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ADI.OQ - Q2 2026 Analog Devices Inc Earnings Call

EVENT DATE/TIME: MAY 20, 2026 / 2:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Analog Devices second-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, Jonathan, and good morning, everybody. Thank you for joining our second-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 exclude special items. When comparing our results to our historical performance, special items are also excluded from prior periods. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's earnings release. 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*

Thanks very much, Jeff, and a very good morning to you all.

Well, as you've seen by now, second-quarter revenue, profitability and earnings per share finished above the high end of our guidance, establishing new high-water marks for both revenue and for earnings. Despite the quarter's heightened geopolitical tensions and ongoing macroeconomic challenges, we're currently seeing record demand for our products and solutions.

It's at times like these when our dynamic hybrid manufacturing model performs. Our robust investments over recent years have enhanced the scale and the optionality of our supply chain, enabling ADI to address demand surges and capture upside. The combination of this supply agility and resilience and our robust R&D investments across core Analog segments, as well as digital, software and AI, form the foundation for our growing criticality to our customers. They also enable us to pursue areas that we believe offer the greatest future growth potential for ADI, namely AI-driven computing and connectivity, autonomy, proactive healthcare, sustainable energy transition, and immersive consumer experience.

As I mentioned last quarter, our data center and ATE businesses are taking advantage of strong AI-driven infrastructure investments to achieve new highs. These two businesses are on steep growth trajectories, and as we move through 2026, our confidence in their continued growth into '27 is increasing.

Another robust growth market for ADI is our aerospace and defense business, which reached a new revenue high this quarter and where increased focus on national sovereignty concerns is accelerating an already strong multi-year growth path. In general, Industrial, which includes ATE as well as aerospace and defense, is our most profitable business with 15- to 20-year average product lifecycles. We continue to outperform in this space.

So today, I'd like to unpack more of that story for you by focusing on our Industrial business beyond ATE and aerospace and defense, namely automation, electronic test and measurement, sustainable energy, healthcare, and the broad market. Collectively, these markets have grown more than 40% in the first half of fiscal '26. Customers across these sectors are consuming more semiconductors with each new product generation.

And from a cyclical perspective, these businesses are still well below their prior cycle highs with lean channel inventories. This combination of secular and cyclical positioning, along with strong demand signals, gives us confidence that all of our Industrial sectors are poised for continued strong growth in the coming quarters and indeed over the longer term.

So now going a little deeper into these markets, I'll begin with our automation business. Numerous megatrends, including the onshoring of advanced manufacturing and evolving labor dynamics, are increasing demand for digital factories and next-generation robots. The digital factory vision is unlocking new opportunities for ADI and our portfolio of high-performance sensing, signal chain, power management, and connectivity solutions. We're enabling the edge intelligence and real-time communication necessary in automated semiconductor fabs, biopharma, data centers, and other discrete and process manufacturing environments, for example.

Additionally, as robots make up ever-larger percentages of investments in factories and elsewhere, our higher-value products and subsystems for content-rich robotics are aiding automation's fast recovery. Longer term, humanoids and other advanced robotics modalities are steadily increasing our opportunity pipeline value. Overall, we believe we're well positioned to continue capitalizing on automation's tailwinds today and in the future as automation transitions to autonomy.

Turning now to our electronic test and measurement, or ETM, business. While ATE systems are geared to enable efficient, high-volume manufacturing of chips and electronic systems, ETM supports end-to-end product development and delivery, from R&D prototyping, debugging, and validation, all the way through mass production in areas such as AI, EVs, and secure communications, for example.

ETM is a highly diversified, performance-driven market. And ADI's innovative RF, mixed-signal, and power solutions have built our strong position in high-value applications and are propelling our growth in our design pipeline, as customers grapple with increasing levels of complexity and shrinking innovation cycles.

Switching now to our energy business. The continued evolution of consumption patterns due to deeper electrification and high-performance computing, for example, is putting immense pressure on legacy electrical grids and creating profound challenges from energy generation to transmission, distribution, storage, and, of course, consumption.

Customers trust ADI to accurately monitor, meter, and manage all levels of the grid. We reliably convert real-world environmental and system data into digital information, delivering the essential edge intelligence, connectivity, and power management solutions today's systems require.

Notably, we're also leveraging our high-performance battery management platform to support the energy storage systems that are increasingly crucial to a stable grid. Demand for our BMS portfolio from our ESS customers continues to be strong in '26, having grown more than 50% in fiscal '25.

In short, our technology helps customers upgrade electrical infrastructure, ingest and manage the intermittency of renewable resources, and smooth the energy demand spikes from applications like EVs, AI, and so on and so forth. As the trend of electrification accelerates and demand patterns continue to evolve, we believe energy will continue its growth trajectory for many, many years to come.

Turning next to healthcare, where our technologies and solutions protect and save lives across both clinical and non-clinical care settings each and every day. We're enabling the ongoing digitalization of clinical environments through the combination of our deep domain expertise and breadth of technological capabilities across hardware, software, and advanced packaging.

We're seeing secular growth in, for example, advanced imaging, patient monitoring, and surgical robotic applications, where our high-performance-driven solutions are further extending our leadership position. And as healthcare increasingly migrates beyond clinical to non-clinical environments, demand is accelerating for our wearable solutions for outpatient management of, for example, cardiopulmonary and metabolic conditions, essentially extending the digital network edge all the way to the surface of the human body. We're driving double-digit revenue growth in our healthcare market, and we expect continued growth over the coming years due to increasing design ends with larger OEMs this year.

Turning finally to our broad market, Industrial business, which has returned to robust growth. This market encompasses a long tail of tens of thousands of established and emerging companies who are addressing a vast array of applications. The tremendous breadth of these customers' needs aligns perfectly with the extensive scope of our diversified, performance-leading technologies and application-ready solutions, spanning sensor-to-cloud, nanowatts to kilowatts, and antenna-to-bits.

Now, before I conclude my remarks today, let me speak briefly about our planned acquisition of Empower Semiconductor, which will further augment our power technology portfolio and provide the final piece of our comprehensive grid-to-core power platform. With Empower, we gain cutting-edge proprietary integrated voltage regulator, or IVR, technology and silicon capacitors that enable us to offer true vertical power delivery to our customers. The extreme power density of Empower's platforms eliminates customers' needs for bulky external components, shrinks their power footprint by up to four times, slashes their data center compute power consumption by an estimated 10% to 15%, and delivers the ultra-fast transient response required by volatile AI workloads.

This transaction will expand ADI's total addressable market within the hyper-growth AI accelerator space and further solidify our position as an indispensable hardware partner in the drive for maximum compute density per server rack. And we look forward to sharing more of our vision in this exciting space when the transaction closes a little later following regulatory approval.

So in closing, we believe our industrial end market is currently in a cycle of broad-based high growth that has been further compounded by our strong investments in the most attractive secular opportunities. As ADI works to bring physical intelligence to the electrophysical interface, our competitive advantage lies in our extensive and evolving tech stack and six decades of experience, as well as our deep application domain expertise. These differentiators continue to grow in importance as our customers tackle bigger, more complex challenges at the intelligent edge. And as such, our confidence in our future has never been greater.

And with that, I'll pass you 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 second-quarter earnings call.

Revenue in the second quarter was a record $3.62 billion, finishing above the high end of our outlook, while growing 15% sequentially and 37% year over year. Growth was led by our Industrial and data center businesses. Industrial, which represented 50% of our second-quarter revenue, finished up 20% sequentially and 56% year over year. All of our Industrial businesses increased sequentially and year over year, led by aerospace and defense, ATE, ETM, and the broad market.

Automotive represented 24% of revenue, finishing up 8% sequentially and 2% year over year. We continue to capitalize globally on content and share gains in next-generation ADAS and infotainment systems with increased demand for our GMSL, functionally safe power and A2B technologies. In addition, our BMS solutions for EVs returned to year-over-year growth for the first time in two years.

Communications represented 15% of revenue, finishing up 22% sequentially and 79% year over year. Data center, which now accounts for more than 75% of our Communications revenue, was up more than 90% year over year, driven by both our optical and power portfolios. In our wireless business, we continue to see increasing demand, growing more than 35% year over year.

Lastly, Consumer represented 11% of quarterly revenue, flat sequentially and up 23% year over year. Continued strong growth reflects our exposure to the high-end Consumer space and ongoing cyclical tailwinds in our B2B-like prosumer business.

Now on to the rest of the P&L. Second-quarter gross margin was 73%, up 180 basis points sequentially and 360 basis points year over year, driven by favorable mix, higher utilization, and pricing.

OpEx in the quarter was $872 million, resulting in an operating margin above the high end of our guidance or 49%, up 350 basis points sequentially and 780 basis points year over year. Non-operating expenses were $57 million, and the tax rate for the quarter was 11.8%.

All told, EPS was a record $3.09, up 26% sequentially and 67% 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 $3.4 billion, and our net leverage ratio remains 0.8.

Inventory increased $81 million sequentially as we continue to build strategic die bank and finished goods buffers to support growing demand. Days of inventory finished at 168, while channel inventory weeks declined, remaining within our six- to seven-week range.

Over the trailing 12 months, operating cash flow and CapEx were $5.1 billion and $0.5 billion, respectively. We continue to expect fiscal '26 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 36% of revenue.

Over the same period, we returned $5 billion to shareholders through dividends and share repurchases. This robust cash return reflects the strength of our innovation-driven financial model and our continued commitment to disciplined capital allocation. 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.

Now moving on to our third-quarter outlook. Revenue is expected to be $3.9 billion, plus or minus $100 million. Operating margin at the midpoint is expected to be 49%, plus or minus 100 basis points. Our tax rate is expected to be 12% to 14%. And based on these inputs, adjusted EPS is expected to be $3.30, plus or minus $0.15.

In closing, we delivered a strong quarter, supported by disciplined execution and broad-based demand across all of our end markets. We continue to see constructive demand signals in our order book and backlog, particularly in Industrial AI-related applications and Automotive. While we remain mindful of the dynamic macro and geopolitical environment, we believe we are well positioned to continue executing against both cyclical and secular opportunities.

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)

And with that, operator, can we please have our first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tore Svanberg, Stifel Nicolaus.

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

Thank you, and congratulations on the record results. I was hoping you could talk a little bit about the conversations that you're having with your customers. Seems like demand is very, very strong. I'm sure supply and capacity is becoming -- increasing a concern for your customers, but how are they basically approaching your business at this point? Are they worried about supply? Are they giving you more visibility as far as build plans? Any color there would be great. Thank you.

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

Yeah. Thanks, Tore. So yeah, I think generally speaking, I would say the atmosphere is one of general calmness with our customers. There are some concerns, of course, around the choke points in the semiconductor supply chain, memory being one of those. So that's, I think, having most effect on consumer customers who've got to make choices.

But I think generally speaking, our lead times are in pretty good shape. Our demand book is increasing. But we've a lot more capacity as well than we had, say, pre the COVID cycle. We've more than doubled the internal capacity. And we've a lot more optionality built in as well to the external supply sources of the process technologies that we're not building inside the company.

So I think it's a pretty -- it's a reasonably calm environment. There is concern that, at the steepness of the demand ramp across the industry and what that will mean, say, going into '27, but we have a lot of flexibility and resiliency built into our particular supply chain. So we have a lot more upside that we can take onto our order books and keep a very good service score with our customers.

And there are places, Tore, where we are seeing a little more stress than others. But generally speaking, I think we're in good shape.

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

Perfect. Thanks.

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

Thanks, Tore. We'll move -- take our next question, please.

Operator

Vivek Arya, Bank of America Securities.

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

Thanks for taking my question. Vince, I'm curious how you're approaching pricing, both from kind of a tactical and strategic perspective. So on the tactical side, what are you assuming in terms of pricing for your current quarter outlook and just the second half in general? And we have heard several of your competitors just start to send letters on increasing pricing. So how are you kind of viewing pricing in the near term?

And then longer term, how sustainable will these pricing moves be? And do you think some of your competitors who have internal capacity, can they use this inflationary environment to take shares? I just would love your perspective on both kind of the tactical and the longer-term aspect of it. Thank you.

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

Yeah, thank you. So yeah, I think let me start with the short term. We have increased prices during the course of this year, and essentially, what we're trying to do is just absorb the cost of inflation in our business. And that's something that we'll address -- we'll keep an eye on the inflationary effects at the inputs to our business, and we will offset those costs as necessary.

So I think in terms of the longer term, we as a company, we've got the highest ASP by far in the industry across the entire portfolio; we're at 4 or 5x the industry average. And with each new generation of innovation that we're bringing to market, we capture more value. So actually, in the newer part of our -- the newer products in our portfolio, those products are capturing more and more value, and that's reflected in the ASPs.

And what's the stickiness, I think, was the other part of your question. The answer, very simply, is very sticky because our products have very long lifecycles, and the most competitive part of the cycle for ADI is capturing the initial design in. When we get that design, substitution is effectively zero -- competitive substitution is effectively zero. So with a long product lifecycle portfolio, I think we're in a strong position to hold the gains that we make.

Rich, did you want to --?

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

Yeah. Hey, Vivek. I'll just add because I think the question you asked -- the tactical pricing piece, which we talked about in the last quarter, actually came through as expected in the results. So everything that was above the midpoint of our guide was actually due to volume, not incremental price.

So the pricing played out as we expected. And if you think about a full-year look of '26, the pricing actions that we've previously described, we'll add a couple points to our growth rate in '26.

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

Thank you.

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

Thanks. We'll take our next question, please.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

Yeah, thank you. The 90% growth that you talked about in the data center portion of Communications, can you kind of update us on growth trends within both the optical and power side of that? And just how should we think about growth there going forward if you're doing tuck-in acquisitions that can expand the TAM on the power side? Thank you.

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

Sure. So Joe, I'll take that one. So as I mentioned, with the data center piece being 75% of our comps and the 90% growth, actually that is being fueled pretty much equally by similar growth rates across both the power and optical portfolios. So those are both continuing to trend very well with strong orders and strong results in the quarter. And given the momentum we're seeing, we really do expect this to continue to increase and be the fastest grower sequentially for us as we look out into the next quarter.

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

Thank you, Joe. We'll move on to our next question, please.

Operator

Joshua Buchalter, TD Cowen.

Joshua Buchalter - *Cowen and Company LLC - Analyst*

Hey, guys. Thanks for taking my questions, and congrats on the results. Maybe following up a little bit on Vivek's, could you walk through what's implied for gross margins in the fiscal third quarter? Maybe help us understand the levers across pricing, mix, and utilization. I know there's a 50 basis points of inventory true-up that won't repeat, but how should we think about gross margins in the third quarter? Thank you.

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

Thanks, Josh. So obviously, starting with the 73% gross margin, which was even a little higher than we expected based on some better mix and utilization, and as I mentioned, the pricing impact was pretty much as expected. For Q3, we are assuming about a 50-bps decline in gross margin, largely driven by the absence of that one-time benefit we got from repricing the channel during the prior quarter, obviously.

And from a mix perspective, we do expect it's likely to be a slight tailwind based on our outlook. While, as I mentioned previously, utilization is expected to be fairly neutral, the future -- we don't see a ton of future upside on gross margin from utilization given where we're running the factories today. So that's how we're thinking about it here in the near term, Josh.

Joshua Buchalter - *Cowen and Company LLC - Analyst*

Thank you, Rich.

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

Thanks, Josh. Move on to our next caller, please.

Operator

Matthew Prisco, Cantor.

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

Hey, guys. Thanks for taking the question. I guess just how are you seeing the segments tracking into the July quarter today? And maybe how are you thinking about the back half of the calendar year based on your visibility? Thank you.

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

Sure. So I'll just start with a quick recap. Obviously, for Q2, Industrial came in as expected, right up 20% sequentially, and then we saw upside everywhere else, notably in Auto and data center. One of the things we talked about is the continuing strength in data center. We're also starting to see better results than expected in Auto. Consumer continues to show incredible resilience despite the consumer sentiment and some of the inflationary pressures. But as we look out, we do expect to see some impact there.

So if we look at what we think at the midpoint of the guide, what we expect to see in Q3 is continued above seasonal growth across Industrial, Automotive, and Communication. So from an Industrial and Automotive perspective, we'd expect to grow sort of mid- to high-single digits sequentially. From a Comms perspective, we expect to be our fastest grower, up low, mid-teens, low to mid-teens sequentially. Consumer is expected to be down single digits sequentially for us based on some of the things I just described.

And then important baked into that outlook is also a flat channel inventory weeks. We don't tend to guide out, obviously, beyond the next quarter. But I would just remind you, from a seasonality perspective, the fourth quarter for us is usually up in the low-single digits. And so that's the best outlook we have right now for the back half of '26.

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

Thanks.

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

Thanks, Matt. We'll take our next question, please.

Operator

Stacy Rasgon, Bernstein Research.

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

Hi, guys. Thanks for taking my questions. I wanted to drill just a little bit more into the gross margins. So you did -- I understand the driver in order to understand the guidance. We're thinking about Q3 in that range as sort of a likely ceiling for now, given utilizations are maxed. It sounds like if you're going to get more revenue upside from here, that would suggest that you're going to have to do more outsourcing given the flexible manufacturing.

I guess I'm just trying to -- I guess, is that logic correct? And is that sort of, I guess, the local peak on gross margins we ought to be thinking about, at least in the near term on the current revenue trajectory?

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

Yeah. I actually think that's the right way to think about it. Near term, this is probably the right way to think about -- the guided gross margin is the right way to think about it. Obviously, any more significant mix shift from a growth perspective could change that. But given where we see that outlook for Q3 and the potential trend into Q4, I think that's the right way to think about it.

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

Is data center higher gross margin like Industrial? Or is it more in line or is it lower or what? Because that seems to be the biggest driver in mix.

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

Yeah. Overall, the Comms business, which includes that data center chunk, is an above corporate average business for us.

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

Got it. Thank you, guys.

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

Sure.

Operator

William Stein, Truist Securities.

William Stein - *Truist Securities, Inc. - Analyst*

Great. Thanks for taking my question. Since I was sort of surprised by the Empower acquisition, I would have expected ADI's heritage strength there, but certainly its acquisitions of Linear, Maxim, by extension, Volterra, would have provided the company a big advantage and sort of all the technical capabilities in power management. So what did Empower have that ADI decided was so special that it needed to acquire instead of developing it internally? Thank you.

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

Yeah, good question. I mean, first off, the power space is very dynamic. It has never been a stress from a technology portfolio standpoint for everybody. So I mean, what did -- so we're building intelligent power systems. We're using the breadth of the capabilities that we acquired, over the Maxim and LTC eras. And our customers are putting enormous demands on us to solve their problems across the board, right from the ingress to the data center down to the chip.

And the reason that we acquired Empower is that there was a gap in that portfolio, and time is of the essence. And the biggest bottleneck that is creating for us today is we've got to solve for power density and delivery efficiency. And we have to move closer to the core of the problem, which is down at the XPU, the GPU, the CPU, and so on and so forth. And as I said, time is of the essence.

And we bought some -- we're buying some critical and very, very unique intellectual property. The integrated voltage reg and the capacitor technology, these are critical building blocks and essential for ADI to solve our problem -- to solve our customers' problems on time and be able to catch the wave. So where we've been building a portfolio, a vertical power portfolio, that is the future, I believe, in terms of the raw architecture. And Empower gets us farther up the value chain more quickly to solve more problems more completely for our customers. That's essentially it.

And there's a lot of new TAM that we capture with this technology as well. So it's highly complementary. Well, that's the point in a space where performance demands are effectively uncapped.

William Stein - *Truist Securities, Inc. - Analyst*

Great. Thanks, Vince.

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

Thanks, Will. Take our next question.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research LLC - Analyst*

Yeah, thank you. If I could just follow up on Empower a bit as well. And can you speak -- is there any revenue associated with that acquisition right now? And I'm sure you're acquiring for the IP and the engineering team, but are there any design wins in the pipeline and when -- maybe provide a timeline for when you would be expect to be able to integrate that technology into the core of ADI's project line?

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

That was a lot of questions, Chris. I'll start with -- if they stay on their trajectory, we will see some -- there'll be some amount of revenue, upon closing, in the back half of our year. It will certainly not be material to us in that regard. But as mentioned, it opens up a massive opportunity for significant revenue growth in the go forward, particularly as it relates to the IVR technology.

So we would expect that to be -- a perspective on the timeline, Vince, how fast we get there.

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

No, I mean, we inherit a fairly small amount of revenue. So it's kind of in the post-revenue phase, but '27 is when we expect to start seeing the surge in demand. There's a lot of design-ins in train at this point in time. The combination of Empower with ADI's large manufacturing and go-to-market capabilities will enable us to get to more places more quickly and get into production much, much faster. So I think you will see revenue, significant revenue in 2027.

Chris Caso - *Wolfe Research LLC - Analyst*

Understood. That's good.

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

Thanks, Chris. Take our next question, please.

Operator

Tom O'Malley, Barclays.

Tom O'Malley - *Barclays Services Corp - Analyst*

Hey, guys. Thanks for taking my question. I wanted to zoom in on Auto a bit more stronger than expected. You're kind of hearing across the supply chain that coming out of the pandemic, you've moved from this kind of just-in-case and just-in-time mentality to switching to basically holding more inventory at Tier 1s and at OEMs. I'm just curious, when you're looking at where the strength is coming from in Auto today, are you seeing some restocking at those end customers? I've heard it's kind of a mixed bag. Some guys are above target, some guys are materially below.

Are you seeing this kind of phenomenon where guys are slowly moving back to the range that you saw kind of prior to the pandemic? And then any area that you would call out specifically as a growth driver in Auto, just given the broader backdrop being weaker? Any areas specific to ADI that are a little bit stronger? I know that's a couple. Thank you.

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

Thanks for the question, Tom. Great question. Maybe I'll give a little bit of a background on some of the detail part of what we've seen growing and what we're seeing in our customer base, and then I'll work my way down to your question about inventory, because that obviously is an area we pay a significant amount of attention to, given some of the challenges companies had burning off the inventory.

But as we look at our Auto business, I think I've talked about this before, it has compounded double digits for us for 10-plus years. In fact, it grows even faster over the last five years. And a lot of that is being driven by content gains, or all of that's being really driven by content gains and share gains because of the units we've talked about having changed. Now, what's really important for us is our gains are in the ADAS and next-gen infotainment systems. So you think about our products like GMSL, functionally safe power, and A2B. Those have been really important investments where we've continued to see a ton of growth.

Now, we have talked about this in the past. We saw some tariff-related pull-ins back in '25 that we thought might weigh on our first half. We certainly saw that unfold in Q1 with the below seasonal. And we were expecting, I mentioned this on the last call, another below seasonal quarter as a result. However, it ended up favorable and reflected regular seasonality.

And if you recall last quarter, and there was some skepticism, I think, we thought we indicated a stronger second half and that we would grow Auto in '26. That strength, which we were expecting to come through in our second half, came a bit sooner, right, led by a material pickup in China during the back part of the quarter, and that drove a significant part of our Q2 upside. While China was still declined quarter over quarter, all of our other regions were up, including record performance in Europe and Japan, which resulted in a record quarter for our Automotive business.

And back to the inventory question a little bit, I was pleased to share over the first time in two years, we saw our BMS revenue grow up double digits year over year, and we are optimistic in continued growth for BMS, driven by further EV penetration in Europe and China specifically. And we continue to hear that the China penetration is increasing fast and that they're going to start deploying even higher levels of ADAS. We expect to see L3 ADAS in some of the China vehicles by the end of the year. So these are all strong, positive things for us.

And as we look out at Q3, we have record bookings, positive book-to-bill, and so we do expect to see above seasonal growth, sort of in that mid-high single digits. We are pretty confident in the outlook for the rest of the year for us in Auto.

Now, on the inventory build-up question, we're not seeing that yet. After the digestion, which we talked about, particularly in BMS, we feel like Automotive customers are fairly lean on inventory, at least the ones we talked to, and which is very supportive of our growth expectation going forward.

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

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

Operator

Tore Svanberg, Stifel.

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

Yeah, thank you. I just have a quick follow-up. So I think there's increasing concerns about capacity, especially external capacity, given what's happening on the digital side of things. So I don't know if you're willing to share with us numerically how much capacity you have internally and externally, meaning how much revenue you could generate? And how do you plan to grow that over the next few years, especially now that you're growing more than 30%? Thank you.

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

Yeah. So we've talked about the work we've done to double our internal capacity and obviously continue to expand our partnerships. And we are comfortable that we have the capacity to support up to the $20 billion that we've been talking about as part of our 2030 vision.

And obviously, just as part of our normal refresh and CapEx management cycle, we're continuing to look at opportunities for increased efficiency, but also opportunities to build some additional internal capacity as needed. That's just part of the normal dynamics we go through on the internal side. And then, obviously, externally, we've got very strong relationships, and to date, we have not had trouble expanding across that. Clearly, there are more tightness in some of the nodes, but we have not yet been unable to get the capacity we've needed.

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

Yeah. Tore, we've been building, both internally and externally, optionality. Externally, we've put a lot of geographical optionality in play, which gives us more capacity plus the resiliency that our customers are looking for. So we still have a lot of upside on the current base revenue, ADI, both internally and externally.

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

Sounds good. Thank you.

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

Thanks, Tore. 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

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
