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ADI.OQ - Q1 2022 Analog Devices Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 revenue of $2.68b and adjusted EPS of $1.94. Expects 2Q22 revenue to be $2.8b, plus or minus $100m and adjusted EPS to be $2.07, plus or minus $0.10.

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PRESENTATION

Operator

Good morning, and welcome to the Analog Devices First Quarter Fiscal 2022 Earnings Conference Call, which is being audio webcast via telephone and/or the web. I'd now like to introduce your host for today's call, Mr. Michael Lucarelli, Vice President of Investor Relations. Sir, the floor is yours.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Thank you, Holly, and good morning, everybody. Thanks for joining our first quarter fiscal '22 conference call. With me on the call today are ADI's CEO, Vincent Roche; and ADI's CFO, Prashanth Mahendra-Rajah.

Anyone who missed the release, you can find it and relating financial schedules at investor.analog.com.

Now on to the disclosures. 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 at 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.

Okay. With that, I'll turn it over to ADI's CEO, Vincent Roche. Vince?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, thanks, Mike, and good morning to everybody.

So once again, ADI delivered another record quarter, marking a strong start to the year. Our continued success was driven by our unparalleled high-performance portfolio and our team's strong operational execution and intense customer focus, enabling us to better meet the growing demand for our products.

Now looking at our first quarter results. Revenue was $2.68 billion, up more than 20% year-over-year on a combined basis. Growth was broad-based, with all segments up double-digits year-over-year, led by Industrial and Automotive. Gross margin expanded to 72% and operating margin increased to over 45%. Adjusted EPS was $1.94, up 35% year-over-year.

Now it's been nearly 6 months since we closed the Maxim transaction. Overall, we've made great progress on the integration to date. The feedback we've received from customers and our teams has been overwhelmingly positive. And we've taken important steps to strengthen our operations.

In the many exchanges I've had with our customers, they've expressed their enthusiasm for the combination, recognizing the increased value that ADI and Maxim together bring to the market. Broadly speaking, ADI is viewed as a trusted long-term focused partner that takes a customer-first approach to our engagements. We offer a unique combination of best-in-class engineering and unmatched domain expertise, with a high-performance portfolio that spans from microwave to bits, from nanowatts to kilowatts, and from sensor to cloud. This is enabling us to develop more complete solutions that define the edge of possible.

The acquisition of Maxim increases the breadth and depth of our high-performance portfolio especially in power management. Here, our more comprehensive power portfolio allows us to better address opportunities across industrial, automotive, data center, connectivity and consumers. Similar to the cross-selling activity we implemented with the LTC portfolio, we're aggressively identifying areas to attach this power portfolio with ADI's leadership positions in analog, mixed signal and RF. And with our extended sales and field organizations, we're better positioned to uncover cross-selling opportunities and serve existing and new customers who have an increased need for application and design support at a solutions level.

I've also been highly engaged with our teams across ADI. The combination has unleashed excitement throughout the organization. There's a burning desire to capitalize on the numerous opportunities to accelerate revenue growth. And I'm already seeing firsthand the benefits of our collaboration, from operations, to engineering, to sales, making me excited for what's ahead.

Turning firstly to our manufacturing operations. The analog sector is characterized by fragmentation, with diversity across products, customers, applications and markets. To tackle this complexity, we utilized a hybrid manufacturing strategy, providing us with vast capabilities across technology, processes and packaging necessary to create innovative solutions from 7 nanometers to 7 microns for our 125,000 customers.

The combination with Maxim enhances our hybrid manufacturing model by enabling a more diverse network of internal facilities and external partners. This increases our access to technologies and capabilities, which in turn expands the scale and the scope of our offerings. We're investing in our internal manufacturing operations to build a more robust and cost-effective model. To that end, we're expanding the footprints of our Oregon and Limerick fabs and adding significant capital to our test operations at our facilities in the Philippines, Thailand and Malaysia. These investments will grow our capacity this year and into 2023, provide seamless product qualifications for our customers, and give us greater optionality between our internal facilities and foundry partners.

Now ahead of our Investor Day in April, I'd like to preview some of the secular growth trends that make us most excited about the future of our industry and for our company.

In the industrial market, we're seeing the compounding effect of many concurrent secular trends. For example, our instrumentation business, which is comprised of automated test equipment, electronic test and measurement and scientific instruments, is aligned with growth trends from connectivity, to EVs, to sustainability. The growing technology complexity of these applications requires ADI's more advanced metrology solutions, enabling us to continue increasing our SAM.

Our factory automation business is empowering another critical trend of more intelligent and connected factories. Here, we support tens of thousands of customers of all sizes with our precision signal chain, power management, sensing technologies, and robust wired and wireless connectivity solutions.

In automotive electrification, we're the global leader in battery management systems for EVs, with double the market share of our nearest competitor. We're continuing to build momentum globally. And in the last quarter, we've recorded several new design wins from premium European auto manufacturers.

Electrification is not exclusive to the automotive sector. There is a necessary shift to sustainable energy sources to deliver the environmental benefits of electrification. This vision requires green energy generation with a smart grid, which digitally monitors and adjusts performance, and also energy storage systems, which mitigate intermittency issues related to variable user demand. ADI supports this infrastructure with control and sensing technologies as well as accurate monitoring and efficient power conversion to ensure the grid parameters remain stable.

Within automotive, we're also seeing manufacturers create a more immersive human experience by digitalizing the cabin. This requires increased bandwidth, lower latency and more efficient power management, creating new opportunities for ADI's connectivity and power portfolios. For example, our audio system solutions with signal processing, A2B connectivity and road noise cancellation provide customers with the highest fidelity solution while also reducing the vehicle's weight. In addition, our GMSL franchise and functional safety certified power management solutions are critical in architecting and efficiently powering advanced driver assistance systems. Overall, our market-leading positions in BMS, audio systems and GMSL, combined with our complementary customer bases, position our automotive franchise to deliver strong growth in the years ahead.

Turning now to advanced communications networks. In wireless ADI's market-leading software-defined transceiver portfolio is enabling next-generation communication systems, from traditional 5G, to O-RAN, to low earth orbit satellites. And we're expanding our SAM with the industry's first transceiver that includes a fully integrated digital front end. In wireline, our optical control and power portfolios are critical to tackling the exponential growth in bandwidth and compute power of carrier networks and hyperscale data centers Here, we see a large and underserved opportunity for ADI.

So with that backdrop, we look forward to expanding on these areas and more at our Investor Day with our senior leadership team.

So in closing, ADI is the leader in innovating at the edge. We have an industry-leading high-performance portfolio that continues to benefit from the acceleration of mass digitalization across industries. And with Maxim, our portfolio has increased in breadth and depth, and we see even more opportunity than ever to capture additional market share. And I'm very optimistic about what our future holds.

And so with that, I'll hand you over to Prashanth, who will take us through the financial details.

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

Thank you, Vince. Good morning, everyone. Let me add my welcome to our first quarter earnings call. .

My comments today, with the exception of revenue, will be on an adjusted basis, which excludes special items outlined in today's press release. The revenue commentary is on a pro forma basis and includes pre-acquisition Maxim revenue in the comparable period.

ADI delivered a very strong first quarter, with record revenue, profitability and earnings. These results reflect the secular demand for ADI's products, capturing synergies and effectively passing on inflationary costs. Our manufacturing team is diligently securing additional internal and external capacity as orders remain robust across all our markets and our backlog continues to grow. This sets the stage for continued sequential growth through the balance of fiscal 2022.

So for the first quarter, revenue of $2.68 billion finished near the high end of our outlook, with double-digit growth across all end markets and geographies. This marks our fourth consecutive quarter of record revenue and 8 straight of sequential growth.

Looking at our end market performance for the quarter, Industrial, our most diverse and profitable market, represented 50% of revenue and achieved a new all-time high. Industrial has grown more than 20% year-over-year for 5 straight quarters, underscoring our strong market positioning, supported by numerous secular tailwinds, including automation, digital health care, sustainable energy, aerospace and instrumentation.

Automotive, which represented 21% of revenue, achieved another record, with every major application posting double-digit year-over-year growth. Our battery management system offering continues to outperform and represents over 15% of automotive revenue, underscoring ADI's leadership in electric powertrains. Additionally, secular content growth inside the cabin continues to drive both the A2B and GMSL connectivity franchises to new heights.

Communications represented 15% of revenue and exhibited strength in wireless and wireline. We are in the early days of 5G deployment and expect global rollouts, led by North America, to accelerate in 2022 and beyond. And in wireline, demand remains strong as carriers and hyperscalers continue to upgrade their cloud infrastructure from long haul to data center.

And lastly, consumer represented 14% of revenue and was in line with seasonality. Importantly, we continue to grow year-over-year, supported by strategic investments aimed at diversifying our customer and application mix. The first quarter demonstrated our increased portfolio breadth as all segments achieved growth, including professional audio-video, gaming, wearables, hearables and personal electronics.

Now looking at the P&L. Gross margin increased 100 basis points sequentially and 190 basis points year-over-year, resulting in a record 71.9%. Favorable product mix, higher utilizations and synergies were key drivers of the increase. OpEx in the quarter was $702 million, better than anticipated due to faster synergy progress. Operating margin of 45.8% increased 510 basis points year-over-year. Non-op expenses were $44 million, in line with last quarter. And our tax rate for the quarter was approximately 13%. All totaled, adjusted EPS of $1.94 increased 35%. Our record profitability this quarter was driven by the stronger revenue growth as well as the synergy capture.

And now moving on to the balance sheet. We ended the quarter with approximately $1.8 billion of cash and equivalents. And on a trailing 12-month pro forma basis, our net leverage ratio was just under 1 turn. Days of inventory increased modestly sequentially to 115 and channel inventory remains below the low end of our 7- to 8-week target.

Looking at cash flow items. CapEx was $111 million for the quarter and $387 million over the trailing 12 months. As a reminder, during fiscal 2022, we plan to invest 6% to 8% of revenue to significantly grow our front and back-end capacity and build a more resilient hybrid manufacturing model for the long term. Importantly, this higher level of CapEx will not hinder our capital return commitments. Over the trailing 12 months, we generated $2.78 billion of free cash flow or 33% of revenue. Our free cash flow margin was lower by about 3% due to costs related to the Maxim acquisition.

Over the same time period, we returned approximately $4.2 billion or more than 150% of free cash flow via purchases and dividends. And as a reminder, we target 100% free cash flow return. We aim to use 40% to 60% of our free cash flow to consistently grow our dividend, with the remaining free cash flow used for share repo. And just yesterday, we announced a 10% increase to our quarterly dividend, marking the fourth consecutive year of double-digit increases. We have now raised our dividend 19 times in the past 18 years. Our ASR program concluded in the first quarter, and as a result, we retired approximately 14.4 million shares. We are now more than halfway towards executing our $5 billion repo commitment by the end of calendar 2022.

So let me finish with the second quarter outlook. Revenue is expected to be $2.8 billion, plus or minus $100 million. At the midpoint, we expect all B2B markets to grow sequentially and for consumer to be flattish. At the midpoint, operating margin is expected to be 46.5%, plus or minus 70 bps. And this outlook includes approximately $100 million of annual run-rate synergies, split roughly evenly between cost of goods and OpEx as we exit second quarter. Our tax rate is expected to be approximately 13%. So based on these inputs, adjusted EPS should be around $2.07, plus or minus $0.10.

And finally, let me end with an invitation. We are holding our Investor Day on April 5, where we look forward to sharing ADI's long-term strategy, our new financial model and a detailed update on all phases of our synergy road map. We hope to see many of you in person at our headquarters right outside of Boston, where we will offer unique customer-led interactive technology demonstrations and displays throughout the day. This includes showcasing our wireless battery management system for EVs and much more.

I'll hand it off to Mike for the Q&A.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Thanks, Prashanth. Let's get to the Q&A session. (Operator Instructions) With that, we have our first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is going to come from the line of Vivek Arya with Bank of America Securities.

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

And good to see the strong execution. Vince, I was hoping you could maybe give us a readout of what you see as kind of the supply-demand balance in your different end markets. And if -- as part of that, if you could help us understand what role is pricing playing in the industry today. And can it be sticky over time? Or will it need to revert back as there is more trailing-edge capacity that comes online, including from your other large U.S. competitor?

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

Vivek, I'm going to just do the setup for that on the supply and demand environment. So what we're seeing in 2022 looks a lot like 2021. So we expect that we will be chasing demand throughout the year. We've got continued order strength across the business. As I said in the prepared remarks, all end markets, all geographies are looking strong. And our backlog is continuing to expand. We've delivered 8 sequential quarters of growth, and that's supported by the manufacturing team continued to increase their ability to supply. And as I mentioned in the remarks, we expect that increase to be progressive over the balance of the year while they continue to debottleneck the process. So that will help us drive sequential growth.

From a supply standpoint, we're going to continue to look at the balance here and keep an eye on how things are going. But our view is that this will run through the balance of this year. And we expect that we'll probably still have a little bit of catching up to do in early '23.

On pricing, that's a longer question, so let me split that into 2 pieces. Why don't I talk margins and then I'll let Vince talk kind of pricing strategy. So from margins, we along with the rest of the industry have been passing on the higher costs that we've been seeing. So we're not using this environment to take advantage of customers, but really targeting to maintain gross margins. So we have been pushing those costs out. But built into those margins is a number of items, including the synergy execution, which is coming in faster than we thought, some benefit of mix, higher revenue because we are actually shipping more units. So I think on a quarterly basis, unit shipment is up double-digits year-over-year. And then, of course, with all this unit -- increase in unit shipment, utilizations are also quite strong. So there's a number of benefits that are underlying the margin piece.

But to finish off on pricing, I'm going to pass to Vince to maybe talk about how we're -- how he's talking to customers.

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. Vivek, just to add a couple of other color comments here. So we've historically managed our pricing to reflect the value that we deliver to our customers. We get an innovation premium for our products. And also, we have very, very long-life products in our portfolio. And customers pay us to keep security of supply for the long term. And that's an approach that we intend to keep in perpetuity.

I think also, pricing for us is more structural than cyclical. I think the last couple of years have really brought semiconductors from the background into the foreground and shown the importance of semiconductors to the modern digital economy. And I think customers understand the value in a more meaningful way.

So I think, as Prashanth said, cost inflation, we're in the post-Moore's Law era, cost inflation, I think, is going to be a long-term facet of the economic dynamic of the semiconductor business. So I expect that cost increases will moderate, but there will be inflation, I think, for the medium to long term here.

So I think when you put it all together, the industry is in a better place to capture more of the value that it's been generating over these many, many decades. And then I think we will benefit from that as a company based on the quality of our innovation, but also the new dynamics in the industry.

Operator

Our next question will come from the line of John Pitzer with Credit Suisse.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Yes. Just to follow up on the pricing side of things, Vince. I'm just kind of curious, will this year's revenue growth be more influenced by pricing than last year? And to the extent that the price environment seems to be structurally changing, are there any parameters you can give us? Historically, pricing did X, and now we think it's going to do sort of X plus. And because -- and the reason why I asked the question is we look at your relative growth rates to some of the end markets that you participate in, and you're clearly growing significantly faster. And there is a content side of things. But that relative growth does kind of make people concerned about inventory levels. And so we look at inventory and revenue, we probably should be looking at it on units. I'm just kind of curious how we should try to factor in that pricing dynamic.

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

John, let me just set the numbers on that. So this year, pricing or I should say, for the current quarter, pricing counts for less than half the growth. So that kind of helps you size it. And we had said on the prior quarter's call that in 2021, we had cost increases that were coming at us faster than we were able to push price out because we were in the process of closing the deal on Maxim and beginning the integration. So we did expect more pricing tailwind this year because we actually had inflationary cost headwind last year.

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. I'd say, John, one other comment. I've said many, many times before that for several years up to this step function increase due to inflation in prices and cost of goods and then prices, our pricing was -- for many, many years, we had been -- we had to fill a gap. We had to ship more units to keep up with the annual price reductions. I would say we were asymptoting towards 0 price reduction on the average, adding more ASPs to our products for the innovation that we're creating. And then I think that for the long term is going to be a better way to gauge ADI's pricing methodology. So we're pricing for value. And we're injecting significant amounts of R&D into the company to make sure that we keep ahead of our customers' needs. So that will be, I think, the primary dynamic for value capture for ADI for the years ahead.

Operator

Our next question will come from the line of Pradeep Ramani with UBS.

Pradeep Ramani - *UBS Investment Bank, Research Division - Equity Research Analyst of Semiconductors*

Yes. I just wanted to ask about your automotive business just given how automotive production is sort of sharply rebounding in 2022. How do you feel about how much your automotive business can outgrow SAAR or even production in 2022? How should we think about that?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. I think right now, the supply chain is very, very lean. That is pretty well established. I've talked with a lot of automotive companies over the last 6 months or so. And my sense is that everything that we're shipping has been used and I don't see any stockpiling. So content in vehicles is increasing every year. The value generation activity in the auto sector now is -- it's driven by semiconductors and software. So we're seeing content growth of 5% to 10% per year. And I think that will continue for the foreseeable future.

We're seeing -- I think, the shift towards EVs. I've been surprised by the speed of the shift myself in the 2021 period. And that our customers are tilting the content, the semiconductor content towards premium models. So that accelerates the content growth story versus history. And then long term, we expect to be able to grow our business in the automotive sector as a multiple of SAAR. We see tremendous opportunity to continue to drive our share and growth story of EVs.

In cabin connectivity, where we've got a very, very strong signal processing franchise, to which we've connected our A2B connectivity, road noise cancellations, a new value creator in the cabin. And we're very excited by the GMSL, the connectivity portfolio, the high-speed connectivity portfolio that we have inherited from legacy Maxim. And we have aggressive plans to continue to build that out, both in terms of product development as well as our manufacturing footprint.

And last but not least, power. We're underrepresented in general in power management, I'd say, across the industry, and particularly in automotive and industrial. So I think the combined portfolio of ADI-Maxim gives us a tremendous opportunity to tap in to what is actually the largest sector. Power is the largest sector of the analog market, and it's growing at a compounded rate there. So that gives you a sense for our automotive thinking.

Operator

Our next question will come from the line of Toshiya Hari with Goldman Sachs.

Toshiya Hari - *Goldman Sachs Group, Inc., Research Division - MD*

Congrats on the strong execution. Prashanth, I wanted to ask about your synergy capture in the quarter and how to think about synergies going forward. In your prepared remarks, I think you talked about earlier than expected synergy capture. Should we consider this as kind of a pull-in of synergies?

Or would it be fair to assume that the Phase 1 target of $275 million is a little bit more on the conservative side? And then, I guess, additionally, on Phase 2, I realize it's kind of early. But you had talked about potentially looking at your manufacturing footprint similar to how you did with the linear. Is that still the plan? Or could things change given the stronger demand backdrop?

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

Yes, yes. Good question, Toshi. And a great setup to invite folks to join us in April when we're going to answer all those questions. The -- in the last call, we talked about $20 million of synergies was realized in fourth quarter. And we said that there would be minimal impact in the first half before ramping more aggressively into the second half. We've moved faster than originally planned and we've captured more earlier. So we're going to exit second quarter at about $100 million of that $275 million. And as I said in the remarks, it's roughly split between both cost of goods and OpEx.

The -- we'll give you an update on that $275 million in terms of how much we believe we can actually achieve in that first Phase 1 time period. We'll do that at the April earning -- Investor Day. Vivek will also specifically talk about his plans and what he is -- has high confidence on for Phase 2 of the cost synergies. And then our Head of -- our Chief Customer Officer is going to talk about the revenue synergies that we are expecting from the combination. So we'll lay all that out for you when we see you here in Boston in a couple of weeks.

Operator

Our next question will come from Stacy Rasgon with Bernstein Research.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I wanted to ask about gross margin. So I hear what you're saying on pricing. It sounds like it's a revenue boost but not so much a margin boost yet. But I just look at the company, ADI standalone was kind of 70% to maybe low 70s, Maxim was kind of mid- to high 60s. And you're doing 72% out of the gate. Is this mostly just utilization and mix and the synergies? And it sounds like you've got more synergies coming. You've got revenue going through the year. Should we be thinking about the current gross margin leverage -- level you just put in Q1 as sort of being the bottom for the year as you continue to progress?

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

Yes. Stacy, let me just clarify, that I would be incorrect to assume that there was no benefit from pricing in the gross margins. What I wanted to clarify earlier in the response was, embedded in that margin improvement is the synergy, the faster synergy execution, which I just answered in Toshi's Question. The mix, which we talked about in the prepared remarks, again, very strong industrial at 50%, is great for us. And then higher unit volume, because we are up on a unit basis double-digits, and utilization, and then pricing also fits into that. So they are all elements of that.

In terms of how to think about the gross margin on a go-forward basis, we'll share the new operating model or the financial model for the company in April. But I will preview to say that our focus continues to be on how do we drive the best revenue growth balancing that gross margin.

So as we've met with investors, there's pretty uniform agreement that what they'd like to see is higher revenue growth and make the trades that are necessary on margin to be able to deliver higher revenue growth. So we'll talk more about the model in Investor Day. But I would not be encouraging folks to be modeling very high gross margin numbers over the long term.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Gross margins, Stacy, and how it trends, we don't guide gross margins, but I'll give you some context around -- if you look at 2Q, it's usually up a bit. That's embedded in our outlook. In the back half, usually about flat from there. That kind of helps you from a kind of near-term 2022 outlook. And then at the Investor Day, we'll talk more about the long-term outlook for the business.

Operator

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

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

Congratulations on the record results. Could you just talk a little bit more about your capacity plans? You talked about increasing CapEx 6% to 8% this year. I don't know if that's sort of the first year or more to come. And is there any way for you to quantify what that does as far as capacity expansion? I know you have a hybrid model and this is a moving target. But any color you can share with us on how much capacity you're going to have? That would be great.

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. So thanks, Tore. The -- well, first off, if we just take it from a high level, first, we've always utilized a hybrid manufacturing model at ADI. And it gives us the reach of process, technology and capabilities that we need to support the sheer breadth of our portfolio, which is more than 75,000 unique product SKUs. And we're supplying 125,000 customers. So I think when we think about the long term, we'll continue to use the benefits of this hybrid model for optionality, resilience and the availability of technology.

So overall, the business that we're in, it is -- and given that we're approaching the world with a hybrid mentality, our business is less capital intensive. And it also gives us, as I said, resiliency in terms of gross margin and long-term access to more options for process technology, et cetera, et cetera.

So I'll hand it over to Prashanth. He will make a few comments on the investments that we're making and how we're going to strengthen that model.

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

Yes. Tore, I think your question was specifically related to CapEx. So let me just -- let me kind of side that at a high level. So we said that our CapEx is going to be doubling in 2022. And we're targeting somewhere between 6% to 8%, which is above our historical long-term rate of 4%. And that CapEx is being used for internal capacity. Specifically, that can swing in and out, so it helps us with optionality. And that's an important element of the hybrid manufacturing model that Vince talked about is being able to use that same capacity for volume when we need it or utilization if the market should not have the same level of demand as they do today. So the shells of the building are complete. And Vince mentioned in his prepared remarks that we were adding in -- expanding our footprints in Oregon and Limerick. And also, we're adding a significant amount of testers to our back end in the Phils., Thailand and the LTC site that we acquired in Malaysia.

Operator

Our next question will come from the line of Ambrish Srivastava with BMO Markets.

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

Prashanth, I wanted to come back to the inventory. On a GAAP basis, which is consistently how we measure for all companies, it's pretty low versus the average and versus the long-term target that you've laid out. And on an absolute dollar basis, it was down quite a bit as well. So I was just wondering, if part of it is probably from the accounting and the step-up you had from the Maxim acquisition, could you just help us understand, was there a drawdown internally?

And I don't think I heard you talk about where channel inventory was. So what should we expect inventory to do on an absolute dollar basis as we go through the year?

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

Yes, yes. Great question, Ambrish. So first, let me say that you are absolutely right. There is a bunch of purchase accounting that is flowing through the balance sheet. So the inventory numbers probably have a bit more noise, and we can handle that with your team offline. But let me high level kind of help folks to think about the inventory. So the channel remains very, very lean. That is not the -- not the -- not our balance sheet, but the inventory in the channel, that remains very lean, well below our 7- to 8-week target. We are having difficulty building inventory in the channel. We get it into the channel, and it moves out very quickly.

Within ADI's books, our days of inventory are up slightly, primarily, as I mentioned, that we are planning to see revenue increase sequentially for the balance of the year. So you have the raw material and the WIP is in -- is sort of in the middle of the process now before that comes out, and that is -- that's up.

We also had a little bit of finished goods up, but that was purely timing on when the quarter ended versus where the goods were in the transit process. So I wouldn't read anything into our increase in finished goods, except to say it's just -- it happened to be when the drawbridge closed for the quarter.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Thank you, Ambrish. We'll go to our last question, please.

Operator

All right. Our last question will come from the line of Harlan Sur with JPMorgan.

Harlan Sur - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Congratulations on the strong results and execution. If I look at cloud and hyperscale data center CapEx spending for this year, that's expected to grow like 30%. And I know that in the data center end market, Maxim, for example, they provide the critical processor power management for NVIDIA's data center GPUs. They provide power management for Google's flagship AI processors. On the ADI side, you guys provide server, power supply solutions and optical networking solutions.

So I guess my question is, given the strong backdrop, was data center a big driver for your comps business in Q1? How do you see data center growth for the full year? And how big is data center as a percent of your overall comm business?

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

I'll answer backwards. I'll start with kind of the sizing of data center for you. If you look at our comms business, it's about 15% of total revenue. That's split about evenly between wireless and wireline, about 50%, 50% in each of those. And if you look at the wireline piece, that's where data center is embedded, it's probably about 30% to 35% of that relates to the data center. What we ship into this, I know you outlined it pretty well. I'm not going to go through it again.

But I'll pass it to Vincent and Prashanth, probably Vince to talk a little bit more about what the opportunity is in data center and why we're excited.

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. Thanks, Mike. Well, we have, I consider, combined with Maxim, a strong position in optical connectivity as well as carrier networks. But also power management, whether it's the power system monitoring, energy monitoring and actually power delivery itself. We see that as a phenomenal opportunity. So my sense is, and we'll talk more about this at the Investor Day, but we'll unpack the story for you. But my sense is that we can double our data center and cloud business over the next 4 to 5 years.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

All right. Thank you, Harlan. And thanks, everyone, for joining us this morning. A copy of the transcript and all of our reconciliations will be available on our website. We hope you can join us at our in-person Investor Day, April 5. Thanks for joining the call and interest in Analog Devices. Have a good day.

Operator

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