

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ADI.OQ - Q1 2025 Analog Devices Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 19, 2025 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Michael Lucarelli *Analog Devices Inc - Vice President - Investor Relations and FP&A*

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

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

CONFERENCE CALL PARTICIPANTS

Joseph Moore *Morgan Stanley & Co LLC. - Analyst*

Vivek Arya *Bank of America Securities. - Analyst*

Tore Svanberg *Stifel, Nicolaus & Company - Analyst*

Chris Danely *Citigroup Inc - Analyst*

Joshua Buchalter *TD Cowen - Analyst*

Christopher Rolland *Susquehanna International Group, LLP (SIG) - Analyst*

Harsh Kumar *Piper Sandler Companies*

PRESENTATION

Operator

Good morning, and welcome to the Analog Devices first quarter fiscal year 2025 earnings conference call, which is being audio webcast via telephone and over the web. I'd now like to introduce your host for today's call, Mr. Michael Lucarelli, Vice President of Investor Relations and Division Controller of Data Center, Energy & Power. Sir, the floor is yours.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

Thank you, Daniel, and good morning, everybody. Thanks for joining our first quarter fiscal 2025 conference call. With me on the call today are ADI's CEO and Chair, Vincent Roche; and ADI's CFO, Rich Puccio. For anyone who missed the release, you can find it and related financial schedules at investor.analog.com. Onto 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 other periodic parts and other materials filed with the SEC.

Actual results could differ materially from this 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 required by law.

References to gross margin, operating and nonoperating expenses, operating margin, tax rate, EPS and free cash flow in our comments today will be on a non-GAAP basis. These excluded special items. When comparing our results to historical performance, special items are also excluded from prior periods.

Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's earnings release. All references to earnings per share are on a fully diluted basis. And with that, I'll turn it 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, Mike, and a very good morning to you all. First quarter revenue profitability and earnings per share all finished above the midpoint of our outlook. And while we continue to operate in a challenging macro and geopolitical environment, our first quarter results and outlook for double-digit year-over-year growth in our second quarter builds my confidence that 2025 will be a year of growth.

Our track record of resilience and profitability through cycles, combined with our strong balance sheet supports our long-standing robust capital return program. I'm delighted to share that we've increased our dividend for the 21 consecutive year, and that over just the past five years, we have returned more than \$16 billion or roughly 15% of our current market cap to shareholders through dividends and share repurchases.

Turning now to our operating environment. The magnitude and duration of this most recent semiconductor cycle has surprised many of us. But we believe ADI has entered and is well positioned for sustained recovery. Throughout the cycle, we invested diligently to enhance and leverage our hybrid manufacturing model to support the dynamic needs of our customers, both big and small.

We work closely with our customers to be responsive to their evolving business needs and map factory starts to true end demand. As a result, inventory levels have largely normalized and our partnership approach with our customers throughout the volatility of the past several years has enabled us to balance supply and real demand.

While the macro backdrop will continue to influence the pace of our recovery, the signals we monitor from lean channel inventories to gradual bookings improvements over the past 18 months support our view that we've passed the cyclical trough, and the tide has turned in our favor.

Throughout the cycle, we've been busily deepening our customer engagements and accelerating our pipeline growth and conversion. Many of the design wins I've shared on recent calls are [not] contributing to growth. And let me give you some examples. For example, in industrial automation, the shift towards decentralized intelligence to enable modular manufacturing is driving significant growth in software-defined connectivity solutions.

Our software configurable I/O products that double channel density and reduce power consumption by 40% have been installed across all major automation suppliers. Revenue from these wins has begun ramping and the automation market begins to recover and will provide a durable revenue stream over the next decade. Within the growing surgical robotics segment, increasing levels of content from across our portfolio, and in particular, or high precision solutions are being deployed in next-generation surgical systems.

And additionally, in health care, the growing interest in a data-driven approach to health and wellness is creating a convergence of the clinical and consumer markets and driving demand for higher performance of vital signs monitoring in consumer wearables. Our suite of high-performance sensors, signal chains and efficient power solutions and wins at leaders in these markets position us for double-digit growth this year. Within the automatic test equipment market, the growth of AI has significantly increased our signal chain and power content.

In some cases, by up to 300% across memory test systems. Customers are leveraging our solutions to increase channel density and throughput while reducing power demands by up to 30% per system. In light of increased hyperscale CapEx, we expect our 2025 memory and high-performance compute test revenue to achieve strong growth.

In our broad aerospace and defense portfolio, our modules, which support ASPs often into the hundreds of thousands of dollars are expected to lead double-digit growth in this industrial subsector in 2025. In addition, we're anticipating growth this year from newer design wins in [orap] and power in the military and commercial satellite sectors.

In automotive, the convergence of trends ranging from autonomy to electrification to immersive in-cabin experiences continue to drive robust demand for many of our solutions. For example, our GMSL portfolio is outpacing the growth of advanced driver assistance systems and is positioned to reach yet another record-breaking year in 2025.

Since acquiring this video connectivity technology in 2021, our revenue has nearly tripled. We're also anticipating continued record-setting revenue from our A2B and functionally safe power franchises, which share similar growth trajectories. Lastly, in electric vehicles, BMS is poised to return to growth in '25 after a challenging prior year.

Part of this growth is coming from our higher content wireless solution wins with key OEMs ramping in America and Europe. In communications, our growth is predominantly being driven by robust CapEx investments to support AI infrastructure buildouts. Our high-precision electrooptical controller is now shipping in a 1.6 terabit optical module for AI systems based on industry-leading GPUs.

On the power side of the data center, we are delivering high voltage power path protection systems, which are on a strong growth trajectory, and we'll begin shipping our vertical power solutions later in this year. Finally, in consumer, design wins secured in recent years at multiple customers across numerous applications, including premium handsets, hearables, wearables and gaming systems, began to drive robust diversified growth in the second half of fiscal '24, with even more content in upcoming launches, we expect a strong year ahead and beyond in consumer.

Collectively, we anticipate these combined cyclical and idiosyncratic trends to return us to a solid growth path this year. So in closing, the relatively favorable position in which we find ourselves coming out of one of the worst downturns the industry has ever experienced, is not by chance. But rather a reflection of our fiscal and operational discipline, commitment to the success of our customers and our investments for the long term.

And while I'm excited about our prospects for 2025, I'm even more excited about the longer-term opportunities across numerous concurrent secular growth areas, including automation, digital health care electrification, automotive data center and many, many more. A common request from our customers across our many diversified applications is that we help them attain the increasing complexity by bringing more complete solutions to them, a reflection of our robust technology stack and stellar customer reputation.

In stepping up to our customers' challenge, we continue to push the edges by investing vigorously in our world-class analog, mixed signal and power portfolios and integrate higher levels of supporting digital and software into our solutions to meet our customers at the application layer. And so with that, I'd like to pass the call over to Rich.

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

Thank you, Vince, and let me add my welcome to our first quarter earnings call. First quarter revenue of \$2.42 billion came in above the midpoint of our outlook for a 1% sequential decrease and a 4% decline year-over-year. Adjusting for the extra week in our fiscal Q1 2024, however, our Q1 '25 performance represents a 4% increase in our first year-over-year growth since Q2 of 2023. Industrial represented 44% of our first quarter revenue, finishing up 1% sequentially. The improved customer inventory backdrop is benefiting each of our industrial (technical difficulty).

In addition, we are seeing stronger demand in our automatic test and aerospace and defense businesses, each of which were up year-over-year. Automotive represented 30% of quarterly revenue, finishing up 2% sequentially. Our leading connectivity and functionally safe power solutions were each up double digits year-over-year once again, reflecting secular content growth and greater share position.

Communications represented 12% of quarterly revenue, finishing up 6% sequentially. Wireline, which makes up roughly 2/3 of our total communications business, was up double digits sequentially and year-over-year, driven by data center infrastructure buildouts fueled by AI demand.

Conversely, our wireless revenue continues to see demand challenges. And lastly, consumer represented 13% of quarterly revenue, finishing down 15% sequentially, reflecting seasonal [latency]. Our second consecutive quarter of robust year-over-year growth reflects our greater share and stronger content position across a diversified list of applications. Now on to the rest of the P&L.

First quarter gross margin was 68.8%, up 90 basis points sequentially, driven by favorable product mix. OpEx in the quarter was \$687 million, up \$32 million sequentially, resulting in an operating margin of 40.5%. All told, nonoperating expenses finished at \$58 million, and the tax rate for the quarter was 11.8%. All told, adjusted EPS was \$1.63, at the high end of our guided range.

Now I'd like to highlight a few items from our balance sheet and cash flow statements. Cash and short-term investments finished the quarter at \$2.7 billion, and our net leverage ratio decreased to 1.1. Inventory increased \$27 million sequentially as we replenish the die bank of our fastest-turning products. Days of inventory increased to 176, while channel weeks moved lower and remained below our target of seven to eight weeks.

Over the trailing 12 months operating cash flow and CapEx were \$3.8 billion and \$656 million, respectively. We continue to expect CapEx for fiscal '25 to decrease from '24 and fall within our long-term model of 4% to 6% of revenue. Free cash flow over the trailing 12 months was \$3.2 billion or 34% of revenue.

And during the same time period, we have returned more than \$2.4 billion to shareholders through dividends and share repurchases. As a reminder, we target 100% free cash flow return over the long term, using 40% to 60% for our dividend with the remainder used for share count reduction.

As Vince mentioned, we announced an 8% increase to our quarterly dividend to \$0.99 from \$0.92. In addition, our Board has authorized an incremental \$10 billion for share repurchases resulting in roughly \$11.5 billion of remaining buyback potential under our current program. Now moving on to guidance.

Second quarter revenue is expected to be \$2.5 billion, plus or minus \$100 million. On a sequential basis, at the midpoint, we expect Industrial to lead our growth and automotive to grow, while communications and consumer decline. Operating margin is expected to be 40.5%, plus or minus 100 basis points flat sequentially due to a notable uptick in variable compensation.

Our tax rate is expected to be 11% to 13%, and based on these imports, adjusted EPS is expected to be \$1.68 plus or minus \$0.10. Before passing it back to Mike to begin our Q&A session, I'd like to address the near-term backdrop.

Overall, our business continues to improve up our Q2 '24 trough in what continues to be an uncertain macro environment. We saw further order improvement and a positive book-to-bill during Q1. Importantly, bookings strength was driven by industrial and automotive, our two largest end markets. Given this trend and the exciting product cycles Vince described, I'm confident we will return to long-term model growth in 2025 and believe we are well positioned to capture additional upside should macro conditions improve.

Over to you, Mike.

Michael Lucarelli - Analog Devices Inc - Vice President - Investor Relations and FP&A

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Moore, Morgan Stanley.

Joseph Moore - Morgan Stanley & Co LLC. - Analyst

Great. Wonder if you could talk about the puts and takes in the auto market. China seems to be the strongest region. Can you talk about how that affects you guys if there is an ongoing shift in the center of gravity towards China? Does that have any impact on pricing margin or any potential for you guys?

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

Sure. Joe, I'll take that one. This is Rich. So let me give you a little color on what we're seeing in auto. Starting with Q1, revenue came in better than expected, driven by Asia, which we've talked about continued strength in China.

As we've talked about in our recent calls, we have flagged that we have stronger share and content position at major Chinese EV OEMs with multiple products, again, including our audio and video connectivity solutions, functionally safe power and BMS. And this is coming through in the results, and we expect it to continue into Q2.

As for the impact of a change in center, we continue to see strong results, right, from a three straight quarters of double-digit growth in China being led by auto, in addition, from what we can talk about this, we've seen growth in the other parts of the China business, but the auto is continuing to lead.

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

Yes. I've maintained for a long time, Joe, that as long as there is a market for high-performance technologies, that ADI's technologies would continue to be relevant, and that is the case. We see it in automotive. We see it in the industrial sector, the cloud, communications, and we're getting well paid for the quality of the technologies that we're bringing. So it's clearly a competitive market, particularly at the kind of mid-low ends with indigenous suppliers coming on stream.

But given the high-performance [thrust] in our portfolio, we're getting rewarded for the capabilities that we bring at the system level for our customers.

Operator

Vivek Arya, Bank of America Securities.

Vivek Arya - Bank of America Securities. - Analyst

Rich, just to clarify, what is that long-term model growth that you expect to return to this year? And then Vince, my question is for you. You mentioned that the inventory levels have largely normalized. Is that at distributors? Is that at OEMs also? Does it apply to all end markets or mostly to industrial. Basically, how does that inform us about how ADI can feel about demand visibility and growth over the next handful of quarters?

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

Yes. Maybe I can take the second part of the question first, Vivek. So we are seeing the normalization across the direct as well as distribution channels. And in pretty much every part of our business, including -- we were very, very encouraged by the recovery in industrial bookings. And that's a very important part of ADI's business.

It's -- yes, its peak, it was 50%, a little 50% of the total ADI revenue stream. So we're seeing -- we monitor also, by the way, customer inventories, our top customers. So we see normalization across segments across customers, both big and small. We've also, by the way, kind of a bellwether for the general base of customers outside the top few hundreds would be our mass market or a broad market. We've also started to see recovery there.

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

Yes. And Vivek, when I talk about the long-term model, I'm talking about the [public around the] 10%, although I think as we've talked about as the macros turn, I think there's opportunity for us to capture even more growth than that.

Michael Lucarelli - Analog Devices Inc - Vice President - Investor Relations and FP&A

I think your one part, three part question, Vivek, talked about what we think from here kind of grow at the back half of this year. I think what you mean with that is how do you think about seasonality as you get to 3Q and 4Q. Again, this is not guidance for 3Q, but I'll give you kind of what we see as trends typically over the last 10 years for our third quarter.

In our third quarter, industrial auto and comps are usually flat, plus or minus a little, depending on where you are in the cycle. Given what Rich was saying about industry normalizing, new wins coming on, I think those markets should be flat to up.

So I think on the higher end of what normal seasonality is for those businesses. On the consumer side, until we start [your] holiday builds, which means you start growing 5% or 10% in 3Q. Now obviously, a lot of macro crosscurrents, really, like the [content uncertainty] out there on the macro side, which could be [in] second half. So we'll update you in 90 days [what] we really think about 3Q.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - Stifel, Nicolaus & Company - Analyst

I had a question for you, Vince. ADI has a pretty unique position because of your hybrid manufacturing model. And I was just wondering, given all the political turmoil, the geopolitical turmoil that's going on right now, how are you thinking strategically about that hybrid model?

Because obviously, you're working with a very important partner in Asia, but then obviously you also do some of your own internal manufacturing. So how are you thinking about how this is going to play out over the next few years?

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

Thanks, Tore. Well, I think, in times of great turbulence, diversity is a great benefit, diversity of markets, diversity of products, diversity of customers and geographies. So I think I feel good in terms of our ability with that diversity to solve two problems essentially. One is diversity gives us optionality, but it also gives us resiliency. And by the kind of end of '26 and the early '27, we will have secured at least dual sourcing for the entire product chain of ADI.

So about 95% of the products will have at least dual sources, and we've obviously desensitized geographic centrality over the last few years. We've invested in our fabs internally in America and Europe. And we've worked with our partners as well to get at least two geographical sources for the products that we procure from our partners externally.

So I think we're in a good position as a company to make sure that overall, we have internally got twice the capacity we had at the start of the pandemic. And as I said, we've secured also additional supply in new sources, new fabs with existing partners. So I think we're in a very, very good position to whether whatever turbulence might come our direction.

Operator

Chris Danely, Citi.

Chris Danely - Citigroup Inc - Analyst

I guess just to dig into the industrial strength. Can you just talk about where that's coming from? Is this mostly inventory replenishment? Is it mostly improved demand? Is it both? And then how did bookings trend during the quarter? Was the linearity pretty steady? Or was there a spike? Or just a little more color there would be great.

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

Sure, Chris. I'll jump in on that. So on the industrial, if we take a step back, we've grown this business now sequentially for three straight quarters, off of what we said was our trough in Q2. And then as for Q2, we actually expect industrial to be the fastest-growing market. So we feel pretty good that our recovery is taking shape and really could accelerate if the macro improve.

For Q1 specifically, and we've talked about this in a couple of quarters, we saw continued strength in ADAS and the automatic test equipment. And then what we started to see from a positive perspective is stabilization across automation, health care and energy, which I think has been important. And then in Q1, one of the things that we've talked a bunch about on prior calls is watching for the pickup in the broad market, and we started to see some of that.

In fact, the pickup in the broad market drove much of the upside relative to our initial expectations, which gives us confidence to begin shipping in line with end demand. So if you think about -- we've talked about in prior calls, that we took a significant amount of inventory out of the channel during 2024 of about \$300 million.

Most of that impacted the industrial market. So as we look at our growth trajectory, shipping more to sell-through into the channel, will be a tailwind for industrial as well.

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

Yes. As you know, the industrial sector is largely served through the distribution channel. So with leading the serve, demand recovering, I think all -- both of those two concurrent streams are tailwinds for the company.

Michael Lucarelli - Analog Devices Inc - Vice President - Investor Relations and FP&A

Yes. On the booking side, bookings have improved industrial in 1Q versus 4Q pretty much across all the areas with the biggest strength, obviously, in ATE and ADAS as we talked about. And we think industrial will be our fastest growth market in 2Q and that's supported by the bookings.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - TD Cowen - Analyst

I wanted to follow up on the previous one. I think you mentioned in the prepared remarks, inventory levels in the channel moved down. And I think they entered the quarter already below your seven to eight weeks target.

Does either the April quarter guidance or the fiscal 2025 initial outlook of being in your target range include any sort of channel refill. And I guess, what signals do you guys need to see before you would want to more clearly get back into that seven- to eight-week range?

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

Yes. So.

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

Go ahead.

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

So the current guide for Q2 has us shipping to sell-through, so not adding into the channel. And I will tell you for me, for the benchmark, and we talk to our distribution partners pretty regularly is if we're fulfilling customer requirements and we're not getting any escalations, we're feeling pretty comfortable right now operating below the seven weeks -- seven to eight weeks we've had historically.

Balance that out, we're carrying a bit more inventory on our own books which gives us some flexibility, particularly given the amount of the inventory we're carrying in die bank, which allows us to be quicker to respond. So near to medium term, I don't expect that we would be adding back to channel but we certainly do not want to go any lower.

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

Yes, I think just to add a bit of color to what Richard said as well. The centralization of inventory management, I think, has served our customers very well. Customers of all sizes over the past, what is essentially now five years of the old cycle. So we'll continue doing that, and that will be a critical guide as we think about how we modulate channel inventories over time.

Joshua Buchalter - *TD Cowen - Analyst*

Very helpful color. Congrats on the results in the cocktail of uncertainty.

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

Thank you.

Operator

Christopher Rolland, Susquehanna.

Christopher Rolland - *Susquehanna International Group, LLP (SIG) - Analyst*

Mine is around two very specific opportunities that you've talked about in the past. One is optical connectivity and then the other is AI power. If you have any developments in those products or markets, would love to know those or maybe it's just playing out like you thought it would, but would love to know how interest, orders, et cetera, are going for those products.

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

Yes. Thank you. Well, I'd say, first and foremost, our opportunity pipeline has been growing steadily in this AI-driven infrastructure world. And we've been a long-term player in this electro optical interface category, where we provide these very precise high compute throughput control systems for stabilizing the electro-optical modems. And we've just introduced our 1.6 terabit, which is the very much the benchmark for throughput in the systems today.

Of course, those speeds will continue to increase. The sophistication of what we build will continue to grow as well. So that's been a very good business, a high-growth business for ADI now for many, many years, and it predates the AI build-out of AI infrastructure. Our power technologies really struggle in two different areas. One is, if you like, the power control systems that are important for the overall health of a data center at kind of the board level, the server level.

And the other is -- and a good example, by the way, of that park control, these hot swapping, reset generators and so on, these very, very tough analog problems that need to be solved. The second part of the power story is the delivery of energy to the GPUs, the chip systems themselves. And we're going to production in the second half of this year with a vertical power technique with one of the big hyperscalers.

And we have other designs in train that will come on stream as well, I believe, in the '26 period.

Christopher Rolland - *Susquehanna International Group, LLP (SIG) - Analyst*

Fantastic color there. And maybe just kind of playing into these kind of new products that are emerging here. Are there any other new products to call out, new customers, new end markets any of these kind of free options as I like to call them, that are emerging for your company. And anything you can point to, anything new that maybe you haven't had before any new opportunities?

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

Depends on how far into the future you want to go but let me give you a couple of real-time examples here. I mentioned in the prepared remarks, the conversions of wellness-based health care solutions with the consumer sector, we see that the interest in building those systems out is becoming, I would say, very, very active, we're well positioned as a company because we've been building the sensory and signal processing technologies for a long, long time.

So I would call that out as an area with a good spectrum of customers across many geographies and many, many different types of health care modalities that need to be measured at the clinical grade-level incident, the areas like continuous glucose monitoring and being able to do that in a closed loop system, both the input and the output.

So I think that is an area that we're excited about, but we have a lot of good technologies that are being deployed at faster rates into that area. And if you want to go really into the future, there is life beginning to appear in the whole quantum computing world.

And we're at the early stages of building control systems, if you like precision control systems for these very, very complex computing elements.

Operator

(Operator Instructions) Harsh Kumar, Piper Sandler.

Harsh Kumar - *Piper Sandler Companies*

I just wanted to hit upon the call for the bottom. I guess you're calling that I guess what is the confidence level that this is not a head fake? I know you're talking about increased orders and normalization of inventory, but there's a lot of geopolitical movement. There's a lot of tariffs. Help us understand why the confidence level is so high that we've reached the bottom, and this isn't just some kind of head fake.

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

Well, I think first and foremost, we have a lot of conversations and a lot of customers. We have tens of thousands of customers in our portfolio. We pay attention to the signal that matters to us most is sell-through. So POS is how we -- that's where we focus, and that POS signal is how we plan our supply at ADI, how we run our business and run our supply system. So that's first and foremost.

I think we are seeing the stabilization in the business and growth in certain areas right across the spectrum. And then there is -- geographically, there is a diversity of progress as well, I'd say Japan is most muted. America and China are strongest.

I would say Asia Pacific is strong and Europe is somewhere between where Japan is and where the rest are so -- but that's essentially how we view the work. As we said in the prepared remarks, what's incalculable here in our thinking is the effect of any potential geopolitical turmoil, trade war and so on and so forth.

So that, I think, will be the governor ultimately during this year as to the rate of recovery. But I have a strong conviction that we're in a new cycle in the semi sector and certainly in ADI's business.

Michael Lucarelli - *Analog Devices Inc - Vice President - Investor Relations and FP&A*

We're going to our last question, please.

Operator

Tore Svanberg, Stifel.

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

Yes, I just had a follow-up on the conviction in growth there. Typically, when we go through these cycles, I think customers, they sort of hold -- they hold off buying new products until sort of the older products have cleared out. And I'm just wondering if there's some of that going on. I mean, I guess that really relates to your design win conversion rate. So any comments you can make on that conversion rate really starting to play out would be really helpful.

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

Yes. Well, for example, Tore, the strength we're seeing in ATE markets in the automotive market, for example, in areas like new data center modalities those areas are largely driven by a lot of new products. So I would say there's three examples of where new products are making a huge difference. In fact, there are also -- with each new generation, we're capturing more ASP.

So we've often shared with you our famous vintage chart, which shows the age of the portfolio we measure very, very carefully within that vintage chart, the contribution of newer products within a 3- and 10-year period as to what's going on.

But I can tell you, the conversion rate, the introduction of new parts and the capturing of opportunity with new parts is strong new products and new solutions. And obviously, we've got also a very strong franchise. Our legacy products tend to get pulled by these new anchor products that we're building. So I'd say, overall, I'm pleased with the effectiveness of our R&D spend and how we're capturing and creating new markets and new applications and opportunities.

Michael Lucarelli - Analog Devices Inc - Vice President - Investor Relations and FP&A

And we have one more question from Joe Moore, I believe.

Operator

I'm showing no further questions at this time.

Michael Lucarelli - Analog Devices Inc - Vice President - Investor Relations and FP&A

All right. No problem. I think we answered all the questions then. Thanks, everyone, for joining us this morning. A copy of the transcript will be available on our website. Thanks for joining and your continued interest in Analog Devices.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.