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ADI - Analog Devices Inc at Credit Suisse Technology, Media and Telecom Conference

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CORPORATE PARTICIPANTS

Vincent T. Roche *Analog Devices, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

PRESENTATION

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Good morning. Why don't we go ahead and get started at the beginning of the day 2 of the Crédit Suisse TMT conference. I'd like to thank everyone for showing up early this morning. It's my pleasure to introduce Vincent Roche, who is the CEO of Analog Devices. I'm particularly pleased because I think, this is, Vince, probably the first time you've keynote at our conference. And I know that you don't make it out here all that often. So I'm really looking forward to being able to sit down and have a fireside chat over the next 35 or 40 minutes. From my perspective, Vince, I think especially in sort of a fireside chat setting, it's always important to kind of level set everyone in the audience and on the webcast. So maybe you can spend just a few minutes kind of talking about ADI, your core IP markets that you address and I think importantly, the strategy. And given that you've been an organic growth company for very long time, you had a very large acquisition with Linear over the last year, 1.5 years. So maybe you can talk about the strategy behind that, why you did it and why you think that makes the portfolio stronger.

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Great. Thank you, John. Good morning, everybody. So ADI, we're virtually a 53-year-old company now. And over that period of time, we've always been dedicated to the analog side of semiconductors. So what is the analog sector? It's the bridge between the world of physical and the world of the digital. So that's where we've built our business. It is a business that by its nature is very highly fragmented because there are thousands of physical problems to solve out there in the world of physics, chemistry, biology. So we play across many, many, many markets. We're highly diversified as a company. In fact, we have, in our portfolio, talking about diversification, diversity, we have about 50,000 product SKUs. We have 60,000 or 70,000 active customers, depending on exactly when you measure. And we, in the -- we just finished our fiscal 2017. We generated -- with the combined business of LTC, we generated \$5.2 billion in revenue, gross margins above 70% and operating profits in the 40% range. So we play at the very, very high end of the analog space. We play really at the cutting edge, that's what we do as a company. We're investing about \$1 billion a year, \$1.1 billion combined with LTC in the business every year on the R&D side of things. And so we solve for our customers the toughest problems that they have. And increasingly, those problems are becoming more challenge for our customers because a lot of their hardware engineering is following out and our customers are moving more into software and services, for example. So that leaves a space in our opportunity arena for ADI to fill that vacuum to some extent. So we've been very aggressively building the company in the last several years to increase our scope, the scope of technologies that we can bring to solve those problems.

And we acquired -- 3 years ago, we acquired Hittite Microwave that gave us a leading position in RF and microwave technologies. And combined with ADI's centrality around data conversion and linear products, where we have leadership position as a company, we decided to get more technology, more scope on the power management side. So we acquired Linear Technology to help really bolster that as a primary objective. So I'll tell you about -- a little bit our business philosophy. So I've talked about innovation being the root of our value-creation journey, playing on really the cutting edge of that and solving the hardest problems for our customers.

Diversification, we look for -- we placed lots of modest bets as a company in many, many different places. And we have directly, we cover about 4,000 customers, as I said in the portfolio, we've got 60,000 to 70,000 customers. So we have a very sophisticated direct and indirect channel to market to be able to address the entire opportunity space. Our focus really is on generating long-term profitable growth, generating, right now we generate some of the highest free cash flow levels in the S&P 500. And we're dedicated to creating great shareholder returns over the long term. So that's kind of a synopsis of ADI, who we are and how we get things done.



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So LTC, we acquired, as I said, to give us more heft, so we not only got scope, but also a lot more scale. And I believe we're very, very well-positioned as a company to drive our own future, the future that we design essentially.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

That's a helpful sort of backdrop. And I guess, maybe I'll start talking a little bit about the market that you try to exploit. And I guess, more importantly, some of the key themes you're trying to exploit because I think what's somewhat unique about your business model on top of the high profitability, yours is one of the highest gross margins in the industry, if not the highest, one of the highest operating margins in the industry. But you've got a significant sort of chunk of your business that's focused on what you like to call the B2B market, we call sort of industrial auto infrastructure. So maybe you can talk a little bit about some of the key themes that are driving growth in that B2B space for you?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes, great question. Thank you. So several years ago, we were spending, 8 or 9 years ago, we spent about half the company's R&D organically in the consumer space, and about half in the B2B area, albeit on a much smaller basis. The amount of R&D we're injecting was much lower. About 8 or 9 years ago, we decided to pivot the company strategy more heavily towards B2B markets because typically, the cycles, the life cycles in the markets of the products are longer, more sustainable. And we get essentially better value for the products and the technologies that we're bringing to market. So right now, about half of the company's revenue comes from the B2Bs, the industrial space, which is a composite of things like factory automation, process control. And right there, right now, our customers, we have in the industry 17-year average product life cycle, by the way, it's a very, very resilient space. But our customers are moving more heavily into adopting sensing technologies in their products, to bring predictive analytics, for example, to robotic systems, factory floors, making the factory floors more configurable, that software user interface or software configurable I/O system. So those are technologies that are really in the wheelhouse of ADI, sitting between the customer sensing technologies and the fog or the cloud, the computing sector. So that's driving the additional areas of growth for ADI.

Another important area for ADI is the automotive sector where again, there's a huge proliferation of sensors. And any time there's a sensor or an actuator, there's an opportunity for ADI to connect our technology. So in there, we play in a -- we've had a long heritage of building infotainment solutions in the audio-video space around our DSP and mixed-signal technology. We've had a long heritage in building MEMS-based sensing devices to enable airbag ignition and beyond. And more recently, we're seeing a lot of growth coming from the predictive [sense side] the predictive safety side of things. So the adoption of a radar technology into cars. We just acquired a small company last year as well or this year, earlier this year, to enable us to bring solid state LIDAR technology as another modality that will be important for driving -- for autonomous driving for the future.

In health care, we focus really on the toughest problems in the imaging space, things like CT scanners, MRI systems, portable imaging systems. And we are leading the charge as a company into the induction of vital signs monitoring. So in other words, moving care from exclusively the hospital to the clinic and the home with a lot of portable monitoring systems that are clinical grade. So those are some of the opportunities, John, for ADI in the B2B space. And I shouldn't forget also the communications infrastructure sector. We have a long heritage in producing from 1G through 4G, producing technologies across those various generations in the radio systems in the bay station. Our communications business really is infrastructure centered, and it is -- roughly 2/3 of our business comes from the wireless side of things and the 1/3 from the wired optical cable side of things. So again, we pick out the toughest problems in these radio interfaces and it's a very, very good use of our high-speed signal processing, as well as our precision signal processing technologies to solve the data pack problems as well as the control problems.

So with the onslaught of moving beyond 4G, with the adoption of the new IoT activities, for example, in China, where there's going to be a massive infrastructure of IoT built out, that is going to place a lot of new requirements, on particularly the wireless side of things. So we're very well-positioned as a company with our acquisition of Hittite. We can solve any problem from the kind of the DC level to the bits level right up to 100 gigahertz in these communication systems. Last in '17, as I said, we just finished our fiscal '17, we grew, actually, we gained some significant share in the communication infrastructure area. And I believe with the induction of new massive MIMO 4.5G and moving into 5G over the next 4 or 5 years, I believe that sector will be very promising for ADI, given our position, we're very well-positioned with the customers, we're leading in trials in 5G radio systems. So I'm very, very optimistic of the future in that area.



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John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

You broke down B2B into 3 big buckets, industrial, auto and then comms. Few questions on each one of the subsectors. First on the industrial market. I know that, I know you know this, one of the big investor concerns out there is, I think, the perception for most semi-investors is that the industrial market is sort of a GDP plus grower, may be a 2x GDP grower, but not significantly more than that longer-term. That said, when you look at the past 12 months, you've been growing that industrial business at almost a 20% year-over-year average. And I know some of that is easy compares from the prior 12 months. But there's a lot of concern that you are probably overearning or overgrowing in the industrial market right now. And how does that sort of normalize itself over the course of the next 3 to 4 quarters. So maybe you can spend a little bit of time as to why you think you've seen outsized growth over the last 12 months? And more importantly, how we get from of these high-teens, low 20% levels to what's probably more of a sustainable growth rate in the mid- to high single digits?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Okay. Thanks for asking that question. The -- first and foremost, I mentioned earlier that we made a very strong pivot as a company in our R&D portfolio to switch more of the R&D towards B2B, but particularly the industrial applications. So if you look at factory automation, that's been, the factory automation process control, those have been areas of very, very strong engagement for ADI for the past 50 years. LTC enhances that as well, because that was a very, very strong focus for LTC. Also the acquisition of Hittite gave us a lot of new technology in areas like aerospace and defense as the civil aviation system is digitizing, for example, that's an area where a lot of our technologies are now being adopted. And we have a very, very long history in instrumentation as well, lab, systems, ATE. So I think we've positioned ourselves very well for the upside that has been driven, I think, largely by this tremendous confidence. I remember talking last year to investors and getting a lot of questions about what's likely to happen with the industrial business in 2017. And based on my conversations at that time with our customers across the globe, I was convinced that there was a strong investment cycle in play. China 2025 is driving a lot of growth, industry 4.0 is driving lot of growth. So there are some great secular drivers, I think, in the business. Right now, a year, hence, I think, going into 2018, I think the confidence is very strong. It still remains very, very strong. There's a conviction that we're in a multi-year cycle of adoption of new technologies and growth, and that's across-the-board. And I think as you said, John, the industrial space tends to be a multiple of GDP. Our long-term model is 5%. We believe that if with normalized GDP, we can get 5% growth in that market. If GDP is stronger, we will get the upside as well. We have a large pipeline of new opportunities that we've generated with the combination of LTC and ADI. And a lot of that is also in the industrial area. So I think we have some internal drivers, we're pointed in the right places. And there's a lot of secular drivers I think that will make that business strong for many, many years to come.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Then to the following question, if you just grow seasonally from here, on a sequential basis, the year-over-year math where you start to see a deceleration to that sort of 5%. And so seasonal sequential growth implies that there's not a lot of froth in the system, that your customers haven't built a lot of inventory. I know you guys only guide one quarter out. But when you look at the inventory landscaping kind of the cyclical landscape, specifically within your industrial market, does sort of seasonal sequential from here over multiple quarters kind of feel like the right business environment for that business?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

I think it probably is. I think it probably is. But as I said, as long as GDP remains strong -- seasonal -- it will be seasonal plus in my opinion.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

That's helpful. And then switching gears into the auto market. That's a space where as you talk to investors, there's a clear consensus for you that the content story for silicon is very, very strong. And I think while most investors kind of are worried about industrial growing much more than GDP or a multiple GDP, investors feel fairly confident that there's probably a single-digit, low double-digit consistent growth rate in autos because of that content growth. Can you talk a little bit about ADI's positioning? I think one of the pushbacks that I get with investors, if you actually look at



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your auto business over the last several years, you've kind of underperformed your peers. And I know there's some specific reasons for that around legacy business, maybe could help explain that. And more importantly, talk about what you think the longer-term growth rate is and why you think you're more levered to that sector going forward than you have been over the last couple of years?

Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

So I think let me start with the long-term outlook for that business. So it is our sense with all the technologies that are at our disposal today, that over the next 5 years, 7 years, that we have a \$250 opportunity in kind of the mid-, high-end cars on average. We believe that opportunity can double over the next couple of years, the next 5 kind of 7 years. And if you look at our opportunity pipeline, it would certainly -- that would certainly be borne out across the various areas, we're playing in infotainment, we're playing in safety, and we're also playing in the powertrain area. The electrification of the powertrain is going to be one of the greatest shifts. Probably the biggest shift in technology adoption in the cars since the formulation of the combustion engine. That's -- there's about a 1% penetration there today. We have an excellent position as a company in the measurement systems for batteries, for example. So I think when you get back to the specifics then about how did we grow and where are we right now. For FY '17, ADI legacy grew in the high single-digits, and LTC grew at a lower rate than that. So that was driven by largely the battery management side of things and particularly, in China it was an inventory cycle, we're still burning up the inventory. But we're confident that we'll be back on a steady growth path with that technology over that product sector in the -- kind of the latter half of 2018. And also, the power management side of LT didn't grow at the rate that ADI did. So what we have -- line of sights into a very, very interesting opportunity pipeline and we're doing some things on the -- I said business strategy side of things to enable us to capture more of the upside in the car, particularly with LTC technology over the next 3 to 5 years.

John William Pitzer - Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

And, Vince, on the core ADI auto business, one of the things, I think, that's been a growth headwind for you has been that MEMS portion of the business. Maybe you can spend a little bit of time kind of quantifying how big of your auto business was MEMS maybe 3 to 5 years ago? How big is it today? And to the extent that it was a headwind over the last 3 to 5 years, is it down to a level now where it's going to be more neutral to the overall growth of the business?

Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

So MEMS, there's a couple of pieces to MEMS. We, as a company, withdrew from -- let me describe MEMS. There's what we call traditional passive safety and then there's active safety, which would require technologies like gyros. So some really tough problems to be solved on the active side of things. The passive side of safety, we've withdrawn from it, it's commoditized, we've withdrawn. But we have commitments to customers for ongoing supply for a period of time, we have kind of hit a steady state now. So the decline was steep over the past 3 or 4 years. We are a lot more stable in terms of that particular part of our business now, and it represents the portion of our overall, the whole MEMS portfolio in the company is probably about high single-digits, 10% of the entire company. So some of it is strategic and some of it is legacy that will remain for a long, long period of time.

John William Pitzer - Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

That's very helpful. Switching gears to the comm market, you mentioned Hittite earlier. Historically, when you look at the analog market, it hasn't really benefited from scale as much as the digital market has. That has not been the case with Hittite, which was a company that had great IP, but perhaps not the breadth of reach that ADI has. Can you talk a little bit about sort of how you think your scale has benefited their sort of design pipeline? And to the extent that these design cycles are 3-plus years, are we're just now on the cusp of actually leveraging your scale with their IP to drive revenue growth?

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Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

So we're about -- we're a little over 3 years into the closure of the Hittite acquisition. And when we acquired Hittite, we knew that we're kind of reaching terminal velocity in terms of the amount of R&D that could inject in the business. And we knew as well that we could bring a lot of manufacturing scale, bring quality systems and so on to improve the execution of the entity. I would say right now, the growth rates of Hittite within ADI is in the kind of mid- to high single-digit level, higher in some areas. And we have an opportunity pipeline that we've talked about LTC. Today, we have an opportunity pipeline with LTC in the region of \$1 billion plus, with Hittite it is about 1/3 of that after 3 years in. So we're very happy with where we are. We've been able to change the conversation with our customers. We're able to solve bigger problems, customers are giving us frequency plans, asking us to go do the architecture of the design. So I think clearly, Hittite benefited from the scale that we brought in terms of the channel to market, the applications depth -- (inaudible) also combine the radiofrequency and microwave technology with ADI's mix signals and DSP technology. So it's been a tremendous benefit. And right now we're introducing our first -- the first joint (inaudible) -- first joint products that we put on the road map several years ago and we're introducing to market now. So we're very, very pleased with where we are from a strategy and execution standpoint. And I can also tell you that after 3 years, the organizations are very, very deeply enmeshed and combined and acting like a single culture.

John William Pitzer - Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

And Vince, maybe you can remind us, I think, earlier this year, at your Analyst Day, you kind of had an interesting statistic of what's happened to Hittite design funnel since you acquired them and how much larger it's gotten. Can you remind us what those numbers were again?

Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

Yes. So we've, as I said, we have -- we've increased the revenue of Hittite fairly significantly, the pipeline was pretty strong to start with. But on a \$300 million business roughly as it was, maybe little less than \$300 million when we acquired, we're substantially over \$300 million now. And we have a pipeline in the multi-hundreds of millions of dollars. But that's driven by areas like aerospace and defense, the new radar systems that are being deployed, areas like instrumentation, and also, of course, the adoption of microwave technologies in low earth orbit satellites, things like 4G, 4.5G, 5G systems. So it's a very high-speed signal processing communication-centered technology, and it's right in the wheelhouse of ADI and we've been able to create some great leverage there.

John William Pitzer - Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

The other question I wanted to ask on the comm section, as we talked about all those, you did a very good job sort of quantifying the content opportunity for ADI today and what you think that's going to do over the next several years. As we think about the move from 4 to 4.5 to 5, I know it's a little bit premature because architectures are still in flux. But how do you think about the dollar content story for ADI over the next several years as we make this transition? And one of the questions I think, everyone in the audience is trying to figure out, when is 5G going to be a meaningful driver of revenue?

Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

Yes. Okay. So the big change technologically in radio systems of the future, it's really the adoption of massive MIMO phased-array radar antenna system. So there will be a lot more channels per system per radio. So it's our sense, John, that in the 5G system, the content increase for us across-the-board will be somewhere between 2x and 3x what it was for 4G. Now interestingly, across the spectrum, some of our customers are busily upgrading 4G systems, they're using massive MIMO technology in 4G systems to increase the spectral efficiency, and just get more information performance for the footprint being deployed. In China, 4.5G, well massive MIMO, the Chinese will call it 5G, it's sub-6 gigahertz. In our opinion, it's really 4.5G. But truth -- 5G, where the frequencies will get above 20 gigahertz, above 30 gigahertz, we believe, I mean, there's a lot of trials taking place now, we're in pretty much everybody's trial. We believe the adoption of that will be somewhere in the 2021, 2022 area in earnest. But there's a lot of -- the track that everybody is following is massive MIMO.



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John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Vince, I think one of the things, and you mentioned it earlier about the growth you've been able to drive in this business, one of the things that differentiates you from a lot of comm levered names is we've been in a fairly punkish overall environment for wireless CapEx. And yet you've been able to grow the business on some of these technology trends you're talking about. So as we start to see a more robust CapEx market, what's your outlook for the growth in this business over a sort of 3 to 5-year period, especially as we're starting to get into the deployment of 5G?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, we grew in -- just in our wireless business alone in 2017, we grew in the kind of mid- to high single-digit level. I think that's a reasonable assumption for multiple years to come. You know it's a very lumpy business. But I think when you integrate under the curve over a long period of time, to assume that, that will be a mid- to high-single-digit growth opportunity for ADI, I think that's very, very reasonable.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Perfect. I want to switch gears now to the consumer side of business, of about roughly 20% of overall revenue. As you mentioned in your opening comments, as part of the transformation the company's been on over a multi-year period, you've diverted a lot more resources away from consumer into the industrial market because industrial has some really good characteristics, longer duration, less customer concentration. Help us understand your philosophy around going after the consumer market, especially given from an investment perspective, it's always viewed as maybe a lower multiple, higher volatility market. Why are you spending anytime in consumer?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, there is -- we have 2 primary sectors in our consumer business. We have what we call prosumer AV, which actually has the characteristics of the B2B business. The products in the audio-video sector tend to have longer life cycle, 7 to 10-year product life cycles, lots of customers, lots of fragmentation per customer, and very, very strong margin structure. So that's for today the combination of LT and ADI. That's a \$300 million kind of business. So my expectation there is that will grow in the mid-single digits quite comfortably for many, many years to come. And in the portable sector, obviously, the volatility is a lot higher. The life cycles are shorter for the products. But what we're doing, John, is picking out problems that are very, very, very difficult. And we have, for example, products in the imaging systems today that are on their fifth or sixth generation right now. So, when you solve the right problem with the right customer and you see sustainability, it can be a great space to play. So we're picking up the high-value problems. And I should stress as well that we are very [sparse] in how we invest in the consumer sector. So more than 90% of the company's R&D, considering that more than 90 is going into B2B applications, and somewhere in the high single-digits of the total R&D budget going into consumer. So that's how we view it. When you got it right, that's a terrific space. The free cash flow generation is really excellent, and the operating margins can be very stellar.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, I think one of the near-term concerns that people have is, if you look over the last 1.5 years, 2 years, you were widely successful in a flagship phone, capturing [V height] with your force touch technology. As that customer has migrated from LCD to OLED, that V height capture is not a hard thing to do anymore, and you're losing some content there for that application. I guess, a couple of questions, do you think you have appropriately derisked sort of the numbers around that content loss, 1. And 2, there seems to be a perception that if you don't have that you have nothing. What other contents or applications look appealing to you in that shorter duration sort of market?



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Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

So our business in portable is dominated by one large customer, but it's not the only customer. We are diversifying as a company in terms of customers as well as products for customer. And to your question, John, about how are we positioned if the [Z specter] product loses traction, what's left? We have a lot of other stuff, a lot of other content. So the number that we've signaled to you, signaled to the investment community over the past several months, I think is very realistic. As I said, we've got -- the foundation of our consumer business is the prosumer AV. And we have many, many, many sockets across-the-board portable space with the larger and the smaller customers. So we've been working hard on diversification. We never want to be beholden to one product, one socket, one customer.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Want to try to check all the investor concern boxes, and the other one that you've heard and I clearly hear that a lot is the acquisition with Linear, integration synergies aren't going to be as strong as you sort of targeted. Linear wasn't a broke company, they clearly had high-class margins. Can you talk a little bit about sort of the synergy targets you have out there? And how you're progressing towards those targets? And I guess, more importantly than the cost side, talk a little bit about some of the revenue synergies that you're starting to see now that you have this asset in-house?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Yes. So let me tell you a little bit about the model of the 2 companies. So very focused in roughly the same spaces from a product and technology standpoint, with the exception of [power book]. I would say from the market standpoint, very, very strong overlap. And we have with LT, we've got this wonderful power franchise now. And we have ADI was largely from a go-to-market standpoint focused on what I would say was the top 800 customers very directly. LTC, we're very smart and try to keep away from where ADI and the other big dogs were playing in the customer space. LT was largely focused on the customer base beyond the ADI, the smaller and more medium sized customers. When we put the 2 companies together, we decided to get the best of both to leverage LT go-to-market model combined with ADI's and essentially to bring LT's technologies and products into the bigger customers on the ADI site. And to be more flexible in terms of kind of the business model, the pricing model, for example, to be more -- less focused, and less fixated on a gross margin number and saying to ourselves, where we have products available, where the R&D costs are sunk we will take good business. And if you look at ADI over the years, we've got a model of being more flexible on, I would say, price and driving cost hard. ADI's organic margins were in the very high 60s. So I think over time what we're going to do with LT in terms of converting that pipeline of opportunity, I mentioned more than \$1 billion worth of already established opportunity in the pipeline. We'll be a lot more flexible and focused on operating margin and free cash flow generation as the kind of the primary thrust. We want to grow this company profitably for the long-term.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, Vince, I think more so than any other space in semis, the analog IP is often dominated by human capital. And I think one of the concerns is with any sort of M&A is, how does the acquired company's human capital feel about integration into ADI? Maybe you can spend a little bit of time and give us some anecdotal evidence that, that integration is going well, whether it be your core management team and who that's made up of, or just sort of anecdotal data points about how the Linear employees are feeling now as part of the bigger ADI operation?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, look, the reason -- when we acquired Hittite, we acquired LTC, we were clear about one thing, very, very certain about one thing, that the values we shared were very, very, very similar, what we stood for, cutting edge innovation, hiring the best people, keeping those people over many, many years, many, many design cycles. And being passionate about solving the toughest problems for our customers, those things we shared. How we do things is really the norms, the behaviors, that's a bit different, as it was with Hittite, as it was with LTC. But what I can tell you, John is, in both cases, we adopted what we call the best of both. Really being patient and trying to understand across the product development activity, the manufacturing activity, the selling activity, what are the things that ADI does really, really well, better than LT, better than Hittite. But also the flip side of that, what are the things that LT and Hittite did and do better than ADI and adopt the best practice. And that's what we've done. We've



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also taken their management team of LT and their whole senior positions across the company in selling, in the business unit activity of the 3 senior VPs on the BU side, one of them is an LT senior exec. And I think it's a question of assuming that the integration of 2 very sophisticated, well-functioning organizations, that integration takes several years and patience is required and diligence. And I think some stridence as well at the leadership level and making sure that we truly extract the best of both. And we've certainly done that with Hittite, we're making great progress as well with LT.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Changing gears a little bit, I want to talk about your distribution strategy. If you kind of look at the spectrum of distribution strategies, the book ends in my mind are on one end Microchip, which is sort of a wide net and works for a lot of the distributors. On the far end would be Texas Instruments, that's kind of gone much more direct over the last several years. I look at your strategy as somewhere in between as a more focused view on the distribution. Can you talk a little bit about that strategy? One of the concerns that I hear from investors is as you've sort of focus that distribution list, you've gotten rid of some distributors, has that created some excess demand this year, either last time buying with the old distributor or restocking at the new distributor that needs to be flushed out of the numbers?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, if you look at ADI's days of inventory, look at our distributors' days of inventory and you look at our customers inventories, we've managed that, I think, in a very, very facile, very, very disciplined way. One of the things that we did as a company many, many years ago to improve our transparency into real consumption, real, and demand. We've measured for several years the POS side of things. So we've always accounted for our distribution revenue in terms of POS rather than ship through rather than ship in. So our transparency into the channel is very, very strong. And we're very, very confident that what we've done in terms of leading demand needs was true demand. So I have no concerns about that.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Helpful. I wanted to end the fireside chat by asking a question, it was actually probably more appropriate to ask Prashanth who's sitting in the audience. I think this is Prashanth's first investor conference as CFO of ADI. You went through a fairly long, exhaustive search on the CFO front. Maybe could help us understand what were you looking for in that search? And kind of what do you think for Prashanth sort of core focus should be over the next several quarters as he comes into ADI?

Vincent T. Roche - *Analog Devices, Inc. - President, CEO & Director*

Well, first and foremost, I wanted a CFO with a great track record. And I wanted a CFO who understood the language of technology. And preferably somebody also who understood semiconductors. As to some extent, Prashanth's background with applied materials, certainly gives him some great insight into the semi industry. Prashanth has a very key strategic edge. He will -- I think Prashanth will be very instrumental in helping ADI figure out in a collaborative way across an already well-functioning company how to extract more value, where is the trap value inside the company in terms of capturing the value, retaining the value. And bringing really, I think, strong operational discipline to the organization as well as we become more and more complex, bigger and bigger. I think Prashanth will be instrumental in helping us build the -- keep the discipline and help us scale this company upwards along our growth trajectory. So that's essentially -- those are the characteristics I was looking for, and I'm very happy to say that, that's what we're getting.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Perfect. With that, we run out of time in the session. But I want to thank everyone for joining us first thing in the morning, especially, Vince, for your time. This was great. Really appreciate it.



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Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

Thank you, John.

John William Pitzer - Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

Thank you.

Vincent T. Roche - Analog Devices, Inc. - President, CEO & Director

Pleasure. Thank you.

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