REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ADI.OQ - Q1 2023 Analog Devices Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2023 / 3:00PM GMT

OVERVIEW:

ADI reported revenue of $3.25b and adjusted EPS of $2.75. Co. expects 2Q23 revenue to be $3.2b, plus or minus $100m and adjusted EPS to be $2.75, plus or minus $0.10.

CORPORATE PARTICIPANTS

Michael C. Lucarelli *Analog Devices, Inc. - VP, IR and FP&A*

Prashanth Mahendra-Rajah *Analog Devices, Inc. - Executive VP of Finance & CFO*

Vincent T. Roche *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

CONFERENCE CALL PARTICIPANTS

Ambrish Srivastava *BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst*

Christopher Brett Danely *Citigroup Inc., Research Division - MD & Analyst*

Christopher James Muse *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst*

Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst*

Stacy Aaron Rasgon *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Tore Egil Svanberg *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Vivek Arya *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Analog Devices First Quarter Fiscal Year 2023 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. Michael Lucarelli, Vice President of Investor Relations and FP&A. Sir, the floor is yours.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thank you, Gigi, and good morning, everybody. Thanks for joining our first quarter fiscal '23 conference call. With me on the call today are ADI's CEO and Chair, Vincent Roche; ADI's CFO, Prashanth Mahendra-Rajah. Anyone who missed the release, you can find it and relating financial schedules at investor.analog.com. On to the disclosures. Information we're about to discuss includes forward-looking statements, which are subject to certain risks and uncertainties, as further described in our earnings release and our periodic reports and other materials filed with the SEC.

Actual results could differ materially from the forward-looking information and these statements reflect our expectations only as the date of this call. We undertake no obligation to update these statements, except as required by law. Our comments today will also include non-GAAP financial measures, which exclude special items. When comparing our results to our historical performance, special items are also excluded from prior periods. Reconciliation of these non-GAAP measures to the most directly comparable GAAP measures and additional information about our non-GAAP measures are included in today's release.

And with that, I'll turn it over to ADI's CEO and Chair, Vincent Roche. Vince?

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Thanks very much, Mike, and good morning to everyone. Well, I'm very pleased to share that ADI continued to execute exceptionally well in the first quarter of fiscal '23 despite continued macroeconomic uncertainty. Revenue was $3.25 billion, up 21% year-over-year. Strength was broad-based with all B2B markets up [double digits] (corrected by company after the call). Gross and operating margins were 74% and 51% respectively, and adjusted EPS achieved another record at $2.75. Our continued success is driven by a relentless focus on customer collaboration, a growing demand for our innovative technologies and strong operational execution. We play a long game and are excited about what the future holds for us. To ensure that we capture the opportunity ahead, we've been steadily increasing investments in R&D, manufacturing capabilities and in partnerships that deepen our value to our customers now and over the long term. For example, in R&D, we've invested $1.7 billion over the trailing 12 months to strengthen our core franchises and capture market opportunities presented by secular growth drivers.

Over this same period, we've invested $750 million in CapEx to enhance the resiliency of our internal semiconductor manufacturing operations. These investments not only increase our operational resiliency, but also modernize our fabs to better address our sustainability ambitions.

As mentioned in our press release, our industrial and automotive businesses remain strong as we gain market share. So this morning, I want to focus specifically on our industrial business, which continues to grow significantly despite the macroeconomic backdrop. Now from a big picture perspective, the industrial market is the bedrock of ADI, representing more than half of our total revenue. It's also our most diverse and profitable business segment with tens of thousands of customers and products that sustain revenue streams for decades. Additionally, ADI's industrial revenue is derived from high-performance technology in mission-critical CapEx-intensive equipment across the myriad applications.

Our leadership position has been strengthened over the last decade as we intensified our focus in this market and invested over $5 billion in R&D activities to capture the opportunity across the hundreds of applications that characterize the industrial sector. This space is inherently fragmented and the unmatched breadth and depth of ADI's portfolio uniquely allows us to address our customers' needs across the full spectrum of applications with core component building blocks to application-specific solutions that encompass analog, digital and algorithms.

Today, we're seeing the rise of new industrial applications that require more sophisticated and more complex architectures as machines become more intelligent and more sustainable. This is driving more semiconductor content per dollar of CapEx, unlocking new opportunities for our portfolio. While this transformation is benefiting all of our industrial applications, including healthcare and aerospace, let me share how we're winning in industrial automation and instrumentation more specifically, and discuss the burgeoning opportunity across the electrification ecosystem.

So starting first with Industrial Automation. Here, our customers are upgrading their factories with more automation and connectivity to increase output with greater energy efficiency. ADI's broad portfolio helps customers create these more resilient and flexible footprints while lowering their carbon emissions on the journey to net zero. As an example, at a leading U.S. robotics manufacturer, we've won additional content across power, sensing and GMSL connectivity. Our systems approach reduced our customers' design time and increased our content per cobot by 4x.

Also in the last quarter, our IO-Link solution was designed in at multiple leading industrial automation customers. These solutions are critical for delivering robust connectivity to the edge of the factory floor.

Turning our attention now to our instrumentation and test business. This subsector is highly aligned to secular growth trends from connectivity to AI-assisted compute to electrification, to drug discovery and gene therapies. The consistent thread across this diverse set of applications is the growing complexity that requires more advanced metrology and test. The results, our average content per system is now 2 to 3x higher. Further, the localization of semiconductor supply is providing additional tailwinds for our test business. We've secured multiple design wins in North America as well as Asia for memory and high-performance compute.

And finally, on to one of our fastest-growing areas, the electrification ecosystem. The collective need for a more sustainable future is driving massive growth in electrical grid infrastructure.

Now let me share 2 examples with you. First, industrial and automotive companies have announced more than $300 billion of investments in greenfield gigafactories, essential to the production of batteries to proliferate the electrification ecosystem. These Gigafactories will drive additional demand for our formation and test solutions critical to producing higher density batteries. Further, given the inherent safety hazards of using higher cell voltages, these factories will also provide new growth vectors for ADI. In our sustainable energy franchise, we're leveraging our industry-leading automotive BMS solutions into energy storage systems for electrical grids and fast-charging infrastructure. We've won designs at leading EV infrastructure manufacturers in North America, Europe and Asia, putting us on a path to more than tripling this business in the coming years.

Of course, while no market is fully immune to adverse economic cycles, our industrial business is highly diversified and aligned with secular trends. This has translated to more durable revenue streams with sales in this sector increasing more than 25% over the trailing 12 months despite a weakening economic backdrop. But looking ahead, we see continued strength in this franchise as the breadth and depth of our portfolio, our deep customer collaborations and design win pipeline momentum underpin our new phase of profitable growth.

So in closing, ADI's business model is diverse, resilient and rich with opportunity. I'm very optimistic about what our future holds as we drive enhanced value for our customers, employees and shareholders, as well as society at large. And so with that, I'll hand you over to Prashanth.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Thank you, Vince. Let me add my welcome to our first quarter earnings call.

My comments today, with the exception of revenue, will be on an adjusted basis, which excludes special items outlined in today's press release. First quarter revenue of $3.25 billion finished at the high end of our outlook, driven by continued share gains in industrial and automotive.

Our B2B markets represented 89% of revenue, up 25% year-over-year and increased 2% sequentially despite our first quarter typically being down.

Now let's look at performance by end market. Industrial, our most diverse and profitable end market represented 52% of revenue and hit another all-time high. This business has grown sequentially for 12 consecutive quarters. All markets increased year-over-year, led by automation, sustainable energy, instrumentation and test. Automotive, which represented 22% of revenue, also achieved another record, increasing 29% year-over-year and 6% sequentially. All applications grew double digits year-over-year as our market-leading positions across battery management and in-cabin connectivity continued to deliver significant growth.

Communications, which represented 15% of revenue, grew 18% year-over-year. As expected, comps declined slightly sequentially as strength in wired was offset by softness in wireless due to the timing of 5G deployments. And lastly, consumer, which represented 11% of revenue was down 5% year-over-year and declined 14% sequentially given weaker market trends and seasonality.

Now on to the rest of the P&L. Gross margin of 73.6% expanded 170 basis points year-over-year on favorable mix and cost synergies. OpEx was $733 million, down slightly sequentially as we balance strategic hiring with the tight discretionary spend and synergy capture. Given our strong operating leverage, combined with the synergy savings, our operating margin was 51.1%. Importantly, we have already captured nearly all of the $400 million cost synergy goal. As such, our communication will now turn to the revenue synergy opportunities from our combined portfolio and our complementary customer base with Maxim.

Recall that Anelise, our Chief Customer Officer, unveiled how we are strategically approaching these synergies during our Investor Day, and Vince has routinely highlighted some of these compelling opportunities over the past few quarters. To that end, we are closely monitoring and measuring progress from opportunity to design win, to new revenue. And while it is still early, design win momentum to date has exceeded our expectations. This gives us increased confidence in achieving our $1 billion-plus revenue synergy opportunity that we outlined at our Investor Day.

Non-op expenses were $60 million and the tax rate was just over 12%. All told, EPS came in at $2.75, up 42% year-over-year and hitting a new record.

Moving to the balance sheet. We ended the quarter with approximately $1.7 billion of cash and a net leverage ratio below 1. Days of inventory increased to 155 while channel inventory remains below our target level. Recall that last quarter, we outlined our strategy to rebuild strategic die bank and hold more finished goods inventory on our balance sheet as we moderate shipment into the channel during this time of inflection.

Moving on to cash flow. CapEx for the quarter was $176 million and $764 million over the trailing 12 months, representing 6% of revenue. We continue to expect CapEx to be high single digits as a percentage of sales in 2023 and then decline in subsequent years to our long-term target of mid-single digit. These investments will double our internal revenue output exiting next year and support strategic swing capacity between our fabs and our foundry partners. The flexibility of our hybrid model across different geographies enhances our resiliency and offers our customers additional optionality.

Over the trailing 12 months, we generated $4.3 billion of free cash flow or 34% of revenue. Over this period, we have returned $4.7 billion to shareholders or over 100% of free cash flow via $3.1 billion of buybacks and dividends of $1.6 billion. We just raised our quarterly dividend by 13%, marking our fifth consecutive double-digit increase and 19 consecutive years of increases. This is a testament to our durable operating model that has generated positive free cash flow for 26 consecutive years. As a reminder, we target 100% free cash flow return. The dividend is the cornerstone of this policy, and we look to increase our dividend at a 10% CAGR through the cycle, with remaining cash used for share count reduction.

Now similar to prior quarters, I'd like to give a brief update on the operating backdrop. First, on markets. Industrial orders, as Vince highlighted, remained the strongest followed by automotive, while comms and consumer remain weak. Given the rapidly changing environment, we are diligently working with our customers to remove orders that they may no longer require.

At the same time, we have increased our supply by growing our internal output and working with our foundry partners. These actions have reduced our lead times with half of our portfolio now shipping in under 13 weeks. Despite this, backlog coverage remains around 1 year of revenue. As such, we expect our book-to-bill will remain below parity over the next couple of quarters as our backlog returns to more normal levels. Given these dynamics, we are guiding second quarter revenue to be $3.2 billion, plus or minus $100 million. We expect continued sequential growth in our industrial and automotive markets and another sequential decline in our communications and consumer markets. At the midpoint of our outlook, revenue will be up high single digits year-over-year with our B2B markets up over 10% once again. Operating margin is expected to be 51% plus or minus 70 basis points.

Our tax rate is now expected to be between 11% to 13% for the year. This guide reflects the new U.S. tax requirement to capitalize R&D expenses for tax purposes, resulting in higher upfront cash tax payments, but lowers our effective tax rate temporarily due to the deferred tax accounting requirements.

Based on these inputs, adjusted EPS is expected to be $2.75 plus or minus $0.10. In all, the macro backdrop remains uncertain. However, we remain cautiously optimistic in the near term given the resilient strength across our industrial and auto businesses, which represent over 75% of our revenue.

Longer term, we remain well-positioned to drive growth, enabled by our diverse, high-performance portfolio aligned with the key secular trends at the Intelligent edge.

Let me now pass it back to Mike for our Q&A.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Prashanth. We'll begin the Q&A session. We ask that you limit yourselves to 1 question in order allow for additional participants in the call this morning. If you have a follow-up question, please re-queue, I'll take your question if time allows. With that, we have our first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of C.J. Muse from Evercore ISI.

Christopher James Muse - *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst*

I guess my question really would center around the industrial strength that you're seeing. You talked in great detail around kind of emerging new markets, as well as increasing content yet. I think a lot of investors are focused on kind of declining PMIs around the globe. And so would love to hear your thoughts on why your business is acting so very different from maybe some of the larger macro trends and perhaps more color on how much of it is content, how much of it is maybe emerging growth areas that are not reflected in some of these PMIs would be very helpful.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. Thanks, C.J. So I think first and foremost, our success isn't by dent of chance. We've been investing heavily in this market for more than a decade, and it's really our focus. It's our core, it's the core of ADI and from both an R&D and customer engagement perspective, we've been really doubling down here over this decade plus kind of time span. And we've been gaining market share for sure. We have -- compared to even kind of 3, 4 years ago, we have -- we've always had a very strong position in the signal chain, the kind of data path processing electronics, but we've been able to, with the acquisitions of LTC and Maxim, we've been able to bring very strong competitive power portfolio to bear as well.

So I think from a portfolio perspective, we're in much better shape. I pointed out in the script as well that when we talk about industrial, it's truly the industrial sector. I know many competitors talk about other kind of indescribable sectors or businesses that are not well understood, like consumer, for example, other consumers. So I want to point that out as well. We have, as I said, many secular growth drivers in play. We see the average content per dollar of CapEx spend increased at a pretty meaningful level across all the applications, including instrumentation, factory automation is changing also. It's bringing more sensing, more compute to the edge and all of that is driving content gain for ADI.

So I think they are the primary drivers of the business. And yes, PMIs are, I would say, in the kind of retraction zone right now, but we see stabilization. And I think when China comes back as well, which is likely to happen, we believe, over the coming months, that will drive things even further into a positive zone.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

C.J., this is Prashanth. I'll just put one more thing just to help folks understand kind of the breadth of that growth. All of our submarkets were up double digits year-over-year, and most of them increased quarter-over-quarter. And if you look at it by geography, we had strength in America, Europe and Japan, again, all up double digits year-over-year, offsetting a weaker China. So this industrial strength was very broad-based.

Operator

Our next question comes from the line of Vivek Arya from Bank of America Securities.

Vivek Arya - *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

I actually had a pair of kind of related question, which is how long can book-to-bill remain 1 before it starts to become worrisome. And usually, if I look historically for ADI, generally, the second half tends to be better than the first half. What would support that view or prevent that from happening this year?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Okay. Yes. So Vivek, let me maybe take a walk through cancellations, backlog lead times to help answer that. But I do want to clarify, you said on book-to-bill. Our book-to-bill is sub 1. I thought I heard you say it was 1. Our book-to-bill is sub 1. We told you that was happening a couple of months ago, and I'd expect to carry for another quarter or 2 as we get through this backlog. So on the backlog, we've been saying for a while now that we've got record backlog, and we are working with our customers and our Disti partners to get this rationalized with what customers need today versus perhaps the orders they had placed on us 6 or 9 months ago when we had very long lead time.

This progress is what is being reflected in that book-to-bill ratio below 1. I think that it will probably be below parity for another quarter or 2 as we get back to normal backlog. Lead times, the supply-demand imbalance is definitely getting better, slowly, but it's getting better. We're getting more wafers externally, thanks to the hybrid model. We have the flexibility to do that as well as the investments we're making internally as we've talked about with our CapEx deployment to increase production. So we have about 50% of the portfolio under 13 weeks today, meaning it can ship within the quarter, and that's going to continue to improve over the -- through the second half. So takeaway sort of given lead times falling, bookings getting higher quality compared to year ago as customers aren't ordering for stuff way into the future, and at the place backlog, and we feel this is positive for visibility, and we're really getting to true demand.

Vivek Arya - *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

And anything on second half, Prashanth because it looks more like a soft takeoff then a soft landing from the trends.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

So I don't want to go out too far, but I'll just give you a couple of comments here. And if Vince wants to make any long-term comment. We feel good about the outlook for the second quarter given the resiliency in auto and industrial. As I said, 75% of our sales come from those 2 segments, and we still have a year for the backlog.

Beyond the second quarter, it's hard on the 1 hand to make a call, given that we have strong backlog coverage, but we also understand there's a lot of macro uncertainty out there and things are changing fast. So I'm not going to make any predictions one area to pay attention to, and Vince made a comment on this, is China. I think we and many companies are watching China. If demand accelerates in the second half given sort of the optimism on consumers and government that would be -- that would be good for a number of organizations. Vince, anything more longer term, you want to add on that?

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Well, I think, Prashanth, we've clearly built a lot of resiliency into the way we run the company into the business model as well as the manufacturing operations. So who knows what the second half is going to bring. But what I can tell you is that -- we've been through many, many cycles before and never have we been better positioned in our history than we are now from a portfolio, from a customer engagement standpoint. So this industry is likely -- it's taken us kind of 20 years to double from kind of 2000 to 2020, we've probably doubled the content that the industry builds over the next 10 years. And I believe ADI is very, very well positioned given the strength, as I said, of our portfolio, our customer engagements, and this hybrid manufacturing model that we've got in place to enable us to capture the upside and manage the downside.

Operator

Our next question comes from the line of Tore Svanberg from Stifel.

Tore Egil Svanberg - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Congratulations on the results. So on Maxim now that we're sort of moving from the cost synergies to the revenue synergies, are there any particular areas that we should keep an eye on there, whether end markets or product categories where you expect to see that $1 billion in synergies?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Yes, let's do that in 2 parts. I'll give you a little bit of context so that everyone remembers what we talked about and then hand over to Vince. So we've closed on the cost synergies. We feel great about that. So we're focusing now on revenue synergies, and we're tracking ahead of schedule. We think about that synergy in stages. So first, we need to identify the socket. We need to win the socket. We begin shipping to the customer, and then we hit volume. So we are tracking all of those stages through our internal material. As I said, Anelise gave you a target in April to come -- to deliver $1 billion of incremental, Vince is holding her to a higher bar than that. So she's on track to hit that $1 billion. And we've got -- we've seen early success.

I think you've heard Vince share a couple of examples over the last couple of quarters. For example, in the -- our ability to cross-sell A2B as well as put GMSL into non-auto customers, which is new. So let me pass off to Vince here for what are some of the other areas that we're thinking about.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. When we announced the combination, Tore, with Maxim, we pointed out 2 particular market areas where we thought ADI was underway to where power, in particular, power management was really important, power in data center, for example. And you know the compute density skyrocket. And in fact, in the compute area, performance and power are pretty much one and the same thing.

So we have now a very competitive product portfolio that we can bring to more application-specific areas such as data center as well as automotive. I think a very positive surprise is that the connectivity portfolio based on GMSL, the multi-gig serial link is that not only are we gaining more and more traction in automotive, but also we're bringing it to other areas such as industrial as Prashanth mentioned. BMS, we've got 16 of the top 20 wired BMS OEMs, sockets in the top 20 OEMs. And Maxim strengthens that portfolio as well.

So in Industrial, I mentioned in the prepared remarks that the IO-Link technology is very, very -- that Maxim brings to bear is very, very complementary with ADI's data pack solutions. So I think there are multiple areas. And I think the message I want to convey here is that I was always optimistic about what we could do with a greater channel more cross connectivity to the ADI portfolio, but I'm more enthusiastic than ever based on what I'm actually observing now with the various markets and customers in which we're playing.

Operator

Our next question comes from the line of Chris Danely from Citi.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Just one more clarification on the lead times and the shortages. So you mentioned that half of the portfolio has lead times of less than 13 weeks right now. Can you talk about what that was 3 months ago? And then when would you expect the lead times to, I guess, "largely normalized" and with a couple of flat quarters, and it seems like you've got plenty of inventory. Why aren't these lead times normalizing a little bit faster?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Sure, Chris. Let me -- Mike will have to remind me where we were 3 months ago. But the -- so the supply-demand balance is getting better. We're getting more wafers. So in addition to our internal -- in addition to our internal production, the way to think about the lead times is we've got half the portfolio shipping within the quarter. And certainly, in the next quarter or 2, we will have the overwhelming majority of that down to within 1 quarter. The inventory build, as I mentioned, is in part due to our desire to kind of keep more inventory on ADI's books because we are clearly in a period of great uncertainty, and we're being very mindful of putting too much to our channel partners when there's this much uncertainty out there.

So that will -- as lead times improve, our channel partners can count on us to get what they need in quick turns and then we'll be able to more reliably think about what's the right stocking level for the channel.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

And Chris, to your question, where was it the beginning of the quarter. You look at that metric, so under 13 weeks beginning of the quarter, it was probably about 25% of the portfolio. So we doubled that number. And Prashanth, we want to get it close to 100% exiting this year. And I know Vince is pushing hard to get even sooner than that. I think the biggest takeaway at lead times is, the shorter lead times, the more high quality of the bookings are. I think that's what we want to see is the true underlying of what was demanded as those lead times continue to come in. And why is it takes so long while demand is strong, right? Demand is strong. It's hard to reduce lead time in a strong demand environment.

Operator

Our next question comes from the line of Stacy Rasgon from Bernstein Research.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Maybe it's a dumb question. I'm having a little bit of trouble squaring the majority of the portfolio getting to be within 13 weekly times together with a year's worth of backlog. How do I square those 2 things? It feels like the backlog should be shorter if the lead times are actually like getting back to normal. Maybe the other way to ask it is, when the majority of the portfolio has 13-week lead times, where do you expect that backlog to be?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Yes. So Stacy, I think perhaps the missing element of your -- how you're thinking about it is the assumption that, that backlog is delinquent. It is not. When the lead times get extended, customers put the orders on us, but they also tell us when they want that product delivered. So there's a visibility curve to that backlog. It is not that it is all past due and needs to be shipped against.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Oh, I see. Okay. So you're -- Okay. So you've got orders out. We know that we're going to be shipping this to you in 6 months when they take place. So I guess, where do you expect that backlog to be standing given what you see for demand once, say, wherein a quarter or 2 passes and the majority of the portfolio is shipping within the quarter. Where do you expect the backlogs to be?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Well, let's go back to the -- if we get to -- if we return to what was normal for us, pre-COVID, let's say that because that's the best perspective we can give you. If we return to what does normal look like, then at the start of a 13-week quarter, we would have about 10 weeks of that quarter in backlog and then there would still be some incremental backlog out there for future quarters, but it would be meaningfully smaller because customers know that they can put that order on us in essentially less than a quarter's notice. So that's what normal looks like. Now given the supply demand challenges and the increasing importance of analog products to our customers, we may benefit from some greater visibility in the future, but I don't want to call that today.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. So I guess, does this mean are you effectively over shipping demand right now because the backlog is pulling it? Or is that not the right way to think about it.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

No, I would -- I'm not sure how you would conclude that. We are -- we have the -- we have demand from our customers in that backlog that tells us, I want this product in Q1. I want this product in Q2, this product in Q3, and that is what we are matching up for. But it gives us a visibility that we have historically not had at this level. That is why they are not as incented to put new orders on us because they've given us those orders, hence, book-to-bill on 1.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. One other thing worth pointing out, Stacy, is that we run our demand signals are sell-through. We run our factories on the basis of POS demand rather than (inaudible) or POA demand. So it gives us more integrity around the demand signal.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thanks, Stacy, for that 3-part question. Use your question for next quarter, so we're not going to (inaudible) next quarter.

Operator

Our next question comes from the line of Ambrish Srivastava from BMO Capital Markets.

Ambrish Srivastava - *BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst*

I'm going to keep it to one. Mike, I don't want to get in your bad site. Vince, I actually wanted to focus on a bit on long term here. TI was called out a much higher growth rate for analog and for themselves as a result. And I was wondering if you share the same view, I know you guys have had 7% to 10%. And Vince, you have always all the conversations over the years, you always felt that the analog industry going forward should grow faster than the 5.6 odd that you've seen over the long term. So I was just wondering how you think about analog growth, and you called out a bunch of secular drivers that 4 or 5 years ago didn't even exist for the analog industry and broadly for semis.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. Thanks, Ambrish. Well, I think as I pointed out in the prepared remarks, we are seeing more, for example, in the industrial space, more content per dollar of CapEx invested by our customers' customers. And that trend has been in play for several years now. That, coupled with ADI's portfolio strength, the breadth we have, the -- as I mentioned, the data path, which has been ADI -- core ADI traditional strength, adding LTC and Maxim Power portfolios. That gives us the opportunity to tap into more of the TAM, so to speak, half of the analog market TAM is kind of data path, the other half is power.

So we've now got the highest -- the highest performance portfolio in the industry, the greatest breadth and depth. And when you see what's happening there with healthcare, our digital healthcare business, which is getting on for kind of $1 billion over the next year, 1.5 years, aerospace and defense, coupled with automation and instrumentation that we've talked about in the prepared remarks, we're very, very bullish about our ability to drive growth in the market. The other thing I want to point out is that we focus on driving our revenue growth through high-quality innovation for which we get paid, we get 3x the ASPs of the analog market at large, and we got more than that compared to our biggest competitor. So I want to make the point that we focus on shipping value versus volume. So I think with the secular growth drivers, the way we've structured our business model, our focus on high performance, being able to capture more value with all the things we've talked about over the course of the call here, I'm focused on what we can do as a company, and I believe we're better positioned than ever.

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Ambrish, this is Prashanth. Maybe just 2 things to add. First, our long-term growth model is built on all of our segments. So industrial certainly is an important, very, very important part of it, but we look for all of our operating segments to be able to contribute to that. We've had 2 consecutive record years with greater than 20% growth. And with the numbers that we've shared today, we're off to a strong start for 2023. Our 7% to 10% CAGR outlook, which we revealed -- unveiled last April already reflected a faster growth versus sort of the historical mid-single-digit rate. And as we said in the prepared remarks as well as in addressing, I think it was Tore's question, we have meaningful delta with the revenue synergies from Maxim, which is really idiosyncratic to the ADI story.

Vincent T. Roche - *Analog Devices, Inc. - CEO & Chair of the Board of Directors*

Yes. I just want to add comment -- I just want to add one final comment, Ambrish to this part of the conversation. I've had innumerable conversations with CEOs across the globe over the last three years in particular, it's certainly intensified with the crunch on supply. But I got 2 consistent questions from them, irrespective of what sector they're in. How can we get closer to ADI's longer-term technology road map and also how do we bond together more tightly when it comes to understanding supply chain and collaborating more together across those 2 dimensions. So that's the sentiment. And I think given -- the way we've conducted ourselves over the last 3 years, we're better positioned. Our brand is -- has been augmented and strengthened over the last several years. So yes, I think we've got a lot of strong logic as to why the market will strengthen and why ADI will be better positioned than ever to capture the opportunity.

Operator

Our next question comes from the line of Harlan Sur from JPMorgan.

Harlan Sur - *JPMorgan Chase & Co, Research Division - Senior Analyst*

There's second half uncertainty as you mentioned, probably more so in your comms and consumer businesses, maybe a little bit in industrial due to the soft PMIs as was mentioned earlier. But global auto demand trends, especially EVs remains pretty resilient, right? And you guys have a strong design win portfolio in automotive that is starting to unfold. I know last earnings call, last month at CES, the team remain pretty confident on growing your automotive business this year by double-digit percentage on a flattish sort of SAARs. So if you look at some of the third-party research, I mean SAAR is forecasted to grow 2% to 3% this year. So is the team still confident on driving strong double-digit percentage growth profile this fiscal year in auto?

Prashanth Mahendra-Rajah - *Analog Devices, Inc. - Executive VP of Finance & CFO*

Thanks, Harlan. Yes. So -- if we look at our outperformance versus SAAR, it comes down to a couple of items. First, as you mentioned, there's a mix of premium cars. So higher content per vehicle and EV growth is accelerating and our content is 3x as high on an EV versus a traditional ICE car. We've spoken at length that we've got real key content adders, our BMS product, our GMSL and our A2B are adopted, and they're really taking meaningful market share across all of our customer base there. And I think because of the performance that we bring to our customers, we're able to capture value better than perhaps some others. So with those 3 working, we still feel pretty good that we're going to continue to have a 2 to 3x multiplier on SAAR. So I don't want to make a prediction as to what SAAR is. So you've got -- I think IHS has a mid-single-digit number, a lower mid-single-digit number out there. But we're -- for the year, I expect us to kind of be 2 to 3x wherever that lands.

Michael C. Lucarelli - *Analog Devices, Inc. - VP, IR and FP&A*

Thank you, Harlan. Thanks, everyone, for joining us on the call this morning. Two quick ones before I let you guys go. Our next earnings call will be held a week later than normal as Vince was asked to give a keynote at the [Imec] Technology World Forum. So do not panic, when we see our announcement, the earnings is not 2.5 weeks after close, about 3.5 weeks.

Second, we are planning to restart our ADI on coverage series, where we do a deep dive into a market in the coming months. The first one will be on some of the topics we hit on today, automation, energy efficiency, sustainability, electrification. So stay tuned for those. And with that, thanks again for joining us and interest in Analog Devices.

Operator

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