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ADI.OQ - Q3 2024 Analog Devices Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

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

(Audio in Progress)

our expectations only as a date of this call. We undertake no obligation to update the statements except as required by law. Revenue, adjusted gross margin, operating and non-operating expenses, operating margin, tax rate, EPS and free cash flow in our comment today will be on non-GAAP basis, which excludes special items. When comparing our results to historic performance. Special items are also excluded from prior periods. Reconciliation of these non-GAAP measures to most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's release.

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. A stronger demand for high-performance product portfolio and skillful execution resulted in third quarter revenue of more than $2.3 billion, operating margin north of 41% and EPS of $1.58, all above the midpoint of our outlook. These favorable results combined with improved customer inventory levels and order momentum across most of our markets increased my confidence that our second quarter marks the cyclical bottom for ADI.

My optimism remains guarded. However, this challenging economic and geopolitical conditions are limiting the sharper recovery. We continue to balance near-term fiscal discipline with strategic investments in our long-term growth initiatives, positioning ADI to capitalize on the extraordinary opportunities that we see ahead.

Now I'd like to draw attention to our industrial end market, which is our largest, most diverse and most profitable business, generating durable revenue streams that last close the two decades on average. As our business begins to recover from the pandemic's volatility, we're excited about the tremendous long-term growth opportunities of the industrial market.

We offer our customers an unparalleled suite of high-performance solutions, stretching from intended to bid, sensor to cloud, and nanowatts to kilowatts. Our extensive technology portfolio, combined with our deep domain expertise and engineering muscle, has enabled us to secure leading positions across the most attractive industrial sectors.

Now, with growing digital software and algorithm capabilities, augmenting our cutting-edge Analog portfolio, ADI is strongly positioned to solve our customers' most difficult challenges in factory and process automation, energy efficiency, secure connectivity, and many, many more.

To illustrate the power and potential of our industrial franchise, let me share with you a few examples of how our recent innovations are unlocking new revenue streams and positioning us for strong growth in the years ahead. For example, our Instrumentation and Test business, which includes scientific instruments, electronic test and measurement and automated test equipment is essential to the important scientific and technological advancements of the digital era.

Within automated test equipment, for example, our next-generation solutions increased channel density and throughput while reducing energy consumption by up to 30% per system. These are crucial parameters for testing complex, high-performance compute GPUs and high-bandwidth memory systems for AI. As the AI infrastructure build-out remains a priority for global hyperscalers, we expect growth to continue into 2025 and indeed well beyond.

Turning now to aerospace and defense, which has been our most resilient business during this downturn, ADI's domain expertise and high-performance portfolio across RF and microwave, high speed and precision converters, power and MEMS uniquely positions us to deliver complete edge solutions, offering our customers scale, velocity and lower total cost of ownership.

As an example, we're building upon our programmable Apollo Signal Chain platform today to create full software-defined RF communications and sensor systems, which has the potential to increase our SAM by 5x in commercial, defense and aerospace communication systems. Indeed, we see a path to double-digit revenue growth in this sector in 2025, fueled by several high-value design wins that are going to production.

In automation, though we've seen a slow recovery to date, we remain strongly confident in its future growth potential, as the benefits of increased productivity are ever more clear. Customers are prioritizing enhanced digitalization and IT-OT integration on the factory floors. Their deployments of in-line instrumentation and advanced robotics are driving the need for more sensing edge processing, secure connectivity and power management.

Within robotics, we're seeing a progression from fixed our machines to autonomous and mobile robots to eventually humanoid robots. This evolution creates additional opportunities for our precision signal chain franchise and censor and connectivity of motion control subsystems with fully isolated and efficient power solutions can drive content from hundreds of dollars in robots today to thousands in autonomous and humanoid robots.

What is additionally exciting about these advances is their broad applicability beyond factories such as surgical robots and imaging systems in healthcare. ADI's products have the potential to dramatically improve a surgeons' effectiveness through a more precise surgical experience with lower latency connectivity. Additionally, patients gain the potential benefits of shorter hospital stays and fewer complications.

The evolution in robotics is expected to unlock billions of dollars of potential opportunity for our high-performance Analog, mixed-signal power connectivity and sensing solutions. We see the potential for a doubling of our robotics revenue in the years ahead.

Turning now to energy transmission and distribution, our customers are modernizing and digitalizing the electrical grid to respond to exponentially accelerating energy demand driven in part by the proliferation of electric transportation and rapid AI adoption. This process is resulting in a grid that is distributed, dynamic and bidirectional, a paradigm shift from the past model of linear stable supply. We are working with traditional suppliers and disruptors to enable the necessary intelligence for the new grid from decentralized power plants to the distribution edge.

We're leveraging our Analog and algorithm capabilities in cutting edge energy monitoring and management solutions. Additionally, our battery management technology increases capacity and improves energy utilization in the grids renewable energy storage systems. This reimagined intelligent grid of the future has the potential to expand our SAM by over $10 billion and creates tailwinds for our energy franchise for many years to come.

Given the synergies across our industrial portfolio, our pace of innovation and the emerging signs of market recovery, we're optimistic for our industrial business that has turned the corner and '25 will be a robust growth year.

So in closing, our investments in high-performance Analog solutions are enabling us to intersect with and leverage the numerous concurrent secular trends that transcend the business cycle and will propel us into the future. Our commitment to our customer success and to impactful innovation will be the path that carries us there, ultimately increasing long-term shareholder value.

aAnd so with that, I'm going to turn it over to Rich, who'll take you through the numbers.

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

Thank you, Vince. Let me add my welcome to our third quarter earnings call. Third quarter revenue of $2.31 billion came in above the midpoint of our outlook, finishing up 7% sequentially and down 25% year over year. Industrial represented 46% of revenue in the third quarter, finishing up 6% sequentially and down 37% year over year. Every major application increased sequentially except for automation, which declined at a much slower pace than it had in previous quarters.

Automotive represented 29% of revenue, finishing flat sequentially and down 8% year over year. We saw continued double-digit growth year over year for our industry-leading connectivity and functionally safe power platforms. Conversely, automotive production cuts are extending inventory digestion across customers, particularly impacting our legacy automotive and electrification businesses.

Communications represented 12% of revenue, finishing up 10% sequentially and down 26% year over year. Slowing customer inventory digestion enabled both wireless and wireline growth sequentially. And lastly, consumer represented 14% of revenue, finishing up 29% sequentially and increased year over year for the first time since 2022. We saw diversified growth across applications with notable strength in portables and gaming.

Now let's move from the top line to the rest of the P&L. Third quarter gross margin was 67.9%, up 120 basis points sequentially, driven by higher revenue, higher utilization and favorable mix. Operating expenses in the quarter were $619 million, up modestly sequentially, driven primarily by higher variable compensation. Operating margin of 41.2% exceeded the high end of our outlook. Non-operating expenses finished at $70 million and the tax rate for the quarter was 10.8%. The net result was EPS of $1.58, which finished near the high end of our outlook.

Our financial position is solid, and I'd like to call out a few items from our balance sheet and cash flow statement. We ended Q3 with more than $2.5 billion of cash and short-term investments and a net leverage ratio of 1.2. Inventory decreased $51 million sequentially and days declined to 178 from 192. As planned, we reduced channel inventory further this quarter with weeks ending near the low end of our seven- to eight week target.

Operating cash flow for the quarter and trailing 12 months was $0.9 billion and $4 billion, respectively. Capex for the quarter and trailing 12 months was $154 million and $1 billion, respectively. For fiscal '24, Capex is tracking to our $700 million plan, which is down roughly 45% versus 2023 as our hybrid manufacturing investment cycle tapers.

Not included in these figures are the anticipated benefits from both the European and US Chips Acts. During the last 12 months, we generated $2.9 billion of free cash flow or 30% of revenue. Over the same time period, we have returned $2.8 billion via dividends and share repurchases. As a reminder, our strategy is to return 100% of our free cash flow to our shareholders over the long term.

Now I will turn to the fourth quarter outlook. Revenues expected to be $2.4 billion, plus or minus $100 million, up 4% sequentially at the midpoint. We expect sell-through to be roughly equal to sell in this quarter. At the midpoint on a sequential basis, we expect industrial and consumer to increase, communications to be flattish and automotive to decrease. Operating margin is expected to be 41% plus or minus 100 basis points.

Our tax rate is expected to be between 11% and 13%. And based on these inputs, EPS is expected to be $1.63 plus or minus $0.1.

In closing, our third quarter results and fourth quarter outlook support our view that we have passed the cycle's trough. However, challenging economic and geopolitical conditions are limiting a faster demand recovery. I will now give it back to Mike for Q&A.

QUESTIONS AND ANSWERS

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

Thanks, Rich. Let's get to our Q&A session. (Event Instructions)

Operator

(Operator Instructions)

Tore Svanberg, Stifel.

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

Yes. Thank you so much. Great to see the turn here. Vince, could you maybe elaborate a little bit more on the sort of mixed environment, right? Because inventories have bottomed -- excess inventories have bottomed at the same time and demand seems to be quite kind of mixed. So as you navigate through this period, could you elaborate a little bit on your visibility? How is backlog trending? Are you finally starting to see new products ramping more into production? These are typical signals that you want to see at the beginning of a new cycle?

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

Yeah, thanks. What I'd say, first and foremost, we run this company on POS signals. That's how we plan our production, how we run the company operationally. So we pay very, very close attention to what's happening in terms of the end market demand. And you know, my confidence has increased since last quarter that in the 2Q was the cyclical bottom. You know, we've exited 3Q with very, very lean channel inventory. We've taken inventory of our own balance sheet, though, we're positioned with a very, very healthy backlog of inventory on our own balance sheet so that the anticipated demand upsurge we expect in '25.

We are very, very well equipped and ready to meet that. So for in the fourth quarter, as we've said, we expect to see continued sequential growth and we will also see, I think, particularly in the industrial area, continued improvement on customer inventory levels. So look at -- it's all the -- the whole recovery, the ramp of the recovery will depend on the macro situation.

But nonetheless, given the design wins we have a record design win pipeline (technical difficulty) in the company. So we're facing many, many secular tailwinds with a very strong pipeline, very, very good supply line and with a very, very lean inventory on the customer's balance sheet. So that gives me the optimism, Tore, that we're very, very well-positioned coming into the new year.

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

Thank you.

Operator

Joseph Moore, Morgan Stanley.

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

Thank you. My question is on the trajectory of automotive versus industrial. It seems like automotive entered into a inventory correction a little bit later and so far has been much less severe. I guess you sort of talked about some ongoing headwinds in that space. Can you just talk about what overall drawdown might you expect in automotive and and where are we in customers' kind of growing down safety stock inventory?

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

So Joe, this is Richard. I'll take a crack at that one. So I'll just to level set a little bit from our perspective and what we're seeing in the market car continue to become more electric and software defined, which is also driving our semi content growth, likely trying to address increased battery densities, more sensors displays. And we do expect that that is going to be a long-term tailwind to our business.

However, and this is where we're starting to see some of the pullback, the vehicle market has softened in the near term. We're seeing our customers pull back on their production. And at this point, we're seeing them start to choose to burn off some inventory. So we are still seeing that. The softness is evidenced in our results. By far has been down year over year for two straight quarters, and we expect it will be down again in 4Q.

And from a bookings perspective, we did see a decline in bookings in auto. In particular, we've seen inventory digestion in our legacy auto and in our BMS portfolios and we expect that that's going to continue into at least the fourth quarter, particularly when you consider the challenging purchasing environment that currently exist for customers.

However, to your question around the peak to trough, unless our returns to pandemic levels, we don't see that peak to trough being nearly as dramatic as we saw in our other end markets. The underlying secular growth trends that I described, driving higher semi content; also, we've continued to see more penetration in value capture across all vehicle types, whether it's ice, plug-in hybrid electric or full electric in the fastest growing applications.

If you think about that [ADI] digital cockpit and electrification. So we will be down, but we don't expect that the cycle depth to be as severe as we saw, for example, in industrial.

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

Great. Thank you very much. And I guess was a follow up. Are you seeing that behavior any different regionally is the China automotive market different than the Western markets in terms of where they are?

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

No. I'd say overall, it's pretty unanimous across all markets. At the time Analog did okay because also design and branding there, that's helping offset some of the softness. But as an overall comment, auto is a bit weaker today than it was 90 days ago, whether it's North America, Europe or Asia.

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

Great. Thank you very much.

Operator

Vivek Arya, Bank of America Securities.

Vivek Arya - *BofA Securities, Inc. - Analyst*

Thank you for taking my question. Vince, glad to hear about your optimism about turning this cyclical corner. Do you think the environment allows for sequential growth to continue into Q1? It seems like industrial could grow. Autos, I'm not sure, given some of the bookings commentary. And consumer tends to be down seasonally. So just conceptually, how should we model the shape of this recovery into Q1? Thank you.

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

Yeah, well. At this point, you know, it's hard to call given that the environment is still a little, let's say there's a bit of disequilibrium. But I think generally speaking, we would probably expect to see a bit of a seasonal decline in the fourth quarter and then a bounce back in the second. And I think that's the sentiment. But overall, I maintain my outlook that we would see a brisk growth here in '25.

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

And then I'll help you out a little bit on the seasonality question. It's been a few years now since we've seen seasonal trends in our business. You're right. If you look back for the past 10-, 15 years ADI, consumer is down 10% plus sequentially in 1Q and the B2B markets of industrial, auto and comms are down low single digits. As Vince said, [as part of the numbers] we don't believe to data would be any better than seasonal given where we are today. But we'll update you in 90 days of how we feel about 1Q.

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

I think the motivator for us will be what happens in industrial, in particular. And what I can tell you is that the various C-suite conversations I've had with our industrial customers would suggest that their optimism is also strong for '25.

Vivek Arya - *BofA Securities, Inc. - Analyst*

Thank you.

Operator

Timothy Arcuri, UBS.

Timothy Arcuri - *UBS Group AG - Analyst*

Thanks a lot. I just wanted to ask on that answer. So you were above seasonal fiscal Q3. You're above seasonal and fiscal Q4. Sounds like you're not willing to commit that you're going to be above seasonal in fiscal Q1. The street's modeling like 5% or 6% above seasonal for fiscal Q1.

Was there something that happened in bookings? Did bookings like slow in the last couple of weeks or the last month or something to make you not want to commit to the fact that fiscal Q1 would be above seasonal or just that it's 90 days away and you just don't want to comment on it? Thanks.

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

I'll start out on the street expectations and then with the rest of our bookings. We never guided 1Q. I think the street expectation for 1Q. I think street is of everyone, a better than seasonal for our counter 4Q or fiscal 1Q. And I hope of other snapback. I would say, yeah, there are things that change in 90 days, but we're optimistic about '25 for the full year. We still know it's above seasonal in that outlook for the year of '25. I'll pass it to Rich to go through some of the booking dynamics.

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

Yeah. So from, Tim, from a bookings perspective, you know, up until Q2, as we talked about, we've seen three straight quarters of broad-based bookings improvement. However, Q3 was different. We saw continued bookings growth for industrial consumer and communications. But we did see automotive orders decline, which resulted in a modest drop in our total bookings during the quarter. We did still end with a book-to-bill around parity.

If I look at it from a geographic perspective, regionally, bookings were the weakest in Europe. Americas Americas was modestly weaker, which offset bookings growth in Asia.

Timothy Arcuri - *UBS Group AG - Analyst*

Thanks a lot.

Operator

Toshiya Hari, Goldman Sachs.

Toshiya Hari - *Goldman Sachs Group, Inc. - Analyst*

Hey, good morning. Thanks for taking the question. It was good to see inventory on your balance sheet come down again, and you guys spoke to channel inventory coming down as well. As you look forward, what are your thoughts on utilization rates internally? How are you engaging with your foundry partners, and what's embedded in your October quarter outlook as it pertains to the channel? Thank you.

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

So, as I noted in the last call, we said both utilization and, in fact, gross margins had bottomed in Q2, and that is proving to be true. From an inventory in the channel perspective, the expectation is we will ship to end demand. We are currently at the very low end of our range in the channel at seven to eight weeks. And I think we've mentioned previously if we saw continued improvements, we would start shipping to end demand. So we will do that in the fourth quarter.

Toshiya Hari - *Goldman Sachs Group, Inc. - Analyst*

Thank you.

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

Obviously, when it comes to the balance, we have a hybrid manufacturing system which enables us to keep utilization rates as high as possible internally, and when our factories run out of capacity, then we have lots of choices externally for silicon capacity. So obviously, we've got a lot of inventory on the balance sheet, and our factories are very well capable of improving utilization rates as the demand continues to improve over the coming quarters.

Toshiya Hari - *Goldman Sachs Group, Inc. - Analyst*

As a quick follow-up, I think your internal utilization rates last quarter were in the mid-50s, if I'm not mistaken. Are you at or above 60% at this point, or if you can comment on that.

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

We have to be -- given our look at the utilization towards as we give the rate, I would say there were lower last score to move in higher here in 3Q and 4Q, and there were well off the normal level, they're all called 85% to 90% utilization.

Toshiya Hari - *Goldman Sachs Group, Inc. - Analyst*

Got it. Thank you.

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

And then I'll give you some context -- I'll give you some little context. What does this mean as utilization ramp? What does that mean for gross margins? If you look at the decline of gross margins over the past year or so, about half the decline relates to utilization, the other half relates to mix. So you can see as you listen, pick up what that means for gross margin expansion.

Toshiya Hari - *Goldman Sachs Group, Inc. - Analyst*

Helpful. Thank you.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Bernstein Research - Analyst*

Hi, guys. Thanks for taking my question. I was hoping you could give us a little more granularity on the segment guide for next quarter. And then you said industrial, and I think consumer up and auto down. Any more for the color, like is consumer usually up, is it up double digits, is industrial up mid-single, auto down by low single, like any further color you could give us on the segments would be helpful.

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

Sure, Stacy, I'll grab that one. Yes, so let's start with consumer. You're right, consumer's up about double digits, about 10% or so embedded in our outlook. Industrial's had another also solid growth quarter, probably high single digits sequentially. We had cases about flattish plus minus, depending on kind of how things go here, and although the weak market as we discussed and hit a little bit earlier on the call, probably down low single digits sequentially.

Stacy Rasgon - *Bernstein Research - Analyst*

Got it. That's helpful. If I could have a quick follow up, just how are you thinking about OpEx growth in the next quarter? It was pretty well under control this quarter. Is there anything that drives that up? Like what do you think about the OpEx trends as we're going to the end of the year?

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

So Stacy, I'll take that one. So obviously we exceeded the high end of our outlook in the third quarter, given the beat on gross margin and revenue as well as our continued cost management. Our Q4 guide obviously does imply a modest margin contraction sequentially despite our expectation for higher revenue and gross margin. The main driver of that is our increase for merit increases that will go into effect during the fourth quarter. So that will be a downward pressure as we head into the fourth quarter.

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

I mean, the big margin on our OpEx, Stacey, is obviously the bonus. And that obviously with declining profit and revenue over the past several quarters, that dropped accordingly. Now, with increase, with growth in revenue and improvement in profitability that will obviously increase. But that's self-funding, so to speak.

Stacy Rasgon - *Bernstein Research - Analyst*

Got it. How much do the OpEx go up then?

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

For our fourth quarter outlook, I'd say sequentially increase in our OpEx around 5%.

Stacy Rasgon - *Bernstein Research - Analyst*

That's great. Thanks so much. Appreciate it guys.

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

Thanks.

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

Thanks.

Operator

Chris Danely, Citi.

Chris Danley - *Citigroup Inc.. - Analyst*

Thanks guys. First, just a little clarification on inventory in the auto market. Vince, I said it, I think at the beginning you talked about inventory is very lean out there, but then you're also saying that there's inventory digestion going on in the automotive market. Can you just expand on that a little bit?

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

Dan, I'll grab that, and then Vince, talk about the overall customer inventory. Yes, I think every market spawned in different cases of inventory digestion. We feel good about industrial consumer comms have really normalized inventory levels. There are pockets on the auto side that's still, I'll call it digesting.

I mean, production levels have been cut over the past quarter, whether it's an ICE car or an EV car. That impact inventory levels and desire to hold inventory on their balance sheets. From that standpoint, Chris, I don't know, Vince, if you have anything to add.

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

I think, Chris, overall, we've seen the worst is behind us, I think, in the industrial consumer and comms market. But automotive, I think, is a sector where we will see some inventory digestion issues into at least the early part of 2025.

Chris Danley - *Citigroup Inc.. - Analyst*

Great. Thanks. That's helpful. And then just a quick clarification on industrial. How would you characterize your, I guess, booking/ visibility on the industrial market now versus three months ago? Is it roughly the same, or has it improved a little bit?

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

Hey, Chris, it's Rich. I would say visibility is pretty consistent. And as we talked about, we're seeing continuing growth sequentially across all of the sub-elements of industrial with the exception of automation, which we are seeing improvements, but not yet seeing growth.

Chris Danley - *Citigroup Inc.. - Analyst*

Got it. Thanks, Rich.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Good morning. Thanks for taking my question. So for fiscal ‘23, China domestic consumption, I think was about 18% of their total revenues, it was the worst performing geography. Last couple of quarters where bookings in China have been growing sequentially.

Did that translate into sequential revenue growth out of the region in the July quarter? And then it looks like orders from the China region grew sequentially in July. How are they trending so far quarter-to-date? Are you still seeing sort of positive signs out of this region?

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

Yeah, we continue to see strong performance from a bookings perspective in China. We did see double digit growth across industrial, auto and comms being slightly offset by a decrease in consumer. So China does continue to perform well. And our design win and our pipeline there are very strong.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Great. Thank you.

Operator

Joshua Butler, TD Cowen.

Joshua Butler - *TD Cowen - Analyst*

Hey, guys, thanks for taking my question. Maybe you can walk through some of the puts and takes into gross margin into the October quarter. Back the envelope, I'm getting to roughly stable sequentially despite the revenue increase and I imagine utilization is improving as well. How much of that is mixed? And in particular, is there any changes in the pricing environment as we get sort of through this digestion into what I would imagine is a more competitive environment. Thank you.

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

Yes. I'd say it's, as we previously mentioned, it is significantly impacted by the favorable mix. Obviously, we get a benefit out of the revenue upside. From a pricing perspective, and I've talked about this before, we continue to see pretty stable pricing, and I do expect that to continue. Obviously, it's different by geography and for big and small customers, but on balance, we are continuing to see stable pricing, and I expect we will see that going forward.

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

Once our products are installed in a particular customer's design, they tend to, in the industrial business, they will stay for decades, and pricing is very, very stable there. Where the pricing, or the competitiveness, is for new sockets, new wins, but nothing is new there. Now, we as a company -- we play in the high end of the game in terms of innovation, service, support, and so on and so forth.

So that's the game we play. In the game we will continue to play. We significantly higher ASPs than most. And those ASPs increase with each new generation of product. So I think overall, as Rich said, the pricing environment is stable. And so I don't see that as a headwind on margin.

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

Thanks, Josh. I think that's all the time we have for questions today. I thought we had a little more time, but it's August. You guys can go out there and enjoy the weather a bit. So thanks for joining us, all. We look forward to future calls with you guys, and have a great rest of summer.

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

Thank you.

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