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PRESENTATION

Craig Hettenbach - *Morgan Stanley - Analyst*

Good afternoon. Hi, everyone, thanks for being here for the Analog Devices fireside chat. Very pleased to have CFO, Dave Zinsner. So Dave, I wanted to start with just maybe kind of big picture, just the macro environment, certainly as we made our way through semiconductor earnings season, the results have been pretty strong and much better from just a year ago. So kind of what are you seeing from customers from a demand perspective and also on the channel, how are distributors behaving?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

Yes. So clearly, we just posted our results just a couple of weeks ago, and obviously, it was a strong result. Clearly, the biggest driver of our outperformance was the consumer space, but I would tell you that, almost without exception, every market, every geography, we saw strength, relative to last year this time and that has continued on into our second fiscal quarter. So I do feel like the broader industrial business and automotive business have rebounded from, I think, a pretty soft period last year. I think capital spending is starting to kick back in many locations around the world and we are benefiting from it.

So just overall, this looks good, and as you talk the customers across all the markets, I think the tone is, they feel incrementally more positive about the environment out there right now.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it, anything to note within the channel? I mean, it's only a quarter or two since business has been getting better, typically it takes a while to [see the] change, but --?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

One quarter is not a trend, that's right. Again, it's also been strong. We look at the shipments on our -- or I should say, the orders on us from distributors, but also the shipments out from the distributors, the end customers, and both have been strong. They continue to be strong through this quarter as well. In fact, I think in particular, one of the more notable aspects of that is that the shipment out levels per week almost didn't deteriorate during the kind of back half of December and into early January, which it typically does.

So, it's been a good environment. The disties I think have managed things pretty effectively, the inventory levels right now are one in kind of seven weeks. So a little bit more than seven weeks, which we like to see them kind of in that -- around seven-and-a-half weeks. So, they are on the Linear side, but not so lean that they would cause kind of widespread inventory build.

So our read is, that the end customers are managing their inventories pretty well. So we don't think that we're seeing inventory build as a driver of why the industrial business is doing well. I think it's really coming from end demand.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. So I want to shift gears, just the theme of M&A and consolidation, which has been very important to the space in the last couple of years. ADI certainly has taken a different path in terms of how you evaluate M&A in more of a technology approach. So maybe we can start with kind of Hittite and we will segue into Linear, but what was it about Hittite from a technology perspective and market that you found attractive?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

You are absolutely right, Craig. I think there are definitely different ways to go about M&A. I think for us, what we do is, lead with technology first, and if it's large scale or whether it's a small tuck-in, that doesn't matter as long as the technology really is robust and at high performance.

For Hittite, what we were seeing in the marketplace in a number of different markets, is a need for microwave and millimeter wave technology. You saw that in military or military communications. We were seeing it instrumentation, we were seeing it in the automotive space for radar, going from 24-gigahertz to 77-gigahertz. You are clearly seeing it in the comm space, particularly as 5G will roll out. There will be a lot more microwave and millimeter wave requirements.

And so, as we looked at that, we thought, okay, well, we've got to build up that capability. It was a massive amount of engineers we were going to have to hire, and then wait years and years for revenue to cover that expense. And so it became kind of a perfect opportunity to do some acquisitions. And so, what we did was, we kind of looked across the whole landscape of companies that can do that and really just look for the best one possible, and that's why we chose Hittite.

So, as we fast forward to today, the other key component of analog that we were missing to build out our base of technology was power management. It's kind of well-documented. I think I've gotten probably 85questions from you alone Craig, on why we don't have a power management business. And so, we understood that, but it was a matter of finding or getting the right one. And I think from the time I got there till today, we felt like Linear was the best fit for us. I think their approach to high performance was very similar to ours, their focus on the B2B part of the marketplace was very similar to ours.

And so, it really is -- and this one just required a lot of patience in just waiting for the right time. And good news is that it was the right time for us, it was the right time for Linear to come together, and I think it's going to be an amazing combination.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. Can we touch on the culture, I think as we talk to investors, that's one of the more big question that comes up in terms two cultures and doing an acquisition of this size. So maybe just what are some of the things that both companies share from a cultural perspective, and what are some of the things that are different about ADI and Linear?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

I would say -- I think Vincent said it a number of times, I think he's got it dead-on, which is that like -- the value system of the companies is almost virtually identical. We focused on innovation and we believe that at the end of the day, technology and performance win the socket. And so, we put I think, relative to a lot of our competitors, more R&D into the business, and believe that will generate products that carry higher margins and over time, a better return on our capital. And like I said, I think Linear also shares that same kind of value system.

Our business processes are different, there are nuances around how each company compensates their employees, they are different. There's a little bit of a different style in which the businesses are managed at Linear versus the way the businesses are managed at ADI. And so, what we've done from the time we announced this acquisition at the end of July through today, and until we close, has really been to kind of identify those differences and look for ways to take the best of both, which is maybe we take a process from Linear in certain cases, maybe we take a process from ADI in certain cases and maybe we come up with some hybrid of the two. But the idea is to blend the -- kind of the way we do business in a way that makes one plus one equal more than two.

And I think we're not all the way there. Even after we close, it's going to take a good 12 months to get everything kind of aligned to what the new ADI is going to look like. But I think we made a lot of progress up until this point. I think if you ask virtually any employee at either company, whether they're excited about what the possibility is combining these two companies, I think we generally are going to get a pretty positive response.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. I've got a few more in Linear and I definitely want to get to the core ADI, because I think the performance has been really robust. So just when you think about the combination, net leverage, I think at the time you announced the deal kind of high [three times] certainly your own free cash flows has been much stronger, EBITDA has been stronger. So as you think through kind of a closing, how do you frame kind of where leverage shakes out, and then really how quickly you think you get to that kind of two times level?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

It's actually really a percept. Our fourth quarter, we were well above $400 million of free cash flow; this past quarter, we were in the $290 million range. So, we've exceeded our expectations in terms of how much cash we can generate, and also Linear has been doing pretty well too. So we're going to close this acquisition with way more cash than we had originally expected. There is about a $5 billion term loan that we have and we're likely to draw all of that down initially, because we got to get all the assets in the right jurisdiction and that takes a little bit of time, but I think you'll see us rapidly pay down the debt this year.

So, we're likely in the back half of the year to paid down almost a $1 billion of that $5 billion term loan, just in the first year. So, on a kind of a net leverage basis, we're are probably more like a 3.3 on debt to EBITDA kind of pro forma post the close, with a fairly rapid decline in the leverage ratio. So our target is to get it to two, and then the two, kind of leave that in check and start to kind of re-engage on the buyback.

My guess is we will, that will -- I think we're originally thinking that by likely 2019, early into 2020, we will be at that two times leverage ratio. Most likely, we're looking at kind of the late 2018, early 2019 we'll start to see that that kind of leverage ratio.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. And then when we think about margins, even before when you had kind of leading margins. But when you combine the two, I think without a lot of heavy lifting, you can get close to 70% growth, 40% operating margin, free cash flow margins in the mid 30%s. So, what does that mean in terms of the optionality around cash returns, the dividends of focus, the buyback?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

So we're committed to the dividend, we're increasing it annually at a rate of 5% to 10%. We just announced the annual increase for this year, which was a 7% increase. And I think unless something unexpected happens that really blows up the economy, I think you'll continue to see us grow at that kind of 5% to 10% rate. We're going to hold back on the buyback and use the rest of the free cash flow to delever. And then as I said, once we get to that kind of two times, will start to re-engage on the buyback, and we'll be back to our kind of normal philosophy around kind of a heavy cash return to investors.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. Last one on Linear before we move on. So just -- when I think through kind of the integration planning process, kind of what has surprised you most? And then the second part is, just from a revenue synergy perspective, what type of things do you think you can see in the coming years?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

I think we assume that there would be some challenges around the integration and I felt like we had a pretty good beat on the revenue synergies going into it. We had a fairly granular kind of roll up from the due diligence, which got us roughly kind of $200 million to $300 million of synergies by the 2022 kind of timeframe. I would say that I'm surprised at how enthusiastic the integration team is, which is a combination of ADI and Linear people, on what we can do on that whatever you see as number such that, they're talking numbers more like $300 million to $400 million. I don't -- I'm not so sure you can take a very specific number to the bank. It's a little bit of an art, not a science.

But the fact that everyone is so enthusiastic about this combination and how much we can bend the growth curve on a combined basis, particularly given the Company is going to buy a relatively large $5 billion plus company, and as you point out, 70% plus gross margin kind of companies, it's amazing to see the opportunity to really expand kind of the TAM of the combined entity beyond what I thought was possible. I'd say that was the biggest surprise more than anything that we have in front of us.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. So now getting to core ADI, I think the last two quarters have been quite strong. So any particular applications in market that you will call out in terms of where you are seeing some inflections?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

I'd say the good news for us in the industrial space is the normal kind of bread and butter industrial businesses like factory automation, instrumentation, all grew nicely. And I think that has a lot to do with just a pretty easy compare relative to the first quarter of last year, which wasn't actually, a particularly strong quarter. Aerospace and defense business continues to grow at a pretty healthy clip. And we --I think when we acquired Hittite, that was the business we kind of valued the least out of all of businesses they had, and it has actually been amazing. Businesses have turned out and they've been really able to leverage a lot of our technology into that market.

But the business that has surprised us to the positive more than any, has been our healthcare business within the industrial space. It's not a particularly large business, it's probably about 10% of the industrial business, but it had kind of trucked along there for a number of years at a relatively flat level. And we were pouring pretty meaningfulR&D into that business, recognizing that it has got the normal kind of design cycle of an industrial space with the added complexity of a lot of times having FDA approvals and all that stuff. So it's a real long time to revenue, but once it hits this really sticky business and it goes on forever. So it has been a long time coming, we've finally started to see the traction that we are expecting.

So now that, that business has kicked up quite a bit, it's running now -- it was kind of running in the kind of $150 million range probably five years ago, and now it's almost to a $250 million run rate. So it's really performing well, and I think that's the biggest surprise to the business thus so far in the industrial space, and probably the one that we were counting on the most.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got you. And then we think about, IoT in the industrial space, what type of role is there for ADI, like where are you going to play?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

The whole factory automation and instrumentation space is really geared around IoT now. I mean that is the kind of a macro trend much like the automotive space, which is now increasingly -- and we're kind of used to it, all these sensors going into cars, they've become so sensor-laden, and then some central bringing the process all that information and react in certain ways. The industrial space has had some of that, but it hasn't been as meaningful a shift in TAM as the auto space.

I think that's starting to change. I think it's becoming part of the macro theme. There's just such huge sensor penetration into these applications within factories for preventative maintenance or monitoring the device, the health of the device or application, that's really kind of the trend now, and to pull all that data often and use it for analytics.

And so, we suspect that there is going to be a multiple of GDP opportunity for those that participate in the sensor space and so we've been putting a lot of R&D into not only the sensor part of it, but also into the processing and connectivity and control, and so forth. So I think we have some relatively robust solutions that I think are going to hit just at the right time when the industrial space is going to go through an evolution.

Craig Hettenbach - *Morgan Stanley - Analyst*

And then if we can talk about smartphones, kind of away from some of the core, when we typically think about ADI and having covered this space a long time, typically the high-performance Company doesn't end well right again in there, and it's tough to sustain. So is there anything about the technology, what you're doing that you think it allowed to be a bit stickier than we've seen?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

When you look at one of the earlier products we had in the smartphone with one of the leading smartphone companies, we've had I think in second generation. So it's not -- you can always participate in the consumer space and get that kind of good longevity to it. The trick is to pick the right customers, pick the right applications, and have the right technology and have those all intersect in a way that works for you.

I think in the past, we've had instances where we have had that happen. We've had instances where that hasn't happened and things have not gone well. I think as time's gone on, we've gotten smarter about reading the body language, quite honestly, of the customer on where we are the mark, where there is real performance. And when you do that, you get a certain level of commitment from them to kind of keep you in the game.The dialog ends up being different, you are talking to engineer to engineer as opposed to Vince, to the purchasing guy. When it gets to that level, then you know you're in trouble.

So, I think we played it a lot smarter than we have in the past, that's not -- there'll probably be sockets where it won't make sense for them to pay what we're charging. And so those things might go away over time, but the trick in this thing is to continually find new places to innovate that offset and hopefully incrementally increase the dollar content that you have in given applications. On top of that, I think we've got to be smart and be diversified in which customers we serve, pick the customers that we think really value innovation and that's part of what we're trying to do.

Craig Hettenbach - *Morgan Stanley - Analyst*

And anything -- any anecdotes on the pipeline or lease engagements you have that would speak to some diversity over time?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

It's good. First of all, at the new customer, we continue to have a very robust and active dialog around other technologies that we do bring to their applications to do things that -- we'll see which ones pan out, which ones won't, but they won't -- they are really cutting-edge technology, things that you wouldn't ordinarily think of as applicable to a smartphone.

But also I think there are several other handset smartphone makers that -- some in Asia, quite honestly, that have also a desire to have some innovative technologies. I think there was one at CES that mentioned our part. So we are trying to figure out which ones make the most sense, but the pipeline is good. In fact, I think Vincent mentioned, and it wasn't this quarter, I think he mentioned it last quarter, that if you look at the pipeline, it kind of suggests that we could grow that business 10% a year. Now, maybe we don't try to do all those things. We want to kind of constrain the R&D to make ourselves really target for the best opportunities, but they are certainly moving to grow in that space.

Craig Hettenbach - *Morgan Stanley - Analyst*

Got it. Last one before we open up to the investors to ask questions. On automotive, certainly, you've talked about radar product recently introduced, and you also talked about kind of the A2B application. So, can you talk about some of these incremental growth drivers?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

So automotive for us, if you've followed us long enough, you'd probably recognize that we had had a huge kind of growth trajectory and then over the last two years, things have kind of leveled off. And that was somewhat by design and we had a huge position in passive safety, which essentially fires the air bags in most cases, and that business really had commoditized to a level that at least in sort of sub-segments of that, it really didn't make sense to participate.

So we kind of whittled it down to really the part of the market that's really the higher performance part of that passive safety business. The rest of the markets that we've had were small on a relative basis to the passive safety, but all growing kind of double-digit growth rates. So you mentioned one, which was A2B, which is essentially a much more cost effective way of delivering high performance audio in a car. It takes out lots of weight, takes out a lot of complexity around wiring and does it in an Analog way with kind of copper cables.

You talked about -- you didn't mention AMR, but we also have AMR technology, which is kind of resistance on motors and in steering that can be done in a silicon -- in a silicon solution. So, we have that capability. You have what is now 24-gigahertz radar for ADAS moving to 77-gigahertz which we now have part four as well. We also acquired a company last year in the LIDAR space that together with our signal processing technology is going to dramatically reduce the cost of LIDAR. It won't be measured in thousands of dollars, that's for sure.

All done in solid state, that will be a pretty big game changer into the automotive space, in terms of providing LIDAR -- kind of augmenting what radar and kind of camera technology does for autonomous vehicles. So all of those things, but at the end of the day what it all is, is just more and more sensing getting -- penetrating into the automotive space.

So the dollar content -- I think the SAM content for us at the high end now is running -- probably don't get this in any car, but it's running kind of $250 kind of range, then we add Linear Tech to the mix, they probably add another $100 of content to the range. So, just us alone, we have a high-end car probably $350 worth of content opportunity and it's increasing at kind of a blistering pace as we move more and more to a more autonomous vehicle.

QUESTIONS AND ANSWERS

Craig Hettenbach - *Morgan Stanley - Analyst*

Are there any questions from the audience?

Unidentified Audience Member

About the cost synergies, with regards to Linear, right, what you see in terms of cost synergies right now? And then, if you look at the, let's say, OpEx to sales model, Linear is quite different from yours. And so they tend to have quite higher OpEx to sales than you do. So how do you plan to go about this, both in terms of R&D, in terms of S&M, G&A what sort of realistic to expect?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

Okay. So on the synergy side, we had said we would -- we thought we could $150 million of synergies and $150 million on just on Linear'sexpenses looked a little high, but when you combinedit with ours, because we thought there was opportunity to reduce costs on our side, it was basically 5% of our total spend on a combined basis. We have pretty much in the bag about $110 million to $115 million already identified, and most of the actions have already been taken.

In fact, we announced a restructuring on the ADI side just this quarter. So the other $40 million is a pretty easily achievable kind of blocking and tackling, kind of thing, just better scale, better purchasing power, more homogenized facility, footprint those sorts of things. I think it will be pretty -- Vince, I think you said on the call -- I mean, my exact words were, it's a slam dunk. It's a slam dunk. We've got the $150 million.

On longer term, I would tell you, our goal at least in the next couple of years is to get us down -- on a combined basis, down to 30% OpEx as a percent of revenue. And just looking at, if you take some of the areas where we were particularly efficient in terms of spending, I think we can do that across both companies and in the areas where they were actually pretty efficient in spending. I think we can take that into our model. So I think 30% is a good near-term target. There's probably if we get the growth -- going in the right direction, which I think we should, it was probably an opportunity to take that down even lower. And I think in the Analyst Day, we'll probably give everybody a more refined look at that, but I think the good news is there is good leverage in a model that already has spectacular operating margins.

Craig Hettenbach - *Morgan Stanley - Analyst*

I think we have time for one last quick one.

Unidentified Audience Member

When do you expect to get MOFCOM approval and do you have any visibility into that process?

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

It's a little bit of a black box. We thought that we would be all finished with this by the end of April. And I think we're pretty confident based on how the process with MOFCOM has gone that we will finish by the end of April. I don't see any reason why we won't. But basically they have a report, they've got a right, it's a pretty significant report, pretty extensive and pretty detailed. And we have to kind of help them, kind of fill in a lot of the blanks, which we've been doing over time, and it's slowly kind of gotten to the point where I think we've gotten all their questions answered and now it's a matter of getting the work done. And it's been very constructive and we haven't seen any anything that would indicate that they've got an issue. So I would suspect that it certainly happens by the end of April, maybe happens, hopefully, a little quicker than that.

Craig Hettenbach - *Morgan Stanley - Analyst*

Okay. I think we will wrap there. Dave, thanks so much for your time.

Dave Zinsner - *Analog Devices, Inc. - SVP, Finance & CFO*

Thank you.

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