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ADI.OQ - Q1 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 first quarter fiscal year 2026 earnings conference call, which is being audio webcast via telephone and over the web.

I'd like to now 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 first quarter fiscal 2026 conference call. Joining me today is ADI's CEO and Chair, Vincent Roche; and ADI's CFO, Richard Puccio.

For anyone who missed the 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 the forward-looking information as these statements reflect our expectations only as of the date of this call. We undertake no obligation to update these statements, except as required by law.

References to gross margin, operating and non-operating 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 and 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 you all. Well, we extended our momentum through the first quarter with revenue, profitability, and earnings per share all coming in above the midpoint of our guidance.

Year-over-year growth was broad-based across our end markets with particular strength in industrial and communications, reflecting both cyclical improvement and company-specific execution. This performance underscores the strength of ADI's diversified and resilient business model, enabling us to navigate uncertainty while continuing to capture share in the markets that matter most.

As you've heard me say many times before, the wellspring of ADI's prosperity is built on a culture of relentless innovation and deep customer engagement across the life cycle of our solutions. As such, these activities are always our first call on capital. And now we're investing at record levels.

At the same time, we remain committed to returning 100% of our free cash flow to shareholders over the long term. And I'm pleased to share that we just announced an 11% increase to this year's dividend extending our impressive track record of annual dividend growth and reinforcing our focus on delivering consistent shareholder returns.

Looking ahead, a strong second quarter outlook and improving demand signals reinforced our belief that fiscal '26 has the potential to be a better year for ADI barring unforeseen material changes in the macroeconomic and geopolitical backdrop.

Now as mentioned in previous calls, we're aligning our strategic investments to key mega trends that we believe offer outsized long-term secular growth potential, namely autonomy, proactive healthcare, sustainable energy transition immersive sensory experience and AI-driven computing and connectivity. And it's in this last area that I will focus the remainder of my comments today.

Over our history, we have prided ourselves on our ability to sense the early signals of emerging trends and to invest aggressively to ensure leadership as those trends proliferate. Artificial intelligence is a good case in point. Our investments targeting solutions for AI's massive performance requirements are generating substantial returns in two distinct parts of ADI our automated test equipment and data center businesses, which collectively make up close to 20% of our revenue.

Now let me begin with Automated Test Equipment, or ATE, Revenue increased approximately 40% in fiscal '25 and further accelerated in the first quarter of '26, fueled by several factors. ADI's ATE portfolio sits at the heart of the most complex semiconductor production test systems for digital SOC, memory, RF, and millimeter wave and power devices as well as system-level products. We deliver the integrated pin electronics, device power supplies and parametric measurement units that drive sense and precisely characterize every pin and rail on complex ICs under the most demanding real-world conditions.

Our application-specific solutions are complemented by a suite of analog RF and power products, enabling complete high-density test subsystems. These solutions enable customers to increase platform channel density and throughput to validate the most advanced nodes and packaging technologies faster and more thoroughly at lower costs, with up to 30% less energy consumption per system. As a result, we enjoy industry leadership across the major test platforms and our content per tester stretches into the tens of thousands of dollars.

Importantly, we've earned a durable role as the leading-edge technology partner in the fast-evolving ATE market which continues to grow with rising semiconductor complexity and the proliferation of connected intelligent devices.

Now let me turn to our data center business, which grew approximately 50% in fiscal '25 and also saw accelerated growth in the most recent quarter. Several factors are driving this expansion.

AI's demand for faster processing speeds and greater power density, combined with the monumental increase in data volume is creating exponentially greater complexity in data centers. This, in turn, drives the need for faster innovation cycles and new architectures. And ADI's analog and mixed signal, power, and optical portfolios are critical to this evolution.

I'll talk a bit now about power management, which is increasingly a system-level differentiator in AI data centers. At a high level, it breaks down into power delivery and power control. Think of power delivery as the vascular system moving energy across the data center. As customers migrate to higher-voltage architectures, safely moving larger amounts of power becomes foundational Protection is non-negotiable as the consequences of falls right sharply for both uptime and safety.

ADI's hot swap and high-performance protection solutions which represent roughly a third of our data center power revenue today, enable predictable fault isolation, fast recovery and life maintenance, allowing [racks] to run continuously even as power levels increase.

Beyond protection, architectural change is also expanding our role in power delivery. We continue to see strong growth in point-of-load converters, micro modules and high-performance regulators, new approaches such as vertical power and higher voltage distribution, are now opening incremental SAM for ADI. We shipped our smart power stage to our first vertical power customer last quarter, and adoption of our intermediate bus converter modules is accelerating for 48- and 54-volt architectures.

Now let's think of power control as the brain of the data center energy system. AI performance per watt depends on how precisely power is regulated and converted at the GPU or CPU. Roughly a thirdof our data center power revenue comes from DC Power Control, including our power system management ICs and multiphase controllers. AI accelerators demand fast, highly efficient, digitally controlled power conversion from the rack down to tightly regulated core voltages. ADI's analog and mixed signal solutions abilities to enable higher compute density and better system-level performance are driving increasing demand and design wins.

To sum up our AI data center power story, ADI enables customers to move cars safely, regulated intelligently and scale AI infrastructure for the future. As power becomes a strategic constraint in AI data centers, our suite of high-performance technologies and system-level approach position us well for the next wave of infrastructure growth.

Finally, turning to our optical connectivity portfolio. As AI continues to scale, the amount of data that must move within and between data centers is increasing exponentially, to deliver AI class bandwidth and latency, industry leaders are rearchitecting their networks, increasingly replacing traditional electrical switching with Optical Circuit Switches or OCS. In this environment, performance is no longer defined solely by the optical modem system. It increasingly depends on the precision control monitoring and power solutions, the nervous system, if you will, around the laser, DSP, and photodiode signal chain.

By tightly integrating precision control, temperature regulation, real-time monitoring and compact high-performance power management, ADI allows optical systems to operate at higher speeds with lower power and in smaller form factors. This enables data center operators and carriers to increase front panel bandwidth density, reduce power consumption and cost per bit and accelerate to the market.

As AI workloads continue to drive faster upgrade cycles and new network architectures. Our ability to help our customers manage optical complexity, performance, and economics positions us well to benefit from AI-driven infrastructure investment in the future.

So in closing, it's important to remember that AI is just a part of our larger growth story. Our diverse business model is enabling profitable growth across numerous trends, markets and applications. And as a result, we've never been more optimistic about our future at the intelligent edge.

And with that, I'll pass 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 first quarter earnings call. Revenue in the first quarter came in towards the higher end of our outlook at $3.16 billion, growing 3% sequentially and 30% year over year. Industrial represented 47% of our first quarter revenue, finishing up 5% sequentially and 38% year over year. Strength was broad-based with all segments delivering growth of 25% or more on a year-over-year basis, including record quarters for ATE and aerospace and defense.

Automotive represented 25% of revenue, finishing down 8% sequentially and up 8% year over year. We saw continued year-over-year growth for our leading connectivity and functionally safe power portfolios driven by our strong position in Level [2+] ADAS systems.

Communications represented 15% of revenue, finishing up 20% sequentially and 63% year over year. Accelerating year-over-year growth was led by our data center business as increasing investments in AI infrastructure continue to drive robust demand for our optical and power portfolios.

Wireless also recorded accelerated growth driven by cyclical improvements and has now grown double digits for three consecutive quarters.

And lastly, consumer represented 13% of quarterly revenue, finishing up 2% sequentially and 27% year over year. The year-over-year growth was due to an upside across all consumer applications with notable benefits from content and share gains in the fast-growing wearables market and in premium handsets.

Now on to the rest of the P&L. First quarter gross margin was 71.2%, up 140 basis points sequentially and 240 basis points year over year, driven by higher utilization, favorable mix and roughly 50 basis points from discrete items, which were not included in our original forecast. OpEx in the quarter was $812 million, resulting in an operating margin of 45.5%, above the high end of our guidance, up 200 basis points sequentially and 500 basis points year over year. Non-operating expenses were $53 million and the tax rate for the quarter was 12.7%, [all told], EPS was $2.46, up 9% sequentially and 51% 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 $4 billion, and our net leverage ratio decreased to 0.8. Inventory increased $111 million sequentially with days of inventory finishing at $171. Channel inventory increased ending within our six- to seven-week range. We are continuing to build [Di Bank] and finished good buffers to help support the upside we are seeing while balancing a strategically leaner channel position.

Over the trailing 12 months, operating cash flow and CapEx were $5.1 billion and $0.5 billion, respectively. We continue to expect fiscal 2026 CapEx to be within our long-term model of 4% to 6% of revenue. Free cash flow over the trailing 12 months was $4.6 billion or 39% of revenue.

As a reminder, we target 100% free cash flow return over the long term, using 40% to 60% for our dividend and the remainder for share count reduction. To that end, since the inception of our capital return program in 2004, we have returned more than $32 billion to shareholders via dividends and share repurchases. And since our Maxim acquisition in 2021, we have returned more than 100% of free cash flow to our shareholders. And as Vince mentioned, yesterday, we announced our 22nd consecutive annual dividend increase raising the quarterly amount by 11% to $1.10.

Now moving on to our second quarter outlook. Revenue is expected to be $3.5 billion, plus or minus $100 million. Operating margin at the midpoint is expected to be 47.5%, plus or minus 100 basis points. Our tax rate is expected to be between 11% and 13% and based on these inputs, adjusted EPS is expected to be $2.88 plus or minus $0.15.

In closing, our strong first quarter performance and favorable second quarter outlook underscores ADI's disciplined execution and the growing momentum we are seeing with customers across our end markets. While the macro backdrop remains fluid, demand indicators continue to trend favorably, and I believe we are well positioned to continue capitalizing on the opportunities ahead.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Schneider, Goldman Sachs.

James Schneider, Ph.D. - *Goldman Sachs Group Inc - Analyst*

Good job on the results. I'm curious as you look forward over the next quarter or two, whether you expect to continue to see above seasonal performance in the Industrial segment in particular? And can you maybe also discuss are you seeing any kind of signs of OEM customer restocking at this stage or not yet?

Unidentified Company Representative

Sure, Jim. Thanks for the question. So obviously, Q2 was our strongest sequentially -- strongest sequential quarter, normally up in the mid-single digits, 4% or 5%, and our outlook, which embeds sell-in equal the sell-through reflects about an 11% sequential growth applying obviously significantly above seasonal growth.

By end market, as we look out for Q2, what we expect to see is industrial continuing strong, up 20% sequentially and well above seasonal at 50% year over year, clearly being aided by the cyclical recovery and our strength in ATE and ADAS. We expect comps to be up high single digits sequentially, above seasonal and about 60% year over year. Again, as we talked about now, the AI surge for data center and the wireless cyclical recovery of both driving.

From an auto perspective, we do expect that to be flat to down sequentially, a bit below seasonal, and this is, as we've talked about, largely due to the tariff and macro pull-in unwind that we've been talking about since the second and third quarters of last year. And then consumer in Q2, we expect to be down mid-single digits, in line with seasonality. And then obviously, we don't guide out to the third quarter, but I'll remind everybody that our third quarter is typically up low single digits.

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

Yes. I think, Jim, one other comment you asked is a little bit any evidence of restocking. We don't see any evidence whatsoever of that at this point in the cycle.

Operator

Stacy Rasgon, Bernstein Research.

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

I was wondering if you could give us some color on gross margin and OpEx drivers embedded in the guide. I know OpEx, I presume is up on variable comp gross margin, I assume mix and utilization. And just any color you can give us on those drivers within the model would be helpful.

Unidentified Company Representative

Stacy. I'll start. I'll go through the [GM] question first. So obviously, as you saw in the post, Q1's gross margin was 71.2%. This was higher than expected on better mix, stronger utilization and then a few items that we did not forecast.

During Q1, we've gotten closer to our optimal utilization level. So as we look out, we expect only to see modest upside from utilization. And in our Q2 outlook, we're assuming 100 bps of gross margin expansion or up essentially 150 bps versus Q1 because that excludes the discrete items that I mentioned in my prepared remarks, and again, the expected increase here is driven by favorable mix and uplift from price, which includes 50 bps that will not repeat in Q3 since it relates to the onetime effect of repricing our inventory in the channel. So you will expect us not to see that same 50 bps recur.

On the operating margin side, for us, Q1 was roughly in line with expectations. The beat at the operating margin line was driven mostly by the stronger gross margin we just talked about. In Q2, I see OpEx growing in the mid-single-digit range. Obviously, we have no shutdown in the second quarter. We're continuing to hire in strategic investment areas. We've got a higher bonus factor. We've got our GTC conference, but we will see OpEx as a percent of revenue fall.

And with the expected growth in gross margin, we see about 200 basis points of sequential improvement in Q2. So [475] at the midpoint. And for the full year, we continue to expect OpEx growth to trail revenue growth by roughly half. One of the -- sorry, Stacy, one last point.

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

Just to clarify on the gross margins, on a reported basis, up 100 bps and excluding the 50 bps of onetime, it would be up $150 on a normalized basis. That's what you said?

Unidentified Company Representative

Yes, correct, Stacy.

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

I just wanted to make sure I had that.

Unidentified Company Representative

Yes. The highlight is -- no, it's okay, Stacy. We obviously have been talking about seeing increased leverage this year. part which is the large reset on the variable comp headwind we spoke about last year. And obviously, we're seeing that leverage play out.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Congratulations on the strong quarterly execution. Within your AI business connectivity, power, ATE, that was a great overview, Vince, of the differentiation in your prepared remarks. You articulated a strong portfolio of RF mixed signal, power products and performance differentiation. But the Analog team has always further differentiated on systems-level integration, software digital signal processing. So how are you leveraging your software, DSP, and systems capabilities to gain further traction in this very fast-growing end market?

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

Yes. Thanks, Harlan. Good question. Well, I'd say, first and foremost, if you look at ADI's trajectory over the last 5 to 10 years, we've been approaching our innovation activities centered around application system knowledge. And that's enabled us to capture more of the customers' complexity, boil it down, increase our ASPs.

So I think what we see in certainly the power side of things is a mix of all the technologies. In the last -- up to kind of the last three or four years, most of the power business was about the Analog circuits that configured the power systems. But tomorrow systems are going to be more and more digitally controlled, if you like. So that's where a lot of our digital signal processing heritage will come increasingly into play in these multiphase, very, very high-speed conversion systems where precision is critically important and being able to manage more and more rails of power. So that is a very, very good use an example of where our digital heritage comes into play with the with the mixed signal as well as the power technologies.

In the optical sector, around the optical mode and the nervous system, as we call it, again, that's a mix of a lot of digital functionality that partners with our mixed signal conversion systems as well as the power. So everything we do these days has a strong mix of analog, increasingly digital and increasingly software. And even -- you may have seen, I think on the last earnings call, we talked about a couple of product platforms that we have brought to market in the fourth quarter that had machine learning embedded in them as well.

Operator

Vivek Arya, Bank of America Securities.

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

I was hoping you could quantify your data center exposure across ATE, optical and power. What's that exposure right now? How much did it grow last year? And then what is the right way to kind of model growth for that segment going forward? And part of that, power is a high-growth segment, but it tends to be very crowded. So I'm curious what's your visibility around keeping or extending your market share in that segment?

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

Maybe I'll start with the last piece. Yes, look, the Drive in an environment of incredibly hard problems. And the problems in the power system are becoming increasingly difficult in both scope and form, so that is the sweet spot for ADI.

And we're able to approach the solution of these problems at the system level by virtue of the knowledge that we have in the area of thermodynamics, for example, electromagnetics, coupled with our circuit magic and all the mixed signal and single processing technology that will go around those things.

So I think the problems are becoming more and more difficult. And in fact, there is a norm in the high-performance computing world that ultimately computing performance equals availability of power. And that power has got to be delivered with increasing efficiency, in tighter and tighter spaces. So we feel good about the possibility of differentiating for the long term there.

What was the growth stuff (inudible) --

Unidentified Company Representative

The breakdown between ATE data center and then within -- yes, so Vivek, if you think about our data center business, Vince commented on the call, is roughly 20% of total ADI now. It's over a $2 billion run rate and to think about the breakdown there. About 40% of that ATE the rest is data center. And then within data center, it's pretty balanced between power and optical.

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

And historical and any forward kind of looking growth objectives, if you have them?

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

Well, I think it's safe to say that these areas will all grow at double digits over the next several years.

Operator

Timothy Arcuri, UBS.

Timothy Arcuri - *UBS AG - Analyst*

You have been thinking that you're shipping about 10% to 12% below consumption. Where do you see that in the guidance for April? And then do you think by the end of the year, if you're sort of seasonal plus through the fiscal year, will you be shipping to consumption by the end of the year?

Unidentified Company Representative

Thanks, Tim. I'll take that one. So as we've talked about, if you look at that longer-term trend line where we've been shipping well under in '24 and '25, our sense now is customers are through that digestion phase and are essentially ordering to consumption. And we think that's broadly true across the end markets, but there's probably some differences across the diversified customer and application base.

And obviously, for everybody who we don't talk always about this, when we talk about consumption, we're talking about that long-term linear trend line for shipments. But we do expect that we are nearing customers ordering at consumption across the board. And I think Vince mentioned earlier, we have not seen evidence yet that there's been restocking activity across our portfolio.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - *Cowen and Company LLC - Analyst*

Congrats on another set of strong results and guidance. In response to an earlier question, you mentioned industrial is growing because of the cyclical global recovery, but I guess you've been very clear that you're not seeing evidence of restocking.

Any help you can give us on where you're seeing the biggest signs of demand recovery because the outlook does seem well better than most of your peers. And how much of the video syncratic growth drivers? And any help you can give us on how much industrial is growing ex ATE in the near term?

Unidentified Company Representative

All right. Thanks for that question, Josh. So I'll just do a little bit of a level set since we called the bottom industrial, obviously, our most profitable business has grown sequentially every quarter. And in Q1, actually, our book-to-bill was well above 1. And that does exclude any impact from pricing.

So we feel very good about where we are landing from an orders perspective on the industrial. For four straight quarters, we've been an above seasonal growth with double-digit year-over-year growth, and that is driven by strength across all of the industrial segments. And I think that's part of what is indicative of the cyclical momentum we've been highlighting. Adding to that is our strength in ATE and Aerospace and Defense, which as we've talked about, is about a third of our industrial, each of which are continuing to achieve new highs. And given that momentum in bookings and backlog, we don't see this trend stopping.

As for the other two-thirds of industrial, we're still 20% below previous peaks. So we've got plenty of room to go as the cyclical momentum continues, evidenced by improving PMIs, positive book-to-bill across all industrial sectors and all geographies.

And embedded in our outlook for Industrial is, as we said, to lead our growth still up 20% plus. And we expect all of our segments to increase led by ATE, which is growing greater than 30% sequentially. And so very broad-based. And I'll highlight one other point that we've been talking about, and this is one of the pieces of evidence we look for in the cyclical piece that we continue to see growth in the broad market industrial. We're now seeing normalized ordering patterns for an up cycle in the broad-based industrial market.

Operator

Tom O'Malley, Barclays.

Unidentified Participant

This is (inaudible) on for Tom O'Malley. Just curious if you're seeing any particular strength or weakness from a regional perspective?

Unidentified Company Representative

Yes. So geographically, we -- in Q1, we saw a broad-based strength. We had double-digit year-over-year growth in Asia, Americas and in Europe. When we look at it on a sequential basis, we saw strength in Asia and Europe, while Americas were down from typical buying -- customer buying behavior in consumer and the weaker auto demand.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

You talked about the reasons for auto remaining a little bit softer. Any signs there of stabilization or potential growth as you move past this subsidy environment?

Unidentified Company Representative

Sure. I'll give a little bit of context in what we think we're seeing and what we've got baked into our guide. Obviously, this has been a really strong growth market for us. We've been growing double digits through the cycle. Particularly as we've gained content and share particularly in our connectivity and power for the ADAS systems. And as we've talked about in the past, we've had a notable share gain in China, which is taking largely taking light vehicle share from other regions. So it drove a record [25].

So now you look near term, you said in the prior call that we were approaching Q1 with some caution, as we had flagged some unusual behavior related to tariffs, where we thought we saw some order acceleration. We suspect that it will be a headwind in Q1 and feel that it's probably what happened here.

While we managed to grow 8% year over year, Q1 was well below seasonal and our book-to-bill did end under one. So given the softer bookings we saw and the fact that we now have greater exposure to China than ever, which is typically light in Q2 due to the Chinese New Year, our expectation is that auto will be below seasonally Q2 or flat versus our typical seasonality of plus mid-single digits.

Now what's important to note is nothing has changed with respect to our strong share position and underlying content growth. Therefore, we're pretty confident that once we get past the headwinds in the first half, our second half will be stronger and I actually believe that auto will grow in fiscal '26 versus what was a record fiscal '25.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank AG - Research Analyst*

I just wanted to dive back into the industrial side. guiding up 20%, I can't remember you guys ever unless it was a maximum or linear quarter, guiding that business up. So how much of that is ASPs? And how much of it is secular and how much is cyclical? Any sort of breakdown on that would be helpful.

Unidentified Company Representative

Yes, maybe I'll kind of break down the growth. So 20% plus, obviously, a very strong sequential growth, Ross. We're not going to break out price by end market, but as we commented on, there is some lift there from price. But importantly, I think what Rich said was if you exclude any pricing impact, our book-to-bill in Industrial was well above 1, and that included strength across regions and across applications. So everything is driving growth for us really in our industrial market.

And then as far as what's cyclical and what secular if you just take our ATE and Aerospace and Defense business, that's roughly a third of industrial. And as Rich talked about, that those are continuing to drive new highs, pretty clear end demand drivers in those markets. And then while there's probably more secular tailwinds in the other parts of industrial. But right now, kind of where those are relative to their past peaks. You can kind of call that cyclical, but there's certainly content gains elsewhere if you think about automation and energy and healthcare, there's definitely secular trends there as well.

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

I think it's worth noting that none of this has happened by accident. Industrial has always really been when we think about the sectors within ATE, aerospace and defense, healthcare and so on, instrumentation.

These are very, very core parts of the identity of ADI, and we've been investing. We've been bringing new strengths of innovation to that business now for several years, and we're seeing the benefit of that, particularly right now in the ATE as well as the aerospace and defense area.

But as Jeff and Rich have unpacked the story for you, price resiliency is also very, very strong in this business. The life cycles are long. So overall, we've got stability with some very, very good tailwinds driving the industrial business ahead.

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

Thank you. We'll move to our last caller, please.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research LLC - Analyst*

I just wanted to ask a bit more on your comments on pricing and understand that some of that pricing benefit is onetime because of what's going on in the channel. But perhaps you could speak more broadly on what you're seeing with pricing where you'd expect your blended pricing to be for the year? And what -- how much of this is coming down to what the customers are actually paying?

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

Yes. Well, Chris, thank you for the question. The first thing I'll say is that really not much has changed in our approach to pricing. As a company, we've always been dynamically adjusting the prices of the portfolio really to reflect the value of the solutions that we deliver over the life cycle, the entire life cycle of our products.

So I think our ability and our track record of delivering the highest level of system performance in the analog space. And ultimately, the total cost of ownership benefits to our customers has always enabled ADI to attract a premium, an innovation premium. And that premium actually is extending.

And over the last few years, as you know, we've committed quite a bit of capital to augment the supply side of our value proposition, the support side and giving our customers greater optionality from a regional and geographic perspective, but at the same time, we have, like everybody else, we've been facing persistent inflation. And what we've done in terms of this latest tranche of price increase, was really just a practical response to the inflationary environment. So I think that's the way to think about it. There is a dynamic ongoing element to what we do and a response to the current economic environment.

Rich, do you want to say anything out some of this or Jeff?

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

Yes. So obviously, you've heard us talk about the pricing adjustments that we made with our channel partners that went into effect at the start I would add a couple of things. We are also largely through our annual negotiation with our direct customers. So our Q2 results should reflect the full scope of our recent pricing actions.

And the way to think about it, just to help you guys out here, the overall impact of the pricing actions on our 2Q outlook is about a third of the quarter-over-quarter revenue increase at the midpoint is related to price. Excluding the pricing uplift, our sequential growth outlook is more like 7% versus the 11% I mentioned before, still nicely above our 4% to 5% seasonality.

And importantly, as I mentioned, roughly half of the price lift relates to repricing of channel inventory, which will not repeat in Q3. The other thing I would just to help you out as you think going forward, I think that we would expect about 50 bps of incremental growth in each of Q3 and Q4 related to price. So it's -- over the full period, it's not a huge number, but that's the right kind of sizing, right?

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

All right. Thanks, everyone, for joining us today. A copy of this 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.
