THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ADI - Q2 2015 Analog Devices Inc Earnings Call

EVENT DATE/TIME: MAY 19, 2015 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q15 revenue of $821m and diluted EPS, excluding special items, of $0.73. Expects 3Q15 revenue to be $825-865m and non-GAAP diluted EPS, excluding special items, to be $0.71-0.77.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Ali Husain *Analog Devices, Inc. - Director of IR*

Dave Zinsner *Analog Devices, Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

David Wong *Wells Fargo Securities, LLC - Analyst*

Chris Danely *Citigroup - Analyst*

John Pitzer *Credit Suisse - Analyst*

Craig Ellis *B. Riley & Co. - Analyst*

Blayne Curtis *Barclays Capital - Analyst*

Ross Seymore *Deutsche Bank - Analyst*

Tore Svanberg *Stifel Nicolaus - Analyst*

William Stein *SunTrust Robinson Humphrey - Analyst*

Vinayak Rao *Morgan Stanley - Analyst*

C.J. Muse *Evercore ISI - Analyst*

Stacy Rasgon *Bernstein - Analyst*

Romit Shah *Nomura Securities Co., Ltd. - Analyst*

Vivek Arya *BofA Merrill Lynch - Analyst*

Steve Smigie *Raymond James & Associates, Inc. - Analyst*

Gabriel Ho *BMO Capital Markets - Analyst*

Ian Ing *MKM Partners - Analyst*

Jim Covello *Goldman Sachs - Analyst*

Joe Werner *Peter Cannell & Company - Analyst*

Steven Chin *UBS - Analyst*

Deepon Nag *Macquarie Research - Analyst*

Bill Peterson *JPMorgan - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Jennifer, and I will be your conference facilitator. At this time, I would like to welcome everyone to Analog Devices' second-quarter FY15 earnings conference call.

(Operator Instructions)

I would now like to turn the conference over to your host for today, Mr. Ali Husain, Director of Investor Relations. Please proceed.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Ali Husain - *Analog Devices, Inc. - Director of IR*

Thanks Jennifer, good afternoon everyone, and thank you for joining us Analog Devices' second-quarter FY15 earnings conference call. We have posted a press release with relating financial schedules at Investor.Analog.com, and I'd encourage you to follow along as we go through our results today.

Our agenda for today's call is as follows: First I will provide a brief overview of our second-quarter results, then Dave Zinsner, ADI's CFO, will review our financial performance for the second quarter, and finally Vincent Roche, ADI's President and CEO will provide our business outlook for the third quarter, along with closing remarks. After our prepared remarks, we will have a question-and-answer session.

Now, the information we are about to discuss, including our objectives and outlook, includes forward-looking statements. Actual results may differ materially from these forward-looking statements as a result of various factors, including those discussed in our earnings release, and our most recent 10-Q. These forward-looking statements reflect our opinion as of the date of this call, and we undertake no obligation to update these forward-looking statements in light of new information or future events.

Our comments today will also include non-GAAP financial measures which we have reconciled to their most directly comparable GAAP financial measures in today's release, which is posted on our Investor Relations website at Investor.Analog.com. And with that let's get started.

Now, as you have likely seen from the press release, after a very good first quarter of FY15, ADI produced another strong performance in our second quarter. The strength of our innovation, the diversity of our business, and our strong execution drove revenue to a record $821 million, which is an increase of 6% from the previous quarter, and an increase of 18% from the same period a year ago.

By end market, industrial, automotive, and consumer exceeded our revenue expectations for the quarter, and offset what was a weak wireless infrastructure CapEx environment. The industrial end markets, which are typically seasonally strong for ADI in the second quarter, grew 11% sequentially, and represented 48% of our total sales. All of the major application areas within industrial grew sequentially, with the strongest growth coming from the aerospace and defense, instrumentation, and industrial automation sectors.

By region, sequential industrial revenue growth was strongest in North America and Europe. Now, the industrial market is truly the lifeblood of ADI, where we develop and deploy our high-performance signal processing technology and system domain knowledge across our tens of thousands of industrial customers and their myriad applications to help create more intelligent, robust, connected, and energy-efficient products.

Revenue from automotive customers, at 17% of sales increased 13% sequentially and 3% year-over-year, in a seasonally strong period for ADI's automotive business. Sales increased sequentially across all of our automotive focus applications, in powertrain, infotainment, and safety, with particular strength in both advanced driver assistance systems and in powertrain applications, as car manufacturers respond to consumer demand and pending government mandates that help make vehicles safer and more fuel-efficient.

The consumer end market, at 13% of sales grew 15% sequentially and 40% year-over-year, marking the second straight quarter of year-over-year revenue increases in consumer for ADI. Prosumer audio-video was stable both sequentially and year-over-year, with portable applications driving our consumer growth this quarter.

Our consumer strategy remains the same. We plan applications where our high-performance technology allows us to solve our customers' toughest challenges, and where we can make a meaningful difference to the user experience.

Revenue from communications infrastructure customers, at 22% of sales, declined 10% sequentially, following a 4% decline in the prior quarter. A weaker than planned wireless infrastructure market, particularly in North America and China, drove the sequential revenue decrease. We believe that these declines are temporary, and that ADI will continue to benefit, as 4G penetration rates increase from their current low levels. Revenue from wireline customers represented about a third of our communications infrastructure revenues, and was stable to the prior quarter.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So now, I would like to turn the call over to Dave for details of our financial performance in the quarter, with the exception of revenue and other expense, Dave's comments on our second-quarter 2015 P&L line items will exclude special items, which in the aggregate total $26 million. When comparing our second-quarter performance to our historical performance, special items are also excluded from prior quarter results, and reconciliations of these non-GAAP measures to their comparable GAAP measures are included on Schedule E in today's earnings release.

With that, Dave it's all yours.

Dave Zinsner - *Analog Devices, Inc. - CFO*

Thanks, Ali, and good afternoon, everyone. The second quarter of FY15 was another very good year for ADI, and revenue totaled a record $821 million. Gross margin in the second quarter of 66.5% was well within our model range of 65% to 68%, and was up 90 basis points from the prior quarter, as factory utilization rates increased to the mid-70s from the prior quarter's mid-60s level.

Inventory on a days basis in the second quarter increased by one day to 127 days, and on a dollars basis, increased by $27 million, with approximately half the increase relating to the positioning of inventory for higher expected sales in the third quarter, and the balance of the increase relating to the timing of customer demand.

Deferred revenue on shipments to distributors increased by 5%. Most of the increase related to the Hittite product catalog, which was added to our distribution channel in the quarter. On a weeks basis, inventory and distribution was lean at approximately seven weeks, down from the prior quarter's approximately eight weeks.

Operating expenses in the second quarter increased 2% sequentially, lagging well behind the 6% increase in revenue, as we continue to gain more operating leverage in our model. As a percent of sales, operating expense in the second quarter declined 140 basis points, compared to the prior quarter. Operating profit before tax as a percent of sales increased 230 basis points from the prior quarter, and increased 200 basis points from the same period a year ago, and at 33.7% of sales, was well within our operating model range of 32% to 36%.

Other expense in the second quarter was approximately $4 million, and was lower than planned on a small gain on investments. We expect our net interest expense to be approximately $5 million per quarter for the remainder of 2015.

Our second-quarter tax rate was approximately 15%, which we expect will be our non-GAAP rate for the remaining two quarters of the year.

Excluding special items, diluted earnings per share of $0.73 increased 16% over the prior quarter, and 24% year-over-year, and was near the high end of our guidance range. At the end of the second quarter, our cash and short-term investment balance was $3.1 billion, with $760 million available domestically. We had approximately $870 million in debt outstanding, which resulted in a net cash position of $2.2 billion.

During the second quarter, capital additions were $49 million. Our capital expenditure plan in 2015 is to be between $160 million and $165 million.

We have a strong financial model that generates solid cash flows, and we are committed to returning cash to our shareholders. For the trailing 12 months, we generated free cash flow of $830 million or 27% of sales, and returned $800 million or 96% of that free cash flow to shareholders, in the form of a dividend or share buybacks.

In addition, our capital allocation strategy supports our regular dividend increase of 5% to 10%, and last quarter, we raised the dividend 8% from $0.37 to $0.40. Today, our Board of Directors declared a cash dividend of $0.40 per outstanding share of common stock, and that will be paid on June 9, 2015 to all shareholders of record at the close of business on May 29.

So in summary, this was a very successful quarter for ADI. The strength and diversity of our business combined with our strong operating model, generated strong cash flows, and converted a 6% sequential revenue increase into a 16% earnings growth.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So now, I'll turn the call over to Vince or our outlook for the third quarter, which with the exception of revenue expectations are on a non-GAAP basis, and exclude special items that are outlined in today's call and release. Vince?

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

Thanks, Dave, and good afternoon everybody. As we have talked about in today's remarks, the second quarter was, as you have seen, a strong quarter for ADI on several fronts, and I'm very proud of our execution.

As we start our third-quarter, order rates continue to be stable across the industrial, automotive, and communications infrastructure markets, which leads us to plan for demand in these markets to be similar to the second-quarter levels. In the consumer end market, we have had good order growth, and are planning for another quarter of sequential growth in that sector.

In total, we expect revenue to be in the range of $825 million to $865 million. The midpoint of this range represents a 3% sequential increase, and a 17% increase on a year-over-year basis.

Given the expected mix in our business, we are planning for utilization rates in our fabs to be slightly lower in the third quarter. As a result, we expect gross margin in the third quarter to be approximately 66%.

We anticipate operating expenses to increase approximately 2% to 3%, a modest increase from the prior quarter, primarily the result of full quarter of annual salary increases that went into effect in April. Based on these estimates and excluding special items, diluted earnings per share is anticipated to be in the range of $0.71 to $0.77 in the third quarter.

Beyond these near-term events, our basic philosophy and the cornerstone of our strategy remains the same. Superior innovation drives superior business results. We possess the broadest product portfolio, system, and manufacturing capabilities in high-performance signal processing to solve our customers' toughest challenges at the intersection of the physical and digital worlds.

Our product development strategy is to identify the fundamental challenges that our customers are facing in our target application areas, and leverage our solutions across as diverse a set of opportunities as possible. This strategy is evident in the breadth of our product portfolio and the diversity of our markets, applications, and customers, where we harness the strength of our portfolio, and where barriers to entry are high, and where our innovation can be sustained.

Today, customers are choosing their long-term partners very carefully, and our engagements with them are occurring earlier and earlier in their innovation cycles. And our collaborations are becoming longer-term in nature. There is no limit to the level of innovation that they are demanding from ADI, and we are responding by continuing to push the boundaries of technologies, products, and systems engineering.

An example of this approach in action is our acquisition of Hittite, where we are building an RF and microwave signal processing portfolio that makes ADI even more relevant to our customers, and helps them solve their ever-increasing design challenges. Our brand remains stronger than ever, and our employees are engaged and passionate about our customers' success, all of which provides us a terrific platform upon which to continue building our strong franchise.

Our drive for innovation and engineering excellence, and our deep systems and application domain know-how enable ADI to stay ahead of what is possible. We are focusing on the right markets and products that will drive sustainable and profitable growth, and superior shareholder returns well into the future, and I firmly believe that our best is yet to come.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Ali Husain - *Analog Devices, Inc. - Director of IR*

Great, thank you Vince. So everyone, during today's Q&A session, please limit yourself to one question. We are going to run today's call until 6:00, so after you ask your primary question. Please re-queue if you'd like to ask a second question, and the reason we do this -- we run our call in this format, is that everyone gets a chance to ask at least one question. With that operator, let's start our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Wong, Wells Fargo.

David Wong - *Wells Fargo Securities, LLC - Analyst*

You were talking about how your gross margin would drop a bit because of loading. Although, of course, it's difficult to forecast what revenues are going to do going forward, do you expect to be able raise your fab loading going forward after this current quarter? Do you expect your inventory to be where you want it to be at the end of this quarter?

Dave Zinsner - *Analog Devices, Inc. - CFO*

I wouldn't say that I anticipate inventory to where we want it to be, but a lot of why our inventory is where it is, is not related to running the fabs hotter than expected. It really is about, in fact most of it is actually wafers we outsource externally. So I think, and a large part of our utilization is driven off of the industrial business, and depending on how that business goes, that would somewhat determine how our loadings go. But we're obviously expecting that business to do well over time, and we anticipate that our fabs will continue to increase over time the utilization levels, so I think that would be, over time, a positive impact to the gross margin.

Ali Husain - *Analog Devices, Inc. - Director of IR*

David, this is Ali here, and I'm looking, the third quarter for us, we tend to do some retooling anyways in our fabs, so it tends to be a slower quarter on the utilization side as a result of that. So it's a seasonal thing.

And the other thing I would add is on the gross margin line, we're running our business to run at gross margin model ranges of 65% to 68%, so that's still the case, and that will still continue to be the case going forward. So thanks for your question, David, and we will get to our next question, operator.

Operator

Chris Danely, Citigroup.

Chris Danely - *Citigroup - Analyst*

Thanks. Just as a related question, can you give us your expectations for the relative growth rates of the end markets for the rest of the calendar year? And then if you would maybe talk about your expectations for relative growth rates longer term, say for the next one to three years for the end markets?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Dave Zinsner - *Analog Devices, Inc. - CFO*

Well I think it's safe to say, given that the third and fourth quarter are usually good quarters for consumer, that as we sit today with the limited visibility that we always have in the semiconductor space, that we would expect the consumer business to do quite well for the latter half of this year. I think industrial generally sees on a half-year to half-year basis, generally starts to flatten out for the second half of the year. That's generally true of the automotive space, as well.

And then the communications business, I would say, is a wild card. We do expect this to be a temporary perturbation that we are experiencing right now in the communications market, and to the long-term trends, to build out infrastructure around the world still exists, and the need for more data, or higher data rates still exists. I think it's a matter of when on the communications business, but that should come back at some point, and may indeed come back in the fourth quarter.

Longer-term, we hope all the businesses grow quite well over the next three years, and I think, as we look at the pipelines in each one of our businesses, and Vince and I just reviewed it a few weeks ago with the team, we're excited about every one of our end markets, and the things that are getting done. The incredible innovation that's going on, together with our customers, and so we expect all of them to do quite well.

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

I think as well, Chris, we've put a number out there. We've said that our expectation is that we should be able to grow this business and aggregate it 2 to 3 times global GDP, and we stick by that. My sense is if the markets behave, we will be on the higher end of that.

Chris Danely - *Citigroup - Analyst*

Great, thanks.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Thanks, Chris, can we get to our next question, operator?

Operator

John Pitzer, Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Dave, you've always said that mix of business doesn't have a significant impact on the gross margin line, but if you look at the strength in the consumer going into the July quarter, and the incremental gross margin in that quarter being relatively weak, I think I understand the issue with utilization. But can you remind us again how consumer influences gross margin longer-term, and given where it is today as a percent of revenue, how big would you want consumer to be before it got too big?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Well on the gross margin front, I think what we're talking about with our guidance is we'd be 50 basis points off the second-quarter gross margin level, and roughly probably half of that impacting us from utilization, probably half of that is mix. So it's, again, relatively modest impact that we get off the consumer business, in terms of mix.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We actually will take all comers in terms of good profitable innovative type revenue streams, so we're not going to arrest any market that's going to do well for us and drive revenue growth, and more importantly, earnings growth. I think just based on the way we are investing our R&D, which has been very balanced across all those end markets, I think you would expect we'll have a very balanced growth trajectory for all of the businesses, and thus you probably won't see significant differences in percentages by end markets over time.

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

To add a little more color to what Dave has just said, we are leveraging a platform of technology for the portable space in particular that is based upon our many, many years of developing precision signal processing technologies, for many different types of applications, within portable devices. So as always, we're solving the toughest problems that our customers can throw at us, and we're looking for sustainable innovation.

We're looking for sockets where we can sustain a position for generations to come. That approach will give us the kinds of ASPs and the kinds of margins that we find attractive to our Business overall.

John Pitzer - *Credit Suisse - Analyst*

Thanks. Helpful.

Operator

Craig Ellis, B. Riley.

Craig Ellis - *B. Riley & Co. - Analyst*

Thanks for taking the question. I wanted to focus a little bit on a follow-up to the points that were just being made. In the consumer business, there have been some tear down evidence of a marquee design win for your product. Can you talk about your ability to drive your technology across a broader base of both customers and applications?

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

Yes, as I have just said, we are leveraging technology that is primarily precision-centric, that we for example, if you look at our philosophy in general, how we do the innovations as a Company, we generate very often breakthrough process technologies, breakthrough circuits, breakthrough products, from which we build platforms, and ultimately those platforms are purposed into industrial automation, into battery management in cars, into portable devices in consumer.

So it's very much a platform play, and where we can leverage the quality and the strength of our technologies, and solve really difficult problems in those areas, we build products very often that sometimes go into a catalog, and sometimes are purposed for those individual applications. So that's the philosophy. And our technologies, as you know, we've got more of 20,000 product SKUs of the catalog of ADI. We've got about 100,000 customers across many, many different applications, so that's been the approach in the past, it's served us very, very well, and I believe that approach will serve us very well in the future.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Thanks, Craig, and let's get to our next question, operator?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Blayne Curtis, Barclays.

Blayne Curtis - *Barclays Capital - Analyst*

Thanks. I just actually wanted to follow up on that. As you look at the consumer space, you have been able to put a good barrier from competition in industrial type markets. When you look at consumer, you are leveraging that precision signal expertise, do you think you can enjoy similar barriers to entry, and if you could highlight the competitive landscape in portable applications?

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

Well, the portable landscape itself has a lot of different modalities within. There is many different sensor types, and many, many different types of media. As I said, we have very much picked out areas of the portable space where the problems that are really important to our customers to solve, to develop a really high-quality user experience, those problems are very, very tough.

And so we are pushing our technology right to the edge, we're living at the edge of the technology, and we're enabling certain features to be provided in these systems. That's where we like to play as a Company, whether it's industrial, automotive, consumer, communications infrastructure, and we apply that wherever we go. That's the philosophy of the Company. We like solving tough problems at the intersection of the physical world and the world of digital or virtual.

Blayne Curtis - *Barclays Capital - Analyst*

Thanks.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Thanks, Blayne. Get to our next question, operator?

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Just a question on the cash return. You have done a great job over time doing that, and I think you have laid out clear targets. When we boil it down between the buybacks and the dividends, I think you've said in the past you have roughly a third of your free cash flow generation is onshore, and by that math, it looks like your dividend is actually more than your onshore. I know you have a ton offshore, but just talk about how you balance that with the statement you made earlier in the call about increasing your dividend each year?

Dave Zinsner - *Analog Devices, Inc. - CFO*

We obviously have a US entity that generates cash flow, and some of the dividend is supported by how much of the US cash flow is generated. Beyond that, as you probably noticed, we have added leverage at times. I think we have a couple of bonds now outstanding to bulk up the cash reserves of the US entity.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We utilize that cash, as well, to fund the dividend and buyback. And of course, offsetting that, the international entity accumulates cash. So net-net we have a pretty good balance sheet, pretty conservative balance sheet, but we do use leverage on the US balance sheet, in order for us to fund the buybacks and dividends to create the cash return that the shareholders want.

Ross Seymore - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Just had a question on your guidance, and I do recognize that most of your end markets are moving into flattish seasonality, but just based on conversations you are having with customers, especially those in the industrial space, does it feel like they are upbeat, or are they being guarded, cautious? Just trying to understand directionally what your customers are feeling after what was a fairly turbulent March quarter.

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

Yes, I think there are two sides of the conversation with industrial customers. One is the long-term, and how we're working together to generate great innovation in industrial automation, instrumentation, and so on and so forth. We've had a very, very good industrial quarter in the quarter just gone.

Sequentially, it was strong, it was up considerably year-over-year, and I think it's really going to be a question of how well the macro environment behaves. So, my sense is, it's stable. We see it in the order rates, and we hear it in conversations with our industrial customers, as well.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Thank you.

Operator

William Stein, SunTrust.

William Stein - *SunTrust Robinson Humphrey - Analyst*

Great, thank you for taking my question. I would like to ask a bit about the automotive end market. You mentioned that there were some pending government mandates in autos, is that Euro 6, or is it something in the US? Any color would be helpful, thank you.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Will, it's Ali, here. What I was specifically mentioning in the prepared remarks is certainly around Euro 6. It's also around the CAFE standards in the US that are coming online.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

But I think I did mention government mandates, but I think it's above and beyond that, right? There's NCAP standards, there 5-Star ratings and I think a lot of the car manufacturers are really angling to hit those ratings, get those various certifications, because I think it really helps them differentiate their products with the end consumer. I think those are the things that are coming online.

And interestingly customers are also adding the various options. Something may be part of a particular government mandate, be part of a particular NCAP program, but customers are actually now, particularly in the premium vehicles, are opting for the various functionalities, and so I think that's also been really good and has been driving our Business.

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

To add a little more color there to what Ali has just said, so obviously, car companies are -- it's important for them to comply with government regulations, but car companies are in a massive transformation mode. They are all trying to become IT-centric, because that's how they are really building value into the products that they are developing and delivering. And I think there are many, many years yet of headroom to innovate in cars, as the OEMs themselves are trying to automate and electrify everything they can inside the car. I think that's more the driver of innovation than regulation.

William Stein - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Craig Hettenbach, Morgan Stanley.

Vinayak Rao - *Morgan Stanley - Analyst*

This is Vinayak, calling for Craig.

I will follow up on automotive. Solid sequential growth this quarter, and when we look at the portfolio, you are playing in the right applications. When I look at growth on a year-over-year basis, the growth has slowed down to the low single-digit range from high single-digit, double-digits in the prior quarter. How should we think about growth in the intermediate to longer-term in automotive?

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

So we've had a very, very strong growth pattern in automotive over several years. We've been growing at a compounded growth rate of around 20% over the last five years. And when I talked earlier on about the aggregate expectation for growth for ADI, I talked about 2 to 3 times global GDP as being a good benchmark, and my expectation in the years ahead is that, given where we are now, that the higher end of that growth expectation is what automotive will deliver for ADI. So I think that's how to think about it.

Vinayak Rao - *Morgan Stanley - Analyst*

Thank you.

Operator

C.J. Muse, Evercore ISI.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

C.J. Muse - *Evercore ISI - Analyst*

Good afternoon, thank you for taking my question. My question is on the consumer side, great job in terms of that business finally troughing, and some interesting wins that you have alluded to in the past. Curious what growth we could see for that business here in calendar 2015, and based on that growth what impact would that be, all things equal in terms of impact to gross margins? Thank you.

Dave Zinsner - *Analog Devices, Inc. - CFO*

Well as I mentioned on the gross margin front, most of the businesses are pretty close to the corporate average, so within 20 to 30 basis points, it's not much different. I think we'll have to defer until next quarter to really give you a good sense of the full-year growth rate of consumer. We're just not ready to provide complete guidance out through the year on any of our businesses, because we just don't have that visibility. I think it's safe to say though, as we sit today, normally consumer has a seasonally strong fourth quarter, and that's how we're building the internal plans at this point. But we will wait until the third quarter is behind us, we'll give you some better clarity around the fourth quarter, and that will give you a sense for the full-year growth rates.

C.J. Muse - *Evercore ISI - Analyst*

Thank you.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Bernstein - Analyst*

Thanks for taking my question. I had a question on the shorter-term outlook here. Obviously, very strong, consumer was up 15% this quarter, you seem to be guiding it up more than 20% next quarter. Flat in the rest of the other businesses.

You're talking about core industrial and auto again usually seasonally weaker in the second half. Comms is a wild card. You're taking their internal utilizations down, which to me suggest maybe a little bit more caution potentially in those core businesses.

Do you think it's possible, can we actually see growth in the second half outside of consumer, for the rest of your businesses? And would you say your outlook for the second half in industrial and auto today is maybe better, worse, or the same versus where it was three months ago?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Even if industrial stayed relatively flat through the rest of the year they would be up, because the first quarter was a pretty down quarter for industrial, as it usually is. So the answer to your first question is yes, there is certainly an expectation, or could be an expectation that we could see growth second half over first half of the core businesses. What was the second part of the question?

Stacy Rasgon - *Bernstein - Analyst*

Would you classify your industrial and auto core outlook in the second half today better, worse, or the same as where it was three months ago?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Dave Zinsner - *Analog Devices, Inc. - CFO*

I think we generally are in the same range that we expected coming into the year. This is, obviously there's all these crazy macro indicators, some of which contradict other macro indicators. The best we can do is look at our order flow, and I think recently, the order flow has been pretty stable.

We did have maybe a weaker February, partly due to the lunar new year, I suspect. But outside of that, those businesses have been pretty stable all the way up until today. Of course, we don't know how things, with 100% confidence, how things will look like going forward, but just based on the customer input, what we have heard from our distributor partners, and what we are seeing in terms of the order levels, I think it's a pretty stable environment.

Stacy Rasgon - *Bernstein - Analyst*

Thank you.

Operator

Romit Shah, Nomura Securities.

Romit Shah - *Nomura Securities Co., Ltd. - Analyst*

Yes, thank you. Vince, given the deployments, the LTE deployments that we've seen already, some of your competitors are a little bit more guarded about their communications businesses recovering over the next year, and I would be curious why you are more optimistic? Thank you.

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

Well look, we're at very, very early stages of 4G build-out across the globe; the penetration rates are still very, very modest. There's a long, long way to go. We've obviously had the short-term level, but that is short-term. It centered around a couple of carriers, the behavior of a couple of carriers, that had a strong ripple effect throughout the entire market.

So I think the long-term prognosis in terms of the build-out of hardware infrastructure to be able to deal with the bandwidth, with the data capacity requirements, there is no question about that. I think also, we talked on the last call about the emergence of small cells, and we are very, very well positioned in the small cell sector, that will complement the strength that we have in the macro area.

So we have a stronger product portfolio than ever. We are very, very well positioned with all the OEMs across the globe. So I believe the short-term has really been, as I said, a behavior issue with a couple carriers. But I think in the medium and long-terms this is a great space to be, and I think we're going to see a recovery here sooner than later.

Romit Shah - *Nomura Securities Co., Ltd. - Analyst*

Thank you.

Operator

Vivek Arya, Bank of America.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Hi thanks for taking the question. I have a question regarding Hittite and its contribution for this quarter, related to the prior quarter. And can you talk about how the split has changed between the communication and industrial? My understanding is 40% is in industrial and 60% is in communication?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Okay. Let me take the first one.

The revenue growth sequentially of the Hittite business was basically the same as the total Company, so it's performed exactly as expected, and we're very pleased on how they did on the top line basis. Also, we were expecting for 2015, I think, when we originally talked about the Hittite acquisition, that it would be in the high single digits in terms of accretion, and I probably updated this last quarter, but I would just tell you that it looks more like it's in the 10% ZIP code this year and we feel really good about Hittite's accretion for next year, which is likely to be in the mid-teens.

From that perspective, it's going quite well. The business had, I think it's probably fair to say, had a bit more industrial as of percent of revenue versus communications, and obviously communications wobbled for us. It wobbled a bit for Hittite, the Hittite portion of the business as well, not surprisingly. But one of the areas of the industrial space that did particularly well for us this quarter was the defense business and that is where Hittite have very good exposure, and so they definitely knocked the cover off the ball on that category within the industrial space, and so it did quite well.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Steve Smigie, Raymond James.

Steve Smigie - *Raymond James & Associates, Inc. - Analyst*

I just wanted to follow up a little bit on the Hittite accretion question. Dave, I was wondering if you could talk a little bit about what we should think about OpEx over the next 6 quarters, if you're OpEx grows something, maybe half the growth of revenue, does that suggest we should model something even less growth on OpEx? Is that the right way to think about it?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Well I think for the most part, most of the OpEx benefits of the Hittite acquisition are in. What synergies we got from an operating expense standpoint, I think pretty much were captured by the time the first quarter ended. There might be a little bit, but it's not enough to move the needle for the total Company in terms of OpEx.

Where the next wave of synergies comes from with Hittite is in the cost of manufacturing, and that's as we transition their test operations from Chelmsford to the Philippines. And so really, where you will see the next wave of benefit is on the gross margin line, and not the operating expense line. Personally, I think your rule of thumb, roughly OpEx growing at roughly half the rate of revenue over time, probably makes a lot of sense.

Certainly, there will be quarters were that doesn't necessarily happen, and there will be quarters where we do a little bit better than that as we did this quarter. But over the course of several years, I think that is a pretty good rule of thumb.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Steve Smigie - *Raymond James & Associates, Inc. - Analyst*

Okay, great thanks. And just a quick follow up. So you think about industrial, it seems like medical could potentially become a bigger area. You talked about some very interesting medical solutions at the Analyst Day. Does medical become 5% of revenue sometime in the next year or two, or is it more, it will still take 10 years to get that to be a big percentage of revenue?

Dave Zinsner - *Analog Devices, Inc. - CFO*

I would say we wouldn't break it out for 5% revenue. It's a healthy business today. Where we might break it out as a separate category is when it got closer to the 10% category: that would be the reason to break it out. But it's actually a pretty meaningful part of the revenue, particularly in industrial.

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

Just to add a little more color, it's a space with tremendous potential. It's the one area of our business where technology, in many, many ways IT, is going to be the solution to many of the problems to be able to produce the diagnostics that are important for healthcare, for wellness and health care management. And to solve the cost problems that are just really crucifying that industry, so it's very, very important to the overall delivery of healthcare from a performance and cost standpoint.

It's a modest investment for ADI, but we're very excited about many of the things we're doing in delivering photonics solutions for example in the area of CT and MRI scanners, so big iron is important part of what we're doing. We've built some really enabling technologies in digital x-ray that are starting to ramp up into decent size revenues. And of course, there is the vital signs monitoring for consumer plus applications and moving into clinical grade healthcare, over the coming years.

So there are several areas with a very modest R&D spend that is allowing us to create tremendous leverage again, off the technology platforms that we have developed. So it has all the attributes that we look for in terms of hard to solve problems, multiple generations of sustainability, good ASPs and margins.

So I think it's a terrific space. It's one of these spaces where you really have to take a long-term view to playing in, because things don't happen overnight, but I think we are very well-positioned, and excited about the future there.

Steve Smigie - *Raymond James & Associates, Inc. - Analyst*

Great, thank you.

Operator

Gabriel Ho, BMO.

Gabriel Ho - *BMO Capital Markets - Analyst*

Yes this is Gabriel calling in for Ambrish. Thanks for taking our question I have a follow-up on the communications end market, I think you mentioned during the Q&A session you are well-positioned in small cells, and I think also you mentioned before that you see 4G has a higher, 20% to 30% higher opportunity than 3G. So how should we think about the opportunity in the small cells as you ramp into 4G and 3G?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

It's very hard to say. There is definitely the introduction of these small cells -- by the way, when we talk about small cells, I should make it clear, we are not talking about femtocells, we're talking about high-performance infrastructure-related small cells, so I want to make that clear.

The introduction of those small cells, we've said for several quarters now, we believe that the second half of this year we'll see the introduction in a meaningful way of these products. And that indeed now is beginning to happen, so I think second half of 2015 is when we will see a meaningful introduction of those products. So there is no precedent in terms of ASP increase for those products over prior year, because there really wasn't a prior, it's all been macrocell to date, but what we have seen of course in macro is an increase of 20% to 30% in bill of materials value to ADI, based on the extension of our portfolio, and the integration of functions into our solutions there.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Gabriel this is Ali, I would just point out, the long-term trends of this market are terrific. You look at 7.1 billion subscribers out there, 4.5 billion are still on 2G, North America, barring the short-term perturbations this quarter, mobile data in North America is growing 50% year-over-year, penetration rates here are set to move higher over the next few years, and China on this multi-year 4G FDTD build, so I think we're in the infancy here, and the I think the points that Vince made are absolutely correct, because you have the macro coming in, you have these small cells layering on top of that. I think it's going to be a great market for ADI for many, many years to come. Thanks, Gabriel, we'll move on to the next question.

Operator

Ian Ing, MKM Partners.

Ian Ing - *MKM Partners - Analyst*

Yes, thanks. Could you talk about your ability to handle volume ramps and portables? This is something you've done in the past but not more recently, so would you say you been audited pretty well in manufacturing capabilities to fulfill requested lead times? Thanks

---

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

We have one of the best manufacturing organizations in the world of semiconductors. We have an manufacturing organization that's been consistently, irrespective of volume or market, we been able to deliver greater than 95% of our products within six weeks lead time, no matter what the perturbations in markets, with sub 1 part per million quality levels, so we're very, very agile in terms of our manufacturing capability.

In the case of the consumer area, we're leveraging external foundries and external back-end manufacturing and test capabilities. So as I said, our supply chain is second to none in the industry, very agile. And we have a lot of experience, by the way, of playing in these consumer markets over many, many years. We are very, very much up to the challenge, and pleased with where we are.

Ian Ing - *MKM Partners - Analyst*

Great, thanks, Vince.

Operator

Jim Covello, Goldman Sachs.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jim Covello - *Goldman Sachs - Analyst*

Thanks so much for taking the question, I appreciate it. I was wondering if you could give us a little bit of insight in terms of how you're going to think about between the trade-off between revenue growth and gross margins, as you ramp some of your big consumer opportunities? Do you think you will prioritize the revenue growth, or would you prioritize holding the line at a certain level on gross margins, as you face the inevitable cost pressures in the second and third generation of these devices, that the big customer drives?

Dave Zinsner - *Analog Devices, Inc. - CFO*

I think we feel pretty confident that we can stay within the range of our gross margin target, which is 65% to 68%. But ultimately, we're about building earnings 8% to 15%, and so we certainly want to be on the higher end of that range, if we can. And that's number one priority.

What Vince, I think, said in the prepared remarks, he said sprinkled through his answers on questions today, has been that we are very focused on innovation. And when you were focused on innovation, you don't necessarily see the competitive pressures that people see in every market that we participate in, because if you come out with commodity parts in any of these markets we are in, you are going to find a lot of price pressure.

What we try to do is stay on the innovation curve ahead, of the innovation curve, we get paid for that. We have what we believe is superior R&D thrown at these problems, and so I feel pretty confident that you're not going to see us wobble away from on the gross margins.

Jim Covello - *Goldman Sachs - Analyst*

Very helpful, thank you. Good luck.

Operator

Joe Werner, Peter Cannell & Company.

Joe Werner - *Peter Cannell & Company - Analyst*

Thank you very much for taking my question.

I'm turning to the balance sheet, and we all know how interest rates are at the lowest level in our lifetime, yet I see that we have an exorbitant amount of cash at this time, and at a time when many companies are borrowing money we have cash that is earning very little return for our shareholders. I wonder, is there any thought being given to the idea of maybe borrowing a couple billion dollars instead of having a couple billion dollars on the balance sheet, maybe?

I remember, and it wasn't long ago, when the Company had about 400 million shares outstanding. Today is closer, it got down to about 300 million shares now it's been creeping upwards, well I see 312 million on a basic number, about 317 million on a fully diluted number. By my calculation it can be down to about 250 million if we took on about $2 billion of debt, and swung the balance sheet in about $4 billion. We could reduce our share count by about 20%, increase our earnings by about 20%. What type of response would the Board have to that type of thinking?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Well, I appreciate the question, Joe. Obviously, we're constantly looking at trying to optimize the balance sheet. Obviously, part of the challenge is the fact that a majority of that cash is offshore, and isn't easily accessible, although it can be accessed.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

And we have to balance three priorities. One is a two-part priority, which is to return cash to shareholders, focus first and foremost on the dividend, but also on opportunistic buybacks. And if you look at our cash balance, probably back, I don't know exactly when that was, 2005 or something, I think we have come down quite a bit in terms of cash balances.

The other priority is obviously to augment what we do organically in terms of development. With some inorganic development, Hittite being a perfect example. So at one point we were at a year and a half ago, we are probably at $5 billion of cash and we brought that down to $3 billion. It didn't necessarily reduce the share count, but I think dramatically improved the earnings leverage within the Company, by adding incredible technology, very synergistic about what we're doing, and also accretive right out of the gate.

So that's the balancing act that we have, as we manage the capital structure. But I think, as we look over the long-term, our goal is not to be accumulating tons of cash. It is to be very judicious, but very shareholder-friendly in terms of returning cash, and also to augment that with M&A to continually drive the earnings growth.

I don't think we're just sitting here trying to collect the relatively small amount of interest income we can get on this cash balance. That certainly is not our goal.

So we hear what you are saying, it's definitely something we're paying a lot of attention to internally, it's definitely something that the Board pays a lot of attention to when we meet with them, and I think over time, you'll be quite happy with the end result of where we are headed.

Joe Werner - *Peter Cannell & Company - Analyst*

Thank you very much.

Operator

John Pitzer, Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Thanks for letting me ask a follow-up. Dave, just relative to that consumer mix, I think there been a lot of questions about the gross margin impact. I'd be curious relative to the op margin impact, how do we think about the OpEx around those consumer opportunities that tend to be fairly significant unit volume opportunities, where you were leveraging core IP that you have developed in other areas?

Dave Zinsner - *Analog Devices, Inc. - CFO*

I think we'll see in the future as to how the consumer business grows, and how fast that can grow. But I think it is safe to assume that if consumer is growing at a reasonable clip, that we will get very good leverage on that, and very good fall through to the bottom line, and that will be accretive to our operating margin number. There is no question that that's the model.

John Pitzer - *Credit Suisse - Analyst*

And Dave if I can sneak a quick one in, on the step up of $5 million on deferred because of Hittite, is that now the full impact of Hittite, or should we expect to see more in the July quarter or going forward?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Dave Zinsner - *Analog Devices, Inc. - CFO*

I think we've got all the inventory generally in the places we want with our distributor partners, with regards to Hittite products. So I think we're going to see the deferred margin number ebb and flow with how the distributors themselves are managing their inventory, and how their point of sales are going.

John Pitzer - *Credit Suisse - Analyst*

Perfect. Thanks again.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

I just have a follow up on your consumer/medical business. Right now your medical revenue is embedded in industrial, but if you look some of your consumer opportunities there seem to be a convergence between medical and consumer, so I'm just wondering as we go down the road the next couple of years, how are you going to be reporting this to the Street, given the convergence that is currently happening?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Just to be clear, we internally look at the healthcare business in total, and that's how it's managed internally, which is the way Vince was describing it. But when a product is targeted to a consumer customer we already classify it as a consumer product, and so it is in the consumer category today.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Okay, so even though eventually it's healthcare-related, if it sold in the hospital, it's medical, if it's sold to consumer, it's consumer?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Or better describe it is, if it's sold to a hospital, it's counted in our industrial business, it wouldn't be to a hospital, but to a customer that supplies to the hospital. It's in our industrial business, and if it's applied to a consumer products company, it's a consumer, piece of consumer.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Thanks for that clarification.

Operator

Steven Chin, UBS.

Steven Chin - *UBS - Analyst*

Thanks for taking my question.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Earlier, you provided some good color around the distribution channel and inventories, and also orders. I was wondering about the other half of sales to your direct customers, and in particular can you remind us what products or end markets are mainly represented in your direct sales? And also any color on order trends, as well as inventory levels at direct customers. That would be great.

Dave Zinsner - *Analog Devices, Inc. - CFO*

We have OEM customers in all of our end markets. I would say that a disproportionate amount of our distributor revenue is folded into the industrial market, and a disproportionate of our OEM revenue is sold into the consumer, communications, and the auto markets. What was the follow-on question? I missed that part.

Steven Chin - *UBS - Analyst*

The order trends coming into the current quarter versus last quarter? Pretty stable? Similar?

Dave Zinsner - *Analog Devices, Inc. - CFO*

Sure. I think we probably saw the weakest month in February, but as I said, I think that was pretty much as expected, given the lunar new year. It popped back up in March. It was a little bit better in April, and it's been pretty stable through at least May 19, so I would characterize the environment right now as pretty stable.

Steven Chin - *UBS - Analyst*

Great, thanks.

Operator

Deepon Nag, Macquarie.

Deepon Nag - *Macquarie Research - Analyst*

Talking about distribution inventory, so they came down pretty hard. Have you, first of all, was that primarily due to the European customers just not wanting to hold inventory? And have you seen them more willing to take on inventory now that currency has hopefully stabilized a bit?

And incremental gross margins, should we still think of 80% as the correct drop through? And can you talk about the puts and takes, especially as Hittite starts moving their products internally? Thanks a lot.

Dave Zinsner - *Analog Devices, Inc. - CFO*

I wouldn't read too much into the fact that inventory came down this quarter, because I think that generally happens this quarter. It's usually a very strong POS quarter or ship out quarter for distributors, and so we generally do see inventory roll off a little bit. I don't think it had anything to do really with currency, and it wasn't specific to any one geography. It was pretty much, they all came down pretty much at the same rate.

On the gross margin front, the fall through, it generally is 80%. Obviously if you do the math for the third quarter, that wouldn't be the case, mainly because we're bringing utilization down a little bit, and the mix impacts. But I think generally, that's rule of thumb, that's probably in the range of what we would expect gross margin to fall through, as long as the growth rate is pretty balanced across all the end markets, and so the products manufactured internally get as much of a lift as the ones that are manufactured externally

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Deepon Nag - *Macquarie Research - Analyst*

Great, thanks a lot.

Operator

Harlan Sur, JPMorgan.

Bill Peterson - *JPMorgan - Analyst*

This is Bill Peterson calling in for Harlan, thanks for letting me sneak one in. Thinking about the auto segment, and the pipeline, you have some visibility, I think, for next year's model, things like that. Where do you see the relative growth? I believe you said safety would be relatively outperform, but how would you rank rate safety, infotainment, and powertrain, for the coming years, in terms of growth potential?

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

Yes, probably, we have three primary applications. We have infotainment, safety, and powertrain. I would say in terms of relative growth, probably safety and powertrain will lead, and we will have good growth in infotainment. But I think a lot of the gross should be driven by safety and powertrain.

Bill Peterson - *JPMorgan - Analyst*

Okay, that's helpful. Thank you.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Thank you very much. It looks like that was our last question, so thanks for joining us tonight. We look forward to talking with you on our next quarter's earnings call, which is scheduled for August 18, 2015. So with all that, good night, everyone.

Operator

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

DISCLAIMER

Thomson Reuters 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 THOMSON REUTERS 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.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.