So we feel like that has improved. Obviously, there's uncertainty across the board around the tariffs so then, it's impossible to speculate what that will do, but we do see -- we have seen, growth in bookings and in the revenue.

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

I think it's true as well. Right across the whole spectrum of applications, automation, we've seen very strong book-to-build geographically as well. So I think we're in a solid patch right now. Tariffs are definitely weighing heavily, the uncertainty is, I think, causing certain inspection. Many of our customers are holding back and buildouts, but I don't think there's any question about the importance of automation from many dimensions.

We've got the kind of the normal buildouts of automation, and, more and more precision, more connected, flexible factories. But also my sense is we'll see a CapEx cycle as localization takes root as well over the coming several years.

Harlan Sur - *JP Morgan - Analyst*

Yeah, the localization point is, yeah, that's a good example. Thank you.

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

Your next question, please.

Operator

[Tory Sandberg, Stifel]

Unidentified Participant

Congrats on the results, and Mike, thank you so much. Wishing you the best of luck. Vince, you mentioned this a little bit in your script. But robotics, I know this is a market that, you have a lot of exposure to. and I think there was a slowdown in that market, especially, around the pandemic. But now with AI, it seems that we're sort of at an inflection point. So I was just hoping you could talk a little bit more about that opportunity and some of the design activity that you're seeing on the robotics side? Thank you.

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

Yeah, thanks for the question. Yeah, I think, one of the pervasive trends we're seeing is demographic shifts. I think automation of productivity is going to be endemic across the globe. And that predates the concern about the need to localize and so on and so forth. So I think the trend is very solid.

What we're going to see is a new epoch, I think, in robotics that will move into more tactile, more precise robotic systems that will use a lot of intelligence at the edge. And we are you may have seen some of the press and some of the areas where we're collaborating with robotic suppliers, complimentary semiconductor partners as well, to enable this new era of highly tactile precision robotics to take place.

Everybody's focused on the humanoid. But I think there are many steps to take place between the kind of the big heavy arm robotics and the more mobile, tactile robotic system. So we know our content typically in a large arm system would be hundreds of dollars. But as we see more available opportunity to bring intelligence to the edge, we see more modalities of sensing, take roots in these more sophisticated robotic systems. I think the content that we could see there will be an order of magnitude more, maybe more over the coming 5, 10 years.

So my sense is this is a long-term persistent trend. And I think we're very well positioned at that edge. Of course, AI will enable more and more intelligence at the edge, and that's something that we're preparing our solutions to be able to incorporate.

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

Thank you. Next question.

Operator

Chris Daley, Citi.

Christopher Daley - *JPMorgan Chase & Co. - Analyst*

Hey, thanks guys. First of all, Mike, thanks a lot for all your help. And honestly over the years, first Dave Paul, now Mike Luccarelli leaving. This is, super depressing. Anyway, but congratulations in all honestly.

So just a question on leverage, guys. So if we look at the April quarter results and the July quarter guide, your OpEx is basically growing about as much as sales. And then the guide for the July quarter, even though you don't guide gross margin, implies minimal gross margin growth. So can you just talk about why that's happening? And should we expect some sort of acceleration and leverage going forward or should OpEx continue to grow about the same amount of sales and same growth margin?

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

Thanks. All right, Chris, I'll take that one. So from -- I'll do the near term first, and then I'll talk a little bit about '25 and what I think you might be able to expect in '26. So Q2's operating margin was up sequentially despite the big acceleration and variable comp. In fact, our base OpEx was actually flat sequentially. So, what you saw -- that's what you saw in Q2. In Q3, we do expect to see some continued operating leverage, which will get offset by the impact of our annual salary increases as well as our continued growth in the variable.

Although we will expect the increase in variables certainly sequentially to be lesser degree than we've seen in Q2. If you think about it just as a reminder for everybody, the mechanics of our variable comp plan, which is tied to year over year growth and operating margin. Given them absence of revenue growth in '24, it was a pretty low year for us, and considering our return to growth here in '25, variable comp is going to grow and will continue to grow meaningfully.

So while we are optimistic, we will continue to achieve operating margin percent growth, the increase in the variable in '25 is muting that. However, when we look to '26, we'll be going off of a smaller base and so we do expect we'll get more leverage if we continue the cyclical upturn. And then, on the gross margin side, at the [275] guide, we expect to be around 70%, which we've talked about. That baked into that assumption is that we will see the growth in industrial we're anticipating, which, as you guys know, is our most profitable.

And that has been one of our challenges we've talked about in getting additional leverage. And if you look at just the most recent, the outperforming auto puts pressure on gross margin. But as we see the industrial leading the charge coming out with the 10% expected growth in industrial Q3, we do expect we will get back to around that 70% margin.

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

Yeah, I think it's worth noting as well, Chris, that, where we are adding OpEx to the company, aside from the kind of the inflationary things that we have to deal with, it's in the engineering sites. We see tremendous opportunity across more and more spaces for Analog technology, power technology, but also digital and software. So we're judiciously adding talent where we need it, and that's the contributor to the OpEx, of course. But, obviously long term, we expect to get the returns and get the growth from these investments.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Bernstein Research - Analyst*

Hi, guys, I have two quick questions just on the demand environment. Just first, given the auto dynamics, you talked about [SAR] and everything, what are your expectations for SAR and auto builds like into the second half of the year amid all the tariff uncertainty? Because I think autos are getting hit more by that. And then secondly, just, I guess philosophically, you are seeing pull forward in auto, you don't seem to be seeing it industrial. How would you know if the strength you're seeing industrial is actually true cyclical recovery versus versus pull forward in the wake of tariffs or uncertainty?

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

Hey, thanks, Stacey. I'll do the last one. One of the things we looked at as we're trying to assess what we thought might be pullings. We track our ordering patterns and what our expectations around the ordering pattern patterns were. So what we saw was at the start of Q2 bookings sort of were progressing higher as we expected them to then toward the end of March around the time we heard about the auto tariffs. We saw an acceleration in automotive, and that lasted for a couple of weeks, as I mentioned, and since has normalized.

But when we look across the other end market, we didn't notice anything unusual from a booking trends. They were as expected, and we end the quarter with, like I said, we ended the quarter with books the bills above parity. And from a geographic perspective, actually, bookings were up in all regions. So like I said, we didn't see anything anomalous in the booking patterns outside of what we saw in the automotive.

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

Yeah, I'd say generally speaking, from the conversations we have with our industrial customers, it's kind of steady as she goes to some extent. There's no particular ire or anxiety around supply. So I think it's a pretty normal pattern. And as I said earlier, we're seeing a convergence between shipping themselves through.

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

Yeah -- and Stacy, sorry, I skipped your first part of your question on SAR. Our expectation is that we'll see SAR down in the back half. And as we've talked about before, we still get benefits from the continued increase in content to offset some of that SAR pressure, but we are expecting the second half SAR to be lower.

Stacy Rasgon - *Bernstein Research - Analyst*

Yeah, that's helpful. Thank you guys.

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

Thank you. Next question please.

Operator

[Chris Hasel, Wolf Research]

Unidentified Participant

Yes, thank you. And Mike, all the best. It just a question regarding, how all of this might affect the second half. And obviously, too early to provide guidance here. But with respect to auto, with some of what you've seen now, as we go into the July quarter, do you think this has normalized such that whatever happens going into the second half is really a reflection of true demand. And I guess, the same question for the industrial side as well, how should we be thinking about the puts and takes as we go into the second half?

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

Sure, I'll talk about little bit about Q3. So, as I said, we do think we've benefited from some pull-ins in Q2. But given what we've seen in the order rates since and continuing into Q3, we're not really expecting any incremental impact from pull-ins in Q3. So our outlook reflects the acceleration in our recovery. Most notably again in in the industrial market. We're expecting a very strong quarter. We've got strong bookings momentum across all applications and geography.

If you think about the back cap of the year, if you remember last quarter, we talked about, hitting 7% to 10% for the full year growth. With what we saw in Q2 and what we've seen in bookings trends in our Q3 outlook, I'm actually more confident than I was a quarter ago that we'll end at the higher end of that range. But we will continue to be cautious and mindful given all the tariff uncertainty.

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

Thank you. Next question.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - *TD Cowen - Analyst*

Hey, guys. Thanks for taking my question. Mike, congrats on the new gig and Jeff, congrats to you as well and good luck with the $1,000 stock price. So sorry to keep pulling this. But I did want to ask about, industrial again.

I mean, You were very clear in your commentary about your on books and channel inventory. But do you get the sense that there's any element of your end customer restocking that's going on or do you think this is really just an industrial recovery because again it does just the sequential are better than most of your peers reported even though they did go a month ago? Thank you.

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

Go ahead, Rich.

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

Thanks. So actually, I don't think we've seen sign of I wouldn't call it restocking. I do think that because they are coming off of inventory lows across most of our customer base, and we know that because when we look at net new orders, we're seeing net new orders come in from the industrial customers. So I do think that they've had lean inventory, and we've seen their purchasing accelerate. But as we've talked about, we've been under shipping industrial pretty significantly for the last two years. And if we had into Q3, we do not expect to under ship industrial in Q3.

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

Yeah. We use POS signals as well to gauge to get as close to true demand as we possibly can. So as we said earlier, industrial is the area where we've been under shipping most, and I think what we're getting back to now is more normalized pattern of shipping and sell through.

Joshua Buchalter - *TD Cowen - Analyst*

Thank you both get the color.

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

Thanks, Josh.

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

Thanks Josh.

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

We'll go to our next question.

Operator

Blayne Curtis, Jefferies.

Blayne Curtis - *Jefferies - Analyst*

Hey, good morning guys, and I'll offer the congrats to young Mike as well. I actually kind of wanted to ask about the plans, outsource versus insource. So obviously, pre-pandemic, you were leaning more towards external and then, when you ran out of supply it was let's do more internal I heard you talking about qualifying, external fabs. I'm just kind of how are you thinking about this now? Obviously, tariffs are moving target. But it does seem like more diversity in boundary geographic location is preferable. How are you thinking about it now?

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

Yeah, well, look, I think, first and foremost, we're in a good place in terms of the overall capacity footprint that we have. It's more than 2x what it was before the pandemic. So we've been investing primarily our, in CapEx building out front end and back end really to support our growth and give us more resiliency, more flexibility. And I think what we've got now is particularly on the internal piece, I want to make this point as well.

When it came to nodes at 180 nanometers and above, which would be the majority, most of ADI's revenue would ship on semiconductor process nodes that that are 180 nanometers and above. Essentially, there was no external investment in those nodes for many years. So we decided that was an area that we're still developing a lot of new products on. It's a very important part of the -- of many of our businesses, particularly industrial and and automotive. So we decided to place the investments internally to make sure that we have sufficient growth upside and ability to capture the value that we're creating.

So my sense is now we're, as I said, we've got more than 2x the internal capacity. And we've got this flexible swing between external and internal. From nodes from 5 nanometers, by the way, we're designing new products in 5 nanometers. So this business is characterized by massive diversity of semicular recipes. But the ones that we can do internally to support the broad base of our business, we're now we've secured our position there, and that we continue to partner with our key collaborators on the finer geometry nodes that kind of 90 nanometers and below.

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

Alright, that was our final question. Thanks everyone for joining us this morning. And with that, a copy of the transcript will be available on our website and all available reconciliations. And additional information can be can also be found at the quarterly results section of our investor relations site at investor.analog.com. Thanks again for joining us and your continued interest in Analog Devices.

Operator

This concludes today's analog devices conference call. You may now disconnect.
