

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ADI.OQ - Analog Devices Inc at Citi TMT Conference

EVENT DATE/TIME: SEPTEMBER 04, 2025 / 2:50PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Chris Danely *Citi - Analyst*

PRESENTATION

Chris Danely - *Citi - Analyst*

Okay. Great. Thanks, everyone. Chris Danely, your friendly neighborhood semiconductor analyst here at Citi. It's our distinct pleasure next to have ADI Analog Devices.

We have Rich Puccio, the CFO. ADI is one of our favorite companies. And we think that one of the reasons or a couple of the reasons why we like the stock so much is you kind of get the best of both worlds. As we've seen at this conference, there's a lot of crosscurrents going on out there. I'll leave it to Rich to sort all those out, the Oracle of Boston.

But whether or not we have this continued upturn and things get even better, ADI has the leverage as evidenced by, I think they've had the best revenue growth of any of their peers this year. On the other hand, if these macro issues do continue, and we have a little bit of a pause in the upturn. ADI has the high sustainable margins and generous free cash flow to prevent any [damper], minimize the damage from that. So you get the best of both worlds. At least that's what I tell people.

Anyway so Rich, thanks for coming.

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

Thanks for having me.

Chris Danely - *Citi - Analyst*

You guys are probably one of the more recent companies to report. So if you could just give us just a brief recap from -- I think it was two weeks ago, the conference call, and then we'll dig in from there. And again, thanks for coming.

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

Appreciate you having me. So for us, and we've been talking about this for a while. We were pretty confident that industrial was going to lead our recovery back out of the cyclical trough, rewind back to our Q2 of we felt like we had hit the bottom of the trough, and we expected that we would start to see some reacceleration in the business with some modest sequential increases in the back half of '24. And then as the cyclical and idiosyncratic drivers for ADI started to play in, we'd see more growth. And that has, in fact, started to play out.

You saw in our results, very strong quarter growth led by our industrial business, which is important. That is the bedrock of our business. It's also the most profitable part of our business, and it has grown strongly, and we expect that it will grow again in Q4, which will be pretty far above typical seasonal for us to see as much growth as we've forecasted into Q4.

And that's a really important part of our business. And one of the things as we've worked through the cycle and I think a little bit of the chop that we've all seen is not all of the subsegments, whether it's in industrial or -- our end markets have followed the same pattern.

But for us, we've gotten to the point now where all of our end markets and in all of our geographies are growing on the industrial side. And we feel really good about some of the -- and we'll talk more about them as we go. I'm sure, more of the idiosyncratic things at ADI that are helping us grow in addition to some of the cyclical pieces. Obviously, we had a really good overall result.

And then from an end market perspective, the only thing that was a little bit different, which we talked about now for two quarters is we did have a little bit of incremental pull-in activity that we think is going to correct in the fourth quarter. And we've had two quarters now and they were a little bit different.

So if you remember the conversations coming out of our Q2, we saw -- thought we saw auto pull-ins and estimated that in Q2 in North America and Europe. And then in Q3, we saw some incremental pull-in activity in China. So when you look at the opposite of the strength we're seeing in industrial for 4Q, we will see a subseasonal quarter from an auto perspective as we get that correction behind us but we still feel really well positioned.

And record -- '25 will be a record year for us from an auto perspective. Obviously, we continue to have very strong consumer results. We've talked about the broadening of our portfolio of sockets there, and we've had continued to have new wins ramping in that space. I feel really strong across both handsets, hearables, wearables, gaming devices. So that's been a strong part of our business.

And then you look on the communications side, which for us is wireline and wireless. On the wireline side, we've continued to see really strong growth in support of the data center because in the data centers, we're selling in our optical modules and connectivity, and we're also selling in power management products and for hot swap power management, et cetera.

So that's been a really strong market for us and growing very rapidly in the back half of the year. So that leads us to where we feel pretty good about where we are in the end of quarter and heading into the 4Q. And we -- as we've talked about a little bit, we are seeing the signs of the cyclical upturn that we've been talking about happening for us, right?

We're now multi-quarters into pretty strong growth.

QUESTIONS AND ANSWERS

Chris Danelly - *Citi - Analyst*

If we sort of take out the pull-in volatility, maybe talk about like how the recovery in your core business has gone, the other 95% of it. Maybe start with at the beginning of the year, a lot of uncertainty out there. You guys are one of the first companies to talk about, hey, business is getting better, bookings are getting better. I remember you were first to talk about the industrial business stabilizing a year ago where you said, hey, half of our industrial business is starting to get better than the other half is not. And then pretty soon it was -- everything is better.

So maybe just if we ex out the pull-ins, we'll talk about that in a little bit, but your core business, how that sort of trended this year, starting in, I guess, the Feb quarter, the Feb print.

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

So I -- there was a great tee up. We were really leaning hard on two parts of our industrial business, in particular, where we've talked about, we had real strength in our aerospace and defense business and real strength in our automatic test business. So those two pieces of our business were very strong from the get-go.

And as you think about those, right, the aerospace and defense has been a good market and all of the external economic data and reporting about the increased spend military and otherwise, as Europe rearms itself and other parts of the world start doing that. We feel really good about where we're positioned there for -- currently and going forward on aerospace and defense.

And then again, tied into this huge infrastructure boom is on the ATE. All of that infrastructure requires high-bandwidth memory, high-performance compute, which requires more complex testing, which means more content for ADI in the testers, and we have a very strong share in testers.

So that was the initial part of the growth. right? And then as we started to progress into the year, and I talked about automation in a couple of quarters, we saw the automation start to turn and automation has now grown two straight quarters.

We are seeing growth in our Digital Healthcare businesses, and we're also seeing growth in our -- any big energy management area. So across the industrial subsegment, we feel like we've done really well. And that's the idiosyncratic piece.

Also, if you think about it from a cycle perspective, we were out in front of reducing inventories pretty quickly. So we've been reducing inventory, both in our channel and at our customers for the better part of two years now.

And I think that positions us really well because we are at some of the lowest channel levels we've ever been. We're well below our sort of historical seven to eight-week channel model. So we feel good about where we're positioned there.

And the work we do to look at what's on our non-distri customers balance sheets from an inventory perspective, that has the signs there that has normalized back down to levels, and we see it in the orders, net new orders for some of those customers coming through. So we feel good there.

And I still think there's room to run because if you think about the sort of the consumption line, assuming that, that industrial business would typically grow 5% or 6% CAGR over any period of time, you run that line out from pick your starting point to where we are today, even with the strength of the industrial recovery, we'll still be below that trend line.

We're also still 30% below our peak in industrial. And I think that's an important thing. So I think that we continue to see room for us to grow given we're below that -- still below the trend line and below our peaks. So I think that's an important piece on the industrial side.

And other than auto, all of our businesses are still below their peak values.

Chris Danely - Citi - Analyst

Yeah. By the way, we had a couple of companies talk about how strong the aerospace and defense mil/aero businesses. How big is that for ADI? Is that like double digits percent of revenue?

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

Aerospace and defense is about 20% of our industrial.

Chris Danely - Citi - Analyst

20% of industrial. Got it. I'll take it. All right. So maybe just talk about, since you guys just reported the linearity of bookings last quarter.

Did you see like a steady increase? Or was it a little more volatile, how that go?

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

Our booking was pretty linear, obviously increasing. And whether you look at it on a four-week trail, 13-week trail, you looked at the actual just weekly bookings, it was a pretty linear progression throughout the quarter. Obviously, stronger on the industrial side, as we've talked about and probably a little bit weaker on the auto side, given what we've talked about previously, but pretty steady.

Chris Danely - *Citi - Analyst*

Another one of your competitors talked about the automotive.

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

I got to get on this first, so you can't compare me to everybody.

Chris Danely - *Citi - Analyst*

That's kind of the object of the conference. We're happy to put you on any time you want. So they mentioned that while the automotive order rates to the semis are down, like the end demand for autos is still pretty good, and they're just working through some inventory. Is that pretty much concurrent with what you guys see out there? And any guess as to when the automotive supply chain will be through digesting the inventory.

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

It's interesting. If I use what we see in our business, we never got as far out of place on inventory in automotive as maybe our other end markets. but also with what we've seen in the area where we continue to see some inventory burn, which had an impact on us was the BMS part of our auto business.

But if you look across the rest of our business, I don't think other than this correction for the anomaly in the pull-in, I don't think there's still a big inventory burn there. And an important part of that auto story for us is the continued content gain, right?

Because if you look at our business over -- pick it a 10-year or five-year window, our auto business outgrows SAAR by low double digits. So -- and what's interesting, and you probably all see this, anybody who's bought a car recently whether it's a high-priced car, low or medium, there's more and more content.

And so with our leading positions in connectivity, whether it's A2B or GMSL, functionally safe power. All of this in-cabin immersive experience, the Level 2 ADAS that's being pushed into cars, those are all real content gains for us. And so that 10% content gain that we got over a 10-year period.

If you actually bifurcate that and look at the last five years, it's actually almost a 15% spread. Now it's a combination of content gain and some share gain, but a big piece of that is the content gain because we're continuing to see more sensor modalities and more microphones, cameras, speakers, et cetera, in cars that need connectivity and functionally safe power. So I think that positions us well in that market.

Chris Danely - *Citi - Analyst*

Got it. Yeah. Just to touch on the industrial revenue. I mean it's really -- it's bouncing back pretty hard for everybody, but in particular, for Analog Devices, but this is a fairly common theme we've heard throughout the conference. Why do you think industrial is coming back so strong?

Do you think it's just because for most folks, it was down 40-something percent, and we have to do some inventory replenishment. Has demand gotten a little bit better, some combination, something else out there. What's your sense as to why it's been so good. And you said it was still 30%?

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

On a trailing 12-month basis, industrial is still 30% below our peak. I do think an element of this is it was the most severe inventory correction we've ever seen, which -- and it lasted longer than we've typically seen a correction. And I think companies leaned out their balance sheets. But as the industrial piece starts to pick up. Now look, the macro signals are still mixed around industrial.

But the build for the rebound for us has been pretty strong. And I think that the inventory treatment has varied by customer, by vendor, end by end market, which is a little bit of that choppiness that we're seeing -- but I still think the majority of that is because of the severity of the inventory overshipped during that run up after the supply change breakage.

Chris Danely - Citi - Analyst

Because your industrial business has bounced back so hard, has there been any change in lead times of any of the products? Have you started to run out of anything out there?

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

So we're -- the majority of our products are still running lead times under 13 weeks. Vince talked about on the call that we had some longer lead times in a few spots, particularly in aerospace and defense, which we expect will get corrected over the next quarter. But otherwise, we haven't seen any significant deterioration in our lead times.

I think in a few of the high runners, maybe in ATE, we might be a little bit longer than 13 weeks on some of the parts, but the majority of our parts are under 13-week lead times, which is it's great. It's also one of those limiting things from a visibility perspective for us because we are at 13 weeks.

Chris Danely - Citi - Analyst

Yeah. We'll get the visibility in a second. One of the things that Vince did talk about was this macro uncertainty, and you mentioned it. Can you guys just define that a little bit? Is it just the whole tariff thing? Is it what you're hearing from your customers, what you're reading in the paper, all of the above?

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

So it's -- I'd say a couple of ways. And it's uncertainty both ways because it's the tariff and trade uncertainty. And for us, and we've talked about this before, the tariff and trade uncertainty is less about the direct impact to us, right? The impact of tariffs as they exist today is pretty nominal for us.

But what it does matter is what is it doing to GDP and what is it doing to demand creation/demand destruction because our products are in a lot of end markets where there are tariffs already and does that drive down demand?

And what does that do to GDP? So that's certainly an uncertainty, and that clouds the picture because two of the largest economies in the world, they're still in negotiations with our administration around the trade policies, right? So we still don't yet know where China and India will land on the spectrum. We've still got some potential even additional tariffs in our space specifically to come, right? So I think that's a level of uncertainty.

Second piece, I mentioned a little bit, if you look at which for us, industrial this is a really good barometer for us. the PMIs have been choppy, right? They're hovering around 50, but we've had a couple of months of contractionary PMI. So you got to pay attention to that because it does -- has historically been a leading indicator for where we're headed. The other piece is uncertainty around SAAR, right?

The number of vehicles are going to be produced. You look at the pressure, the rebates being removed in the US, the tariffs and the impact they're having on auto demand. And it's unclear what auto production plans might look like in '26. Now I feel good that we'll be able to get more than whatever SAAR is because of content. But we still don't have a good look in SAAR.

So those are some of the things from a challenging macro perspective. The flip side is, given some of the other macro data and the pressure that's now on the Fed, we might see rate decreases, which the market has been pricing in a little bit, and there's a lot of anticipation for that, that could be positive.

And if we can solve in the next three months, or between now and the end of the year, the remaining tariff things, getting some certainty will help us better shape the outlook for '26 broadly across our industry and our customers' industries.

Chris Danely - Citi - Analyst

If we look at auto versus industrial longer term, which end market for ADI do you think will grow faster, let's say, over the next like three, five, 10 years?

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

It's a great question. I mean industrial is the core of our business. And it is our most powerful franchise. And I think if you look at some of the continuing opportunities there where we see growth, whether it's the AI driven, whether it is the trend in automation and robotics, I think we'll continue to grow very strongly on the industrial side.

Chris Danely - Citi - Analyst

Okay. Great. And then in terms of geography, there's this whole China for China fear. Well, the last I checked, that's been around for like 25 years since I got into the business. How does that impact ADI, if any?

And how is your China business trended this year?

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

Our China business has trended strong. It was the first into the downturn for us. It was the first out, and it has grown across all of the markets.

Chris Danely - Citi - Analyst

It's been your strongest this year.

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

Very dominant from a growth perspective on the auto side. But now more broadly, as the year progressed, all of the markets in China are growing. But that's also an interesting point for us is we're still below peaks in all of the end markets in China, except for auto and well below at least 30% below in each of the other ones. Auto has been super strong, but we're still well below peak in the others. And the competition there is strong, but we continue to deliver and win there.

And look, we do a lot of those things, right? We have a design team in China that designs in China for China. We do have some small manufacturing through a partner in China. But it is a -- what we do today from a China perspective is a very low percentage is actually manufactured in China. But from a performance perspective, where they need the performance products and they still need analog, they're still buying from us.

Even in places where they've tried to push and get locals at the high performance and we're still winning. So I think that's an important differentiator for us as we tend to play more in the high performance and less in the good enough sort of low ASP area. The low ASP bands are not big part of our business.

Chris Danely - Citi - Analyst

You guys are thankful or not there. We -- just to dig in a little bit on the auto space. Your industrial business has basically done the Statue of Liberty move this year. How is the auto business trended? And then I just wanted to clarify, have the pull-ins, have they been all in the auto business? Or has it been in other businesses?

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

So we have not seen that -- look, it's impossible to be perfectly precise.

Chris Danely - Citi - Analyst

Your crystal ball is way better than mine. So I well --

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

Well, and people don't call and tell us they're pulling in orders. But we saw pretty clear signs both in our data when it was around bookings and what we were hearing from our field teams around the pull-ins in auto. And you could see we overachieved in Q2 in two regions, in auto that we didn't expect, which was the US and Europe. And then we over -- China has been strong, and we weren't expecting it to be as strong in the third quarter.

So that was confirmatory evidence to what we heard, and we do think that sorts itself out here in the fourth quarter. But overall, it continues to be a very strong growth market for us. We feel very -- like we're very well positioned. We had -- and if you want to think out more medium, long term, we had record design wins in China in '25, and we continue to see increased design wins in China, again -- sorry, record designs of '24 and increases in -- and so we feel like we're very well positioned there in the market broadly, and we like the growth trend we're seeing there.

Chris Danely - Citi - Analyst

Okay. And with the business getting better, how has your visibility changed? Are you seeing like -- are you allocating for like less turns in general? Have you seen your turns business increase and has your visibility changed at all for, say, three, six or nine months versus last quarter, the quarter before.

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

So I would say visibility hasn't really changed much for us. We're probably -- because of the relatively short lead times or in-quarter lead times, visibility is still largely out of the quarter. Do we have some order book in backlog that's beyond the quarter out?

Yes, enough to give a concise point of view on where a quarter beyond where we are now. We just don't have that kind of data given the short lead times and the way customers order. And then what was your second part of the question?

Chris Danely - Citi - Analyst

Just about backlog.

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

Yeah. So we do have some backlog in, but we've -- one of the trends we've seen overall at the company is last three quarters, we've seen increasing backlog.

Chris Danely - Citi - Analyst

Yeah, right. One question is pricing. So there's been some reports of one of your larger competitors raising pricing. Are you guys raising pricing, too?

Is this an opportunity to gain share? What does that mean for ADI?

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

So I won't comment on what my competitors are doing. What we've said and Vince actually said it again on the call is pricing for us has been pretty stable, right? We had a lot of price increase in '22 and '23, '24 and '25 have been pretty stable from a pricing perspective.

That said, we've invested pretty significantly in resiliency in our hybrid manufacturing process, which comes with a cost. Also broadly, many of the inputs are inflationary. So we continue to track and monitor that and the market to evaluate whether we should alter our pricing. So we will continue to watch that. But right now, the forecast is for stable pricing.

Chris Danely - Citi - Analyst

And how are you guys treating your own inventory and your own utilization rate plans? And I think right now, you're 50-50 in-source versus outsource manufacturing.

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

Yeah, we are about split half internal, external. From our inventory perspective, and I started talking about this a few quarters ago, maybe it might have been four quarters ago that we would start to build back some -- after very aggressively taking inventory off our balance sheet.

We started to build back some of that so that we have inventory available to capture what is turning out for us to be the cyclical upturn. So we are doing that. Now you see our -- because of the revenue growth, our days are coming down, but we still put another \$70 million of inventory.

And we're trying to capture as much of that at the die bank level to give us more flexibility going forward as we see the growth. We are continuing to run our channel very light, well below our historical levels, and we are continuing to be able to meet the service obligations as is our channel partners. But if we continue to see growth there, we will likely need to have some more inventory in the channel.

Chris Danely - Citi - Analyst

Can you give us a sense of ADI's inventory now and what the goal or the target is?

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

So the -- currently, we're running under six weeks. And I think that we probably -- we will need over the longer growth period to get back probably closer to something six weeks or six weeks-plus. But I don't see us getting much higher than that given what we've done on the back end because our back-end cycle time is about six weeks.

Chris Danely - Citi - Analyst

Are there any plans to change that 50-50 mix, by the way, in terms of internal and outsourced manufacturing.

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

Not right now.

Chris Danely - Citi - Analyst

And any difficulty getting any wafers given the increase in sales? Or can you guys pretty much get you need on the fabs?

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

We have not had any of -- any kind of challenges with wafer supply.

Chris Danely - Citi - Analyst

And how about I ask every company this because it's obviously in the news there seems to be a move to get more manufacturing in the US by the semiconductor companies. I'm sure you've heard about that. how does that impact ADI? Does it impact ADI?

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

We already have a pretty substantial portion of our manufacturing in the US. So if you think about our manufacturing footprint, we've got two factories on the West Coast in Washington and Oregon. And in fact, when we talk about the resiliency build that we were doing, a big part of that investment was in our Oregon fab. So we've got significant manufacturing in the West Coast, and then we've got two manufacturing locations here on the East Coast, specifically in Massachusetts. And then you guys know the rest of the story.

We've got manufacturing in Ireland, and then we've got a back-end spread across a number of facilities in Asia. And so if you think about the push for domestic, we are already building pretty significantly. In addition, we continue to expand not just in manufacturing, but our R&D presence. We're adding design centers in the US. And these are all the things that the administration is looking for, right?

Because the design leads to more manufacturing and more things happening in the states. So we feel like our hybrid model and our global diversity positions us pretty well.

Chris Danely - Citi - Analyst

Yes so I would be remiss if I didn't start asking a CFO up here about cash and all that fun stuff. But first, I want to take a bit of a step back. You guys have been very successful in M&A. This is pre rich days, but starting with Linear and then with Maxim. I remember when you guys first bought Maxim, I think it was five, six years ago, you talked about synergies from a cost side, which I would assume are all done, but also from a revenue side. We haven't talked about that in a while. Any update on those?

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

So when we talked about what we said at the time of the acquisition is by '27, we'd have about \$1 billion worth of revenue synergies out of the Maxim deal. So '24 we -- and if you think about the typical design in life cycle, it was going to take us a few years to get there. '24, we had tens of million dollars of what we would have -- we called synergies. '25, we will have hundreds of millions, and we are on track to hit the \$1 billion. And so if you think about -- so what are some of those synergies?

GMSL which has been one of our high growth -- very high-growth products, one of the key synergies that came from that deal. The other is if you think about some of the things we've talked about in the wins in the consumer space where you combine Maxim low-power features with ADI's ability to do vital signs monitoring and sensing and how that's impacted our ability to sell in the hearables and wearables space.

Some of the Maxim power is helping us do the things we're doing in the data center. So we're -- across a number of portfolios -- parts of our portfolio, we're seeing those synergies come through. And literally, my team and I meet quarterly review where we are against the \$1 billion, and we are on track for that \$1 billion.

Chris Danely - Citi - Analyst

In '27.

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

'27.

Chris Danely - Citi - Analyst

Great. And then can you just refresh us on the long-term margin targets for ADI and then the, I guess, the portion of the gross margin leverage you get from mix utilization rates, et cetera, et cetera?

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

Sure. So when my predecessors put out the model, the operating margin number was for, I believe, it was 42% to 50%. And the gross margin was we would try to stay above a [70 floor]. As we know was a challenge during the downturn, although I felt pretty good where we were able to hold given the severity of the downturn. And as we talked about on the call, we're guiding getting back to 70% in our fourth quarter.

And there's a couple of drivers there, particularly if you think about the gross margin line, where we get a ton of leverage, it's our mix and it's the utilization and what it does to our variance accounting. Think about the mix, if you take our guide for Q4 industrial, we would end with that guide at about a 40% -- 49% industrial mix for the quarter and maybe 46-ish for the year, which is still well below our peaks when we were at our highest profitability.

I think the industrial is more like 53% of our business. But the increase in industrial for us is gross margin accretive. The other thing is just the pure volume increase and the utilization improvements, driving down better absorption in our internal factories, which we're seeing both if you go back to the peak and where we dropped to in the trough, it was roughly half, half each, half was utilization-driven half a is mix driven.

So as the mix rebounds and utilization rebounds, we continue to see upside gross margin opportunity.

Chris Danely - Citi - Analyst

Great. So yeah, here we are kind of bouncing off the bottom and you guys still generate a ton of cash.

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

35% cash flow margin.

Chris Danely - Citi - Analyst

For those of you keeping score at home. What are the plans to deploy the cash? And then could we see more M&A given the success you guys have had previously?

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

So our what we've told our investors is we will return over the long term, post maximum over the long term, 100% of our free cash flow to shareholders. And we are on a path to do that. And the way we allocate that, it's roughly 40% to 60% of our free cash flow goes for our dividend, which for those of you paying attention, we've increased again this year for our 21st straight year of increasing dividends and then the residual we will use to retire shares. And you saw a pretty aggressive step up in share retirement and buybacks in the third quarter. And that's a planned activity.

We tend not to buy as much back during our second quarter, given the dynamics in that quarter. So we will continue to do that. The other thing that you and I talked about this when we were chatting yesterday, we did make an opportunistic -- do an opportunistic bond offering earlier this year.

The markets were very constructive, and we were able to actually do a really good deal to essentially prefund our next two maturities in our debt tower. Not that different from what we did months after I started originally, we did a bond offering to retire the two tranches we just retired late '24, early '25.

So market was favorable, gave us an opportunity to derisk it. So that's a little bit why we have a bigger gross cash number than we've had in the past is capturing that. It's on our balance sheet. Fortunately, we're able to invest that at yields as a pretty neutral cost having done that. So that's a good thing.

On the M&A front, look, we are very satisfied. Vince says the same thing, very satisfied with our analog mixed signal and power portfolios. We are continuing to aggressively invest internally in software and digital, and we continue in AI, and we continue to look for opportunities there. So there are -- anywhere we can find something that can help us solve a customer problem, accelerate time to market with a solution, we're looking at those types of transactions. So we will continue to look at that.

Chris Danely - Citi - Analyst

Great. And then since I have the CFO, touch on and depreciation over the next few years?

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

So obviously, we went through a significant resiliency campaign as we were building out our hybrid model, and we spent about \$3 billion on CapEx between '22 and '24 to build out that resiliency and also to cross qualify our products internally and externally and to make sure we had resilient supply chain outside of China. So that work is largely complete.

Some of the resiliency will get fully completed when we get our capacity online with TSMC in Japan, which will be really important. We'll be able to do 95% of our manufacturing of product outside of China and Taiwan.

Chris Danely - Citi - Analyst

That's two years from now?

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

Yeah. So that was really important. Now we've also said we're getting back on our long-term model, which, for us, we're historically CapEx light. That means 4% to 6% of our revenue dollars will go to CapEx. We're tracking to that 4% to 6% for '25, which is another reduction from where we were in '24 and '24 was a very significant reduction from '23.

Now what that has done, as you guys are all great at math is that resiliency campaign increases the level of revenue we need to get back to the margins we saw in the earlier peaks right? Roughly you guys could go figure out \$30 million in average depreciation life. It's at least 150 bps a headwind from a depreciation perspective coming through from resiliency campaign.

Chris Danely - Citi - Analyst

When does depreciation peak for ADI?

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

It's a great question. I don't know the answer when it peaks.

Chris Danely - Citi - Analyst

Okay. Last question. Would it ever make sense for you guys to do your own 300-millimeter fab? Or because you outsource 50%, is that.

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

We have incredibly strong partnerships, which gives us confidence that we don't need to do that. It's also an incredibly expensive and incredibly CapEx-heavy process. I am quite happy to use my partners capital.

Chris Danely - Citi - Analyst

Got it. Great. We're out of time. Thanks, Rich.

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

Thanks, Chris.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.