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EDITED TRANSCRIPT

ADI.OQ - Q4 2026 Analog Devices, Inc. Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

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

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

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

Thank you, Danny, and good morning, everybody. Thank you for joining our fourth quarter fiscal 2026 conference call. Joining me today is ADI's CEO and Chair, Vincent Roche; and ADI's CFO, Richard Puccio. Before we begin, I'd like to highlight an upcoming change to how we present revenue by end market.

Beginning in the first quarter of fiscal 2027, data center will be reported as a stand-alone end market, and our revenue from our wireless business will be reported within Industrial, which also includes revenue from aerospace and defense, automation, test and measurement, health care and energy applications.

Automotive and consumer will be unchanged. This change only affects how we present revenue by end market and does not change our segment reporting for total reported revenue. In connection with our first quarter fiscal 2027 results in February, we will publish three years of recast quarterly revenue by end market on our Investor Relations website.

Now for anyone who missed our earnings release, you can find it at investor.analog.com, along with related financial schedules. The information we're about to discuss includes forward-looking statements, which are subject to certain risks and uncertainties, as further described in our earnings release, periodic reports and other materials filed with the SEC.

Actual results could differ materially from 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 and

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nonoperating expenses, operating margin, tax rate, earnings per share and free cash flow in our comments today will be on a non-GAAP basis, which excludes special items.

When comparing our results to our historical performance, special items are also excluded from prior periods. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's earnings release.

References to earnings per share are on a fully diluted basis. And with that, I will turn the call over to ADI's CEO, Chair, Vincent Roche.

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

Thank you, Jeff, and a very good morning to each and every one of you. capping off a record year for ADI, fourth quarter revenue, margin and earnings all came in above the midpoint of our guidance. For the full year, our revenue increased nearly 40% to more than $15 million with robust double-digit growth across all of our end markets. AI infrastructure-driven investments drove significant growth for both our ATE and data center businesses. That said, more than 2/3 of of our total growth was driven by non AI-centric markets, highlighting the diversity of our customer base and our ability to capitalize on numerous secular tailwinds as well as the broader cyclical recovery.

Our fiscal '26 top line growth was paired with significant margin expansion, which enabled us to deliver record free cash flow of $5.5 billion. We attribute these results to the optionality and resiliency of our business model, the long-term commitment to innovation and customer success and strong operational execution right across the company. And as our customers tackle ever more difficult challenges at the boundary between the physical and digital worlds, we believe we're well positioned to deliver and capture even greater value in the future. As we've long said, R&D is our first call of capital because innovation is the wellspring of ADI's value creation. Our R&D investments in fiscal '26 were the largest in our history, spanning analog, digital software and AI.

We also continued ramping investments to enhance our customers' end-to-end experience of ADI from ideation to realization. And on the M&A side, our acquisition of Alif added AI-native microcontrollers and fusion processors to our AI toolbox. In addition, our acquisition of Empower strengthens our ability to grow the core power market, which we view as one of the largest SAM opportunities within AI infrastructure. Taken together, these investments significantly expanded our ability to solve increasingly complex challenges for our customers, delivering more complete solutions, combining cutting-edge sensing signal processing, connectivity and power. We credit this overall investment strategy for our record design and pipeline growth of 40% this past year, eclipsing our FY '25 record with contributions across all end markets and regions.

Our robust customer pipeline is more than a leading indicator of future revenue, however. We believe it reflects the growing criticality of our solutions in the AI era as rapid technological evolution creates ever more complex challenges across numerous and different markets. Customers increasingly turning to ADI's higher value offerings to help lower their total cost of ownership, accelerate their time to market and, of course, enhance system performance. Our differentiated value is reflected in ADI's average selling prices, which are more than 4x the industry average. And the ASPs of our newer products are notably reflecting the increasing value of our solutions that we're delivering to our customers.

I'd like to spend the remainder of my planned remarks sharing how we are translating innovation into growth for ADI across the various market sectors. Beginning with our industrial business, which comprises test and measurement, automation, aerospace and defense, health care and energy. Starting first, test and measurement. We're benefiting from the intensely demanding test requirements of modern AI compute, memory, networking and power systems, where complexity is increasing at an extraordinary rate. This plays directly to ADI's leadership and high-performance signal intelligence that transforms raw physics into insight and response.

The greater accuracy, bandwidth and measurement precision enabled by our technology helps customers test next-generation device more rapidly, more efficiently and with greater confidence. This resulted in record ATE and ETM revenue this year and record design-ins that we believe position us for continued growth through fiscal '27 and beyond. In industrial automation, customers continue to digitalize, automate and deploy robots across semiconductor fabs, biopharma, data centers and other manufacturing environments to accelerate productivity

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and address evolving geopolitical and labor dynamics. As a result, our automation revenue and design-ins across industrial control, connectivity and robotics segments accelerated significantly in fiscal '26 with the fastest growth coming from robotics. We expect the next evolution of robotics from automation to autonomy will unlock tasks that historically required human intervention and create opportunity for higher-value ADI content and subsystems that can reduce latency and increase system accuracy.

Autonomous robotic modalities, including humanoid, which can require up to 10x more ADI content compared to traditional robots will steadily increase our opportunity over time. In aerospace and defense, systems are evolving rapidly to sense threats earlier, communicate securely in contested environments and make mission-critical decisions much, much faster. These requirements are driving increasingly complex radar, communications and autonomous machines, where ADI's ability to combine RF signal processing, IMUs and power management into higher-value solutions is differentiated. In this sector, we almost doubled growth in our design pipeline this past year across both established and emerging defense customers which we believe positions us for continued growth in '27 and beyond. In health care, our revenue growth accelerated in '26 as innovation across the industry increasingly converged around continuous glucose monitoring, AI-assisted imaging and surgical robotics.

Our precision sensing, signal processing algorithms and ultra-low power technologies are helping customers to deliver innovative solutions designed to better manage chronic disease, help clinicians detect and diagnose conditions earlier and make complex procedures more precise and less invasive. Our growing design and pipeline across myriad applications there positions ADI for continued growth in fiscal '27 and reinforces the potential of our longer-term opportunity. In energy, rapidly rising electricity demand is magnifying one of the world's most fundamental engineering challenges, how to generate, manage, store and deliver significantly more power, while improving efficiency and reliability, and ADI sits at several key points across that system. For example, our precision sensing enables greater visibility and control of the grid while our battery management technologies enable more efficient storage and local distribution. Energy was one of our strongest areas of pipeline growth through fiscal '26, reinforcing our long-term outlook for this business.

Turning now to Automotive. We delivered a second consecutive year of record revenue, despite lower vehicle production due to our strong and expanding position in next-generation ADAS and infotainment systems. As vehicles move toward greater autonomy, they must process dramatically more sensor information, move more data and reliably power many interconnected subsystems, all the while, meeting demanding requirements for signal integrity, energy efficiency and safety. These challenges play to ADI's strengths and high-speed connectivity and power solutions designed to support functional safety requirements. L2 Plus autonomous driving systems remain relatively early in their global adoption.

And as the industry progresses towards higher levels of autonomy, we expect content opportunities for ADI to continue to increase. In the past year, design and growth across our GMSL A2B and functionally safe power solutions underscores our substantial role in enabling the vehicle of tomorrow. In addition, we saw a strong increase in designs for our battery management solutions, which we expect to grow in the coming year and beyond as EV adoption increases. Not surprisingly, our data center business was our fastest-growing market in fiscal '26, both from a revenue and design and perspective. Robust investments in AI infrastructure are creating enormous challenges around two of the physical bottlenecks to scaling AI, moving exponentially more data and efficiently delivering unprecedented carloads, and ADI is well positioned to address both.

In the networking domain, our optical control technology keeps electrooptical systems precisely tuned across everything from pluggables to OCS so that every packet of light is accurate, stable and efficient. And as you know, data center power has become one of the most significant constraints to AI advancement as increasing rec and processor densities are fundamentally changing how power is converted, controlled, protected and delivered. And customers are choosing ADI to help ensure that every watt used in the data center is available for computation and maximum impact. And as the resulting thermodynamic challenges grow with increasing power density, liquid cooling is shifting from an option to a requirement. Customers are turning to ADI to translate physical signals, such as temperature, flow leakage and coolant health into actionable intelligence, which is creating a new differentiated content opportunity.

So overall, we believe our data center revenues will continue to be one of the faster-growing businesses in '27 and beyond. Finally, continued demand at the premium end of the consumer market overcame memory headwinds to drive double-digit growth in revenue and design activity across premium handsets, wearables, hearables and gaming segments, which positions ADI for continued diversified growth in this

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sector in '27 and beyond. So in closing, FY '26 demonstrated what makes ADI different. We are built to define and capture new waves of opportunity as we compound the businesses underpinning our resilience through cycles. We leverage a 6-decade culture of curiosity and cutting-edge innovation to continuously advance the state-of-the-art at the electrophysical interface, a boundary that is increasingly central to the advance of technology's most valuable applications.

And our customers increasingly choose ADI as a strategic partner for our applications, domain expertise, scope of high-performance analog software and AI capabilities and differentiated hybrid manufacturing strategy. And as we enter '27, we continue to invest with discipline to further enhance and extend the value we can deliver to our customers and shareholders alike in the years ahead. And with that, I'll turn it over to Rich.

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

Thank you, Vince, and let me add my welcome to our fourth quarter earnings call. I'll start with a brief overview of our full year fiscal '26 financial performance. Revenue for the year came in at $15.2 billion, up 38% for fiscal 2025, reflecting broad-based strength across the business. Gross margin finished at 72.9%, up 360 basis points, driven by mix, utilization and higher revenue. Operating margin finished at 49.5%, up 760 basis points reflecting gross margin fall-through and strong operating leverage.

Earnings per share increased 68% to $13.5. Turning to the fourth quarter. Revenue came in towards the high end of our outlook at $4.37 billion, growing 9% sequentially and 42% year-over-year. Industrial represented 50% of our fourth quarter revenue, finishing up 11% sequentially and 55% year-over-year. Ongoing cyclical momentum, along with secular demand in the AI infrastructure and defense markets, resulted in broad-based growth, including record results in aerospace and defense, ATE and electronic test and measurement.

For the full year, Industrial grew 51%, reflecting the depth and breadth of our business with all of our industrial sectors seeing accelerating double-digit growth. Aerospace and defense, ATE and electronic test and measurement reached new highs for the year. Automotive represented 24% of quarterly revenue, finishing up 5% sequentially and 21% year-over-year. We saw continued growth for our leading connectivity, audio processing and power solutions as well as a notable pickup in demand for our battery management systems. For the full year, automotive increased by 12%, driven by continued content and share gains in next-generation ADAS and infotainment systems despite the backdrop of lower vehicle sales.

Additionally, BMS revenue returned to full year growth after two years of decline. Communications represented 16% of quarterly revenue, finishing up 8% sequentially and 81% year-over-year. Our data center business now represents 83% of comms or 13% of total sales, growing more than 100% year-on-year for the second consecutive quarter, fueled by AI-driven demand. Wireless revenue was up double digits year-over-year for the fifth straight quarter. For the full year, communications increased 74% and was our fastest-growing market for a second consecutive year, reflecting our growing presence in AI infrastructure and a cyclical recovery in wireless.

Consumer represented 10% of quarterly revenue finishing up 7% sequentially and year-over-year, remaining resilient in the face of memory-related headwinds. For the full year, consumer increased 15% with all applications growing double digits, driven by our exposure to high-end handsets, secularly growing wearables and hearables and a notable acceleration in our Prosumer business. Now on to the rest of the P&L. Fourth quarter gross margin was 74.5%, up 200 basis points sequentially and 470 basis points year-over-year, driven predominantly by favorable mix and higher revenue. OpEx in the quarter was $972 million, resulting in an operating margin of 52.3%, up 230 basis points sequentially and 880 basis points year-over-year.

Non-operating expenses finished at $37 million, lower than expected due to mark-to-market gains from strategic balance sheet investments. Our tax rate for the quarter was 12.3%, EPS was $4.06, up 18% sequentially and 80% year-over-year. Now I'd like to highlight a few items from our balance sheet and cash flow statements. Cash and short-term investments finished the quarter at $5.2 billion, and our net leverage ratio decreased slightly to 0.8. As planned, we built strategic iBank and finished goods buffers throughout the quarter.

Inventory increased $152 million sequentially with days of inventory increasing to 165. Channel inventory also increased as we are now back within our 6- to 7-week model. The investments we have made in inventory over the past two years have helped drive sustained above

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seasonal growth and mitigate lead time expansion, especially for certain products where demand is exceeding supply. Fiscal '26 operating cash flow was $6.2 billion, and CapEx was $0.7 billion, resulting in free cash flow of $5.5 billion or 36% of revenue. Over the same period, we returned $5.4 billion to shareholders via dividends and share repurchase in line with our commitment to return 100% of free cash flow over the long term.

Now moving on to our first quarter 2027 outlook. Revenue is expected to be $4.4 billion, plus or minus $150 million. Operating margin at the midpoint is expected to be 50.5% plus or minus 100 basis points, nonoperating expense is expected to be roughly $90 million. Our tax rate is expected to be 12% to 14%. And based on these inputs, adjusted EPS is expected to be $3.82, plus or minus $0.20.

Turning to capital investment. We have executed well against our manufacturing expansion plans laid out at our Investor Day in 2022, building the capacity to support the high end of our 7% to 10% long-term growth model. We are also well positioned from a capacity standpoint to support sustained above seasonal growth through fiscal 2027. Looking past 2027, while considering our momentum and the strong pipeline execution Vince referenced earlier, our confidence in future growth has risen. In order to capitalize on our potential, we are expanding our capacity further and currently expect fiscal 2027 CapEx to be approximately $1.6 billion to $1.9 billion.

Even with this higher investment, we expect fiscal 2027 free cash flow to increase meaningfully and our commitment to return 100% of free cash flow over the long term is unchanged. In closing, fiscal 2026 caps one of the strongest growth years in ADI's history. We achieved record revenue, profitability and earnings per share while generating more than $5 billion of free cash flow. We achieved these results while continuing to invest in the businesses and the innovation that we believe will fuel our future success. As we look ahead, we believe we are well positioned to build on this momentum, supported by the strength of our business model and our track record of disciplined operational execution.

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

QUESTIONS AND ANSWERS

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

Thank you, Rich. (Operator Instructions) With that, operator, can we have our first question, please?

Operator

(Operator Instructions)

Tore Svanberg, Stifel.

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

Congratulations on the strong results. Vince, so there's a lot of sort of macro issues and concerns out there. You I'm very confident. Rich just talked about increasing CapEx next year. I think you also said you expect to grow above seasonal throughout fiscal '27.

So help us sort of level set what's going on here between some of the perhaps noise at the macro level, and what you're seeing? Because it does feel like you're actually seeing continuous growth above your long-term target, certainly in fiscal '27, maybe even '28 as well.

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

Thanks, Tore. So yes, I think -- at a high level, the opportunity that ADI is addressing is -- has been growing in leaps and bounds. As you know, we address many, many different applications. Our span is very, very strong, actually across all the regions of the world. We've got, I would say, at this point in time, a broader set of some very significant secular drivers.

And we're not dependent on just a very concentrated infrastructure data center build-out. So generally, as well, if I look at the ASP structures of the company right now, they reflect our ability to generate value beyond what our competitors can do and capture that value.

But also if I look at the new products in our pipeline, the products that we're bringing to market now, some of these products have very, very significant multiples over the older generation products. So I think in terms of the intersection of many markets in which we have increasing strength, our ability to support the old legacy products with increasing ASPs, newer products with much higher ASPs, and what we pay a lot of attention to, Tore, is the pipeline. I mean, what do the order books tell us.

Well, the order books tell us right now that POS bookings are significantly higher than POS billings. And our customer wins in terms of our design and pipeline right across all the sectors, and I mentioned many of them in the earnings script here at a record level.

In fact, our '26 pipeline has compounded significantly beyond an already strong '25 pipeline, which grew significantly beyond '24. So you put all those things together, I see, for example, also in the world of AI, we're at the beginning of the build-out of a very, very significant meta technology that will change all other technologies. So we'll continue to unpack that story for you as time progresses.

But I'd say in the -- we've got a lot of idiosyncratic secular tailwinds and cyclical, particularly in the industrial market.

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

And just to clarify, Richard's comments on, it was a capacity statement on being able to support above seasonal growth, it wasn't guidance for the year for fiscal '27. We'll take our next caller, please.

Operator

Vivek Arya, Bank of America Securities.

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

Actually, both related to just the near-term outlook. So you're guiding the current quarter sort of flattish. It seems a little conservative relative, I think, went to several quarters of above seasonal growth. So I'm just curious, would you call the kind of seasonal below seasonal, just what you're seeing from a sequential segment perspective? And then one, kind of, related for Rich, on operating margins, I think you're guiding down 200 basis points almost sequentially.

Just what are the puts takes of gross margin and OpEx? And is there some indication there of how we should think about those metrics trending into 2027 that would be incredibly helpful.

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

Thanks, Vivek. I'm Vince. I'll start with your first question around the seasonality. But first, just as a backdrop, the upside to our Q4 midpoint was driven heavily by the industrial and automotive, while comms was a little bit weaker, driven by some sequential softness in the wireless piece. Data center, however, was as expected and was up double digits sequentially and consumer was as expected.

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Now if we look out at the the Q1 market outlook. We are -- as we've guided, we're expecting it to grow modestly quarter-over-quarter, which actually is well above our Q1 seasonality. Typically, our Q1 will be down mid-single digits. So I do think that we are guiding a strong above seasonal first quarter. And from an end market perspective, we expect communications to be up mid-single digits, obviously being led by the data center growth.

Industrial is expected to be up low mid-single digits. Auto expected to be down low single digits and consumer down 10% to 15%. The other thing I would tell you is we would expect channel inventory to stay flattish with weeks likely to fall. So that's how I feel about our guide from a revenue perspective. On the gross margin side, obviously, we came in better than expected, driven by higher revenue and favorable mix.

But as I mentioned, I think I talked about this in last quarter's call. We shut down our fabs around the holidays, which we will do again this year. And as a result, we see gross margin in Q1 moderating down to approximately 74%. If we flip forward as we work our way down to the op margin piece, obviously, we delivered a significant amount of leverage in fiscal 2026.

Q4 operating margin was about 30 bps above the midpoint of our guidance, almost entirely driven by gross margin favorability as expenses were a bit higher than planned, driven by sales commissions, and we're also leaning in, as we've talked about into AI and driving a little bit higher token and cloud costs in that period.

When we look at Q1, we are anticipating OpEx to grow in the mid-single digits sequentially, driven by our continued growth in our investments, and we will also have a full year -- a full year -- sorry, a full quarter of Alif in our expenses, which obviously puts some upward pressure on expense.

However, I think this is an important point. For the year, we continue to target OpEx growth at roughly half of the rate of revenue growth, and we do see continued operating leverage for the full year.

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

Thank you, Vivek. Take our next caller, please.

Operator

Jim Schneider, Goldman Sachs

James Schneider - *Goldman Sachs International - Analyst*

With respect to the investments you're making to expand capacity. Can you maybe give us a sense, once those investments have been made this year, what revenue level you can support with the new capacity? And then maybe separately, speak to any kind of constraints or bottlenecks you're seeing on the foundry side for those once which are made external to ADI.

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

Thanks, Jim. So first, a couple of starter points. The $1 billion step-up essentially that I talked about in '27 versus '26. One important point is a lot of -- a chunk of that will be eligible for meaningful tax credits under the chips Act. So we will get some offset in our depreciation going forward and also get some offset in the amount of cash flow net that goes out the door.

The way to think about the investment we're making big piece of it is going to go towards clean room expansion at our European and U.S. sites. These are places where we already have available space within existing fabs, and we're also investing in back-end test and assembly

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capacity. I do expect CapEx for these projects will decline as we move into 2018. And that will put us back down into our long-term CapEx model of 4% to 6% of revenue.

And I do expect that we'll start to see some of the new capacity come online in stages starting as early as for us, Q1 '28, which gives us significantly more supply for our highest demand nodes and products. Obviously, really important positioning us for sustained future growth. And I would say from a constraint perspective, frankly, I think it's tight everywhere. It's tight in internal fabs, back-end OSAT foundry. Right now, it's an industry-wide dynamic.

I wouldn't say for us, we're working really hard to sort of debottleneck and unlock incremental supply everywhere we can. I think I've talked in prior quarters that essentially on a weekly basis, we're adding incremental capability and capacity as tools are coming online from purchases we started making upwards of nine months ago, just to give some perspective on how long the team has been working on building up supply.

And obviously, we've been able to demonstrate what we've been doing there with our ability to supply above seasonal demand throughout this past year, and we expect we can continue to do the same into 2027.

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

Yes. Just a couple of additional pieces of color. I think certainly over the past six months or so, I would say packaging assembly has been the primary choke point. Solving that problem, obviously, is much easier than solving a fab problem just in terms of the time scales it takes to bring equipment into the manufacturing process. But we see that improving with each passing month.

The other thing I just want to talk about to add a little color to what Richard said about CapEx, we've always been very disciplined in how we spend our CapEx. We have -- obviously, many, many times we've talked about our hybrid manufacturing model.

So most of the silicon we procure is from external partners. That will remain the case in the years ahead. But we're adding capacity on very, very specific processes inside the company where we need to build more resiliency, extend our footprint for our core -- many, many of our core markets.

And those of you who know us for a long time know that our behavior is to invest in stages in line with demand. So that's what I think you can expect in the years ahead. And what I believe is a growth inflection for the industry and for ADI.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co. - Analyst*

Vince give us a great summary of the industrial segment drivers going forward. And I know the team has always talked about the potential for more incremental gross margin upside as your higher-margin broad market industrial business drives back to sort of historical consumption levels.

I seem to recall that last quarter, broad market industrial was still sort of double-digit percentage below historical consumption levels. So where are your broad market shipments currently trending as the cyclical dynamics have continued to improve, and as that continues to move higher, can that drive another, let's say, 100 basis points plus of gross margin upside from a 74% level over the next few quarters?

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

Rich, do you want to take that one, and then I'll add some color as necessary.

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

Sure. So I'm going to try to unpack that a little bit, Harlan. First, talking about this notion of where we are relative to consumption. And I think it is -- and obviously, this consumption you're talking about is the sort of longer-term growth trend line. And clearly, if you look at our overall numbers, revenue finished well above that trend line for '26 after having been well under in '24 and '25.

And I'll break it down because I do think this is important as we think about where we are in the cycle. Driving the above consumption trend line in '26 was, our aerospace and defense business our ATE business and our data center businesses, which are continuing to achieve significant new highs with continued momentum, right?

That's about 30% of our revenue. And we believe the strength in these markets are driven by better end demand not inventory restocking. As for the rest of our businesses, we believe we are shipping either two or below consumption today.

So if you essentially outside of those -- that 30% chunk of our business, we are still below the long-term trend line. So overall, we feel good about where we are from a shipment level relative to trend, the other thing is we don't see any evidence yet of any material restocking across our customer portfolio.

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

Yes. So I think your assertion Harlan, that with the continued improvement in kind of the broad fragmented market, we will see margin improvement. I can't give you a number, but we know that would be directionally true.

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

Yes. And following on to that, you can see in our numbers, we finished with 50% of our business in industrial, and I've been talking about this track for a while. Every percentage point we grow industrial as a share gives us some opportunities for some gross margin appreciation.

Because as a reminder, we've talked about this now for a couple of quarters, given where we're running in the supply constraints that we've talked about, utilization is not going to be a driver for us over the near-to-medium term for improved gross margin. It will continue to be revenue acceleration and mix.

and mix within the mix, obviously. So continued growth, you're right, the continued growth in industrial and gaining share of our overall revenue will give us opportunity for appreciation.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - *Cowen and Company LLC - Analyst*

Congrats on a very strong year. I wanted to ask about the comm segment specifically and double-click a bit there. Again, totally realized the year-over-year growth is fantastic. But can you maybe walk us through, again, the drivers of what the sequential deceleration? I know

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you called out wireless being weaker, but I think that was only supposed to be around less than 20% of revenue now with data center, 80% plus.

Any metrics you can give us on sort of the underlying business underneath within comms, whether across power or optical and data center?

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

Yes. Thanks, Josh. And you're right. I think what I said was, the data center part of comms was up to 87% and only--

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

83.

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

Sorry, 83% and the rest is in the wireless. So I'll give you the breakdown, and then I'll talk about the split, which is, I think, what you want to hear. So data center obviously continues to hit new highs, up more than 100% year-over-year again in Q4, remains our strongest business from a growth perspective. Book-to-bill continues to be nicely above 1. And signals from our pipeline indicate a strong long-term trajectory.

As Vince mentioned, design in and design win results in data center have been very strong. So if you look for the year, data center was up more than 90%. Optical did grow a bit faster than power, which is a little bit of a shift. We've been talking about power and optical growing about the same, but we did see a little bit faster growth in optical. For fiscal '27, we only guide one quarter.

But I do feel confident that data center, both power and optical will have significant growth for us in fiscal 2027. And then on the other piece, just quickly on wireless, as we're talking about comms in the current construct, we've mentioned it will roll up into industrial next quarter. We continue to benefit from the cyclical recovery. And while we saw some moderation in Q4 and has continued to grow double digits year-over-year for five quarters.

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

Joshua, just to add a quick about data center. I mean, last quarter, I think we talked about it being up 10% sequentially. It was a bit better than that sequentially. So I don't know if there was any moderation, so to speak, in our data center momentum. Moving on to next caller, please.

Operator

Stacy Rasgon, Bernstein Research.

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

It seems to be the data center is still likely to be your largest driver of growth next year. I guess in that context, I'm wondering what is the structure of data center look like relative to corporate average, and I guess relative to industrial, is it accretive or dilutive to those margins?

Because, I mean, if it grew 90% this year, it probably seems like it's still going to grow similar next year and even more than some of the other ones. So how do we think about the margin structure relative to everything else for that segment?

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

Yes. So Stacy, thanks for the question. Overall, the data center portfolio is an above corporate average gross margin business. Obviously, as that business grows and scales, and we move into newer areas, we will continue to fight for our share and for our price. But for now, this is an and above corporate average margin business.

I would say overall, it is probably slightly below where we sit with the industrial given the presence of the broad market, which is a much bigger part in Industrial, and that is where actually our highest margins are. And we've talked about that in the past.

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

Yes. I still see the way to think about the data center business it behaves a lot like a B2B business. It is driven by performance. It's highly diversified, the number of products, the number of SKUs we sell across the various parts of the data center and cloud business is quite diverse. So it behaves a lot like a B2B segment.

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

Thank you. Operator, we'll take our last question, please.

Operator

Matthew Prisco, Cantor.

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

Maybe you can walk us through the cyclical backdrop a little bit more as you see it today. linearity of orders through the quarter, escalation trends, backlog, lead times, visibility, kind of all that good stuff. And then pricing as well and how you're thinking about that dynamic impacting growth in '27.

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

Rich, you want to--

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

I'll take that, yes. Okay. So I'll start with the cycle sort of -- our thoughts on when does it end, and where are we now, right? So we talked about our growth. Strong growth has been a function of secular idiosyncratic and cyclical, which we believe are all still with us.

And you can see that in our order book. and our pipeline and our overall assessment of our inventories. Obviously, we've been big beneficiaries of the AI and defense super cycles, which shows up in our AF ATE and data center businesses, which are about 30% of ADI. Also, we've talked a lot about the auto share gains where we've been very successful in next-gen ADAS and infotainment, particularly in the fastest-growing car market, China EVs. We continue to get content and share gains in consumer.

Another important point here as we work our way through the cycle is the benefit we're getting out of our maximum revenue synergies. I think I'd mentioned in the last quarter that we thought we'd get $700 million of '26. In fact, we got closer to $900 million in synergies and '26, and we expect we will exceed our $1 billion target easily in '27.

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And if you look at our -- what we're seeing from a bookings perspective and a book-to-bill, as we talked about before, momentum here is ongoing. We can see it in the breadth and strength of the demand book-to-bill is above one in almost all of our end markets.

The other piece, I would say from two things from a cyclical perspective, we're still seeing, we've talked about one of the really important things that we watch is how the mass market sort of broad market part of our business is doing, and we continue to see growth in volumes and orders across the broad market. And then I would also say we continue to pretty tightly manage inventory. We've built, as I said, where we've got high running products.

We've been building more DiBank and buffers in the -- on the indirect side channel, as we mentioned, we've been working hard to get more inventory into the channel had fallen below the six-week mark and have now gotten ourselves back up into the six- to seven-week target. So we feel like we're still pretty lean from an inventory perspective in the channel.

Demand is still strong. cancellation activities are pretty normal. So we feel like we're still in the middle of this cycle.

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

Okay, everyone. Thanks for joining us today. A copy of the transcript will be available on our website and all available reconciliations and additional information can also be found in the Quarterly Results section of our Investor Relations website, investor.analog.com, and thank you for your continued interest in Analog Devices.

Operator

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

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