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PRESENTATION

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Good afternoon, everybody. Thank you for joining us for the final day of our 3-day Wells Fargo Securities TMT Conference. My name is Gary Mobley. I'm one of the semiconductor analysts here at Wells Fargo Securities. As you may know, one of the companies I cover is Analog Devices, which is our featured company here today in this fireside chat. You may recognize the gentleman there on your right, is Michael Lucarelli, Head of Investor Relations for Analog Devices. To the left there is John Hassett, who is in charge of integrating the various acquisitions Analog Devices has done, including the recent acquisition of Maxim.

I don't want to steal your thunder, John, but maybe if you could just give us a little bit of background as we were talking before we started. You've been at Analog Devices for a long time and what is involved in this whole integration process?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Gary, thanks very much. Great to be with you today. I've had certainly a long tenure with ADI, I've built my career with the company. And started out over in our operation in Ireland and then moved across here at the U.S. back in 1992. Have held a variety of roles from an operations perspective, manufacturing, engineering. So it's given me a breadth of exposure to help the company as we map our way in terms of integrating the various acquisitions that we've done.

I've been particularly involved obviously in this latest one in terms of the Maxim acquisition. And delighted to be able to report that we're making fantastic progress in relation to the overall integration. We spent a considerable amount of time prior to close, carrying out integration planning. And that has allowed us to really be ready out of the gate to start on the execution process of integration. And that's really, really a key step for us.

And we think -- when we look at integrations, we think about it from 3 pillars. Our first and foremost pillar is to think about it from our customers' perspective, right? And then we think about things from a scalability and then the opportunity to reduce complexity out of the overall combined operation. And when I think about it from a customer perspective, ADI has a deep-rooted linkage with our customers. And we have built very, very strong relationships over many, many years. And it's a very, very important component in relation to how we engage with our customers.

The responsiveness that ADI has with our customers, we got a lot of feedback from them in saying that as we go and map through various acquisitions, keep the model, keep the playbook associated with how we engage with the customer, particularly through these transitional periods. So that's exactly what we're doing from that perspective. We're also looking at, obviously, the scalability of the operation. As you combine 2 entities together, we now have much, much larger footprints, not just from a manufacturing perspective, but just right across the whole organization. So again, we look to drive and scale that. And as I'm sure you all well know, as you put 2 organizations together, there is the opportunity, right, to both focus on agility as well as removing constraints out of the operation, anything that slows you down in terms of running the business.

So that's the -- that's kind of what the opening focus has been. As I said, we're making great progress. From a customer perspective, we have already mapped out our overall customer organization. We're bringing clarity immediately to customers from day 1 in terms of single voice and a single face to our customers. And that's critical. So is that we know who owns the customer, how we can engage with that customer and bring whatever levels of solutions that we need to from both the combined entities.

In addition to that, we've also made great progress from an organizational perspective. We've again used the planning stages to help us in terms of designing out both at an enterprise level as well as a business unit level, how to think about putting the company together. So at a leadership level, at Vince's CEO staff level, we actually have 2 additions from the Maxim organization that are both running our operations as well as our consumer and data center side. In addition, not alone in that we have at this point in time, closed in relation to our L2 organizations. And over the coming months, we will have completed the rest of the mapping around the organization.

So that's a very positive move, and it allows us to really start getting things organized, both across the businesses as well as things from an operational perspective. Then I will share with you that from a culture standpoint, we focused on moving quickly in relation to the integration, and this is a key step in terms of I've worked with both the Maxim organization as well as the ADI organization. And I can tell you, the energy that's out there across the combined entity is fantastic. Employees are keen to move forward. They're keen to get involved and hey, how do we get on to this next journey. So I feel very, very positive in terms of both the level of energy in the organization, the embracing of where we're going. And to be honest with you, I think that has helped us from a speed of execution as well in terms of getting to where we are today.

QUESTIONS AND ANSWERS

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Got you. Well, that's a great overview. I'm sure that customer communication probably started on day 1 even when the deal was first announced, basically to help the communications and the holding hands and making sure everything would be seamless at least from the perception of the customers. And that was such a great overview. It leads me to -- want to jump right into the specifics about the cost synergies. And you gave some of those parameters on your earnings call just last week. But maybe if you could give a review of the $275 million in cost synergies, as you've outlined. In an integration process, how they will unfold in terms of timing? And how it will be distributed in that sense of timing between cost of goods and operating expenses?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Sure. Well, first and foremost, let me go back to the 3 pillars that I mentioned because they're actually the key structural approach in terms of how we look at pulling and executing on the integration. And as we start to look at both scalability as well as reducing complexity in the organization, that's where you start in terms of focusing on the Phase 1 side of our synergy focus and synergy capture. And that's a lot about taking kind of duplicative costs out of the system. Be that at a corporate level or in terms of looking at areas where we can extract natural efficiencies.

Remember, at the end of the day, we do these big acquisitions, and this is certainly a very big one. We want to extract and ensure that we have -- we preserve the talent that we have acquired and the capabilities that we've acquired. That's very, very important as we work our way through this. So we're focusing on areas of natural efficiencies on that. And I think we've highlighted that within 2 years, we're going to deliver $275 million of run rate synergies in relation to that from a cost standpoint.

Phase 2 then really looks a little bit further out in terms of the overall infrastructure within the company in terms of what is the best way to size and shape the company for the future. And obviously, the third phase is in terms of where we're looking at things from a from a revenue synergy perspective. Now I'll let Mike cover any of the other details that we've gone public with.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Yes, sure. Thanks, John. So John, great to have outlined in different phases. So Phase 1, you're right, John said we had $275 million of run rate synergies 2 years post close. We should look at about 40% of that, just over 40% in the first year and the remainder in the second year. And what's interesting, if you look at it, the first year will be more weighted towards COGS, a little less OpEx. And if you flip to year 2, it flips, a little more weighted towards OpEx, little less to COGS. And people say, why is that? Well, it goes to what John said, we're trying to extract the value and make sure we maintain that talent. So we take our time finding the efficiencies in the company to make sure we have the right people.

Phase 2, we'll talk more about that at the Analyst Day, what that means from additional synergies on top of that. But you can see what we did with our previous acquisitions that we do usually find some other areas of efficiency, especially on the infrastructure side. And revenue synergies, what everyone is excited about, we're excited about that, too. Once again, it's more of an Analyst Day material. But -- and if you look at it quickly, I mean you can look -- I think a great example is Maxim GMSL or Serial Link technology. That's a great business for them. If you look at that technology, what can ADI do with it? Well, we can take our engineers and put them on that -- those problems as well. Add more capabilities to what they already have and then bring it to new customers.

ADI is very strong in North America, across the North American auto OEMs. We can bring that product to those OEMs. So I think you see cross-selling. Now it takes time. It's analog. It lasts forever, but it takes a long time to get designed in. So these revenue changes to take a few years to materialize, then they last for decades.

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Yes. A great example is scalability.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Well, so I know you don't want to jump ahead of your Analyst Day and talk about Phase 2 cost synergies. But if we look back at 2 previous acquisitions, it's most notably Linear and maybe secondarily Hittite. What was the order of magnitude of additional Phase 2 cost synergies compared to the initial Phase 1?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Well, if you look at it, when we integrated the Linear acquisition, we initially announced that we were going to deliver $150 million of run rate synergies. And we added to that, I think during the Analyst Day, that we did, we added -- there was an additional $100 million of synergies that we outlined. Now that $100 million of synergies was tied to making manufacturing infrastructural changes. We actually announced at that day that we were going to consolidate some of the manufacturing operations. We are actually closing 2 facilities. We've actually executed on that. We're in the final stages of closing the second plant as we speak. So that's the -- that was what we outlined, both day 1 as well as the follow-on in terms of the Phase 2 synergies.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. So in the past, Maxim has certainly been -- well, it's been fabulous, I guess, for all intents and purposes. And there was a period of time when the acquisition was in limbo, and I think arguably, it took quite a bit longer than what you were both anticipating to close. And so the package was in a question. How detrimental was that waiting period for you to put in the right amount of orders with Maxim's foundry partners? And how much time will it take for you to catch up? In other words, to get back into the front of the line, to secure enough manufacturing capacity, to fully realize the sales potential there on the Maxim side?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Well, Gary, I'll let Mike correct me on any of these comments. But my sense was that both on a time line basis, we actually came in pretty close to the time line that we were indicating in terms of the closure of the deal. And through that process, through that time frame, we certainly had, as we got closer, highly valued discussions with the Maxim team in terms of looking at the sizing and shipping of the overall capacities as well as the internal as well as external manufacturing capacities. So hey, it's no secret that the capacity is highly utilized across the whole supply chain at the moment. And the Maxim operations team were effectively seeking to get the highest levels of allocations for their business as well as in terms of ensuring that they had internal capacity to meet that.

I will share with you, though, that one of the learnings from every single acquisition that we have -- that I've been involved in and that we have done is that we always find that you have to add additional capacity post close. And we have been aggressively doing that since day 1, both looking at that from an investment in terms of both front end as well as back end expansion, particularly in the Maxim operations.

Now one of the fantastic parts of the acquisition is that the Maxim supply chain, they bring us a wide diversity of additional suppliers, which is created actually from a foundry perspective, the -- we probably doubled the number of both merchant foundries, strategic foundries as well as partner foundries that we deal with. So that opens up a broad level of opportunity for ADI to further scale. And indeed, our partners across both legacy Maxim and legacy ADI have been working with us incredibly tightly in terms of looking at continuing to open up and provide us access to additional capabilities, both at a foundry as well as at an OSAT level.

So I certainly don't see that we have lost any time in relation to adding capacity or acquiring capacity. But there is no question that as you go through an integration, there are always differences in terms of how companies think about capacity models, about how they work with vendors in terms of access to [flood plant], for capacity. And we have taken a very aggressive and a very focused approach in terms of ensuring that we have the right positioning of capacity to meet our demands for the future.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

I'll say one thing to what John said, we outlined on our call last week, it was just only 1 week ago, that our CapEx will be 6% to 8% of sales. Our long-term outlook is 4%. So all this additional CapEx has been included in our outlook for the year. And given the long lead times on equipment because things are very tight right now, we don't expect to get more equipment online until the back half of this year. So now to then, you would say Maxim -- everyone's supply constrained, Maxim maybe a bit more so because of what happened last year. But we're adding strategic capital. I think that's key, not because of the demand strong today, but for demand today and into the future as we grow.

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

I think the other item that just to add to that is that we like to take a long-term view in relation to our capacity additions. And that's really, really key in terms of being able to respond to longer-term views in relation to capacity. And that's the key driver, and that's the key focus in terms of our capacity adds.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. I wanted to weave in some questions about scale, purchasing scale specifically. So you outlined that many of the cost synergies that will be realized this year will be on the cost of goods sold side. Does that relate specifically to buying power? And if not, what sort of buying power do you anticipate getting from the scale that ADI now has? And related to that, can you give sort of a rank of where you think you will be in terms of a fabless chip customer and how that relates to importance?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Well, in today's environment, Gary, the first thing I would say to you about buying power is ensuring that we get the capacity that we need to support the -- support our customers and meet all of the demand that they're requesting. So the key leverage point at the moment is about capacity and ensuring that we can meet those overall needs and demands. That's the first level. We can circle back at a different time in terms of looking at setting up series of negotiations with our supply base because of the size and scale. Our size and scale today is focused on one thing, satisfying our customer demand.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Understood. You're probably not exactly in a leverageable point in time given the constraints in the overall industry, negotiating some pricing cuts.

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

The only thing I would say to you, Gary, is that in this point in time, relationships with all of our suppliers is incredibly important. And that's what ADI is leading with, relationships with our customers, relationship with our suppliers to ensure that we can maximize the demand. And we can talk and look at the sizing of our businesses with our suppliers at a different date.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I want to ask a selfish question or a question from a selfish perspective. I cover the EDA names, Cadence and Synopsys. And you probably spend a large percentage of your OpEx on the EDA tools. And so through history of previous acquisitions with the Maxim acquisition, do you anticipate getting any synergies as it relates to your EDA tool spending?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Well, I would say that across the board, as we look at combining the entities, we're looking at all opportunities for leveraging some natural efficiencies, right? Where, as you said, we're a different size. We're a much, much bigger size, but at a completely different scale. And we work with all of our partners in terms of ensuring that ADI has -- is able to achieve the best possible cost structure and have the most efficient operation to meet our overall needs.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Politically stated? I appreciate it. All right. So I know you're not going to -- you don't want to front run your Analyst Day in talking about many of the details from the revenue synergies. But let me ask you a broad question about whether or not you can repeat the playbook from the Linear acquisition, where I believe you've doubled the growth rate for Linear sales post acquisition. Do you see a similar type of setup here for Maxim? And if so, how do you get there?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Well, we certainly have the ability and a focus from scalability, both within the organization, across the organization, I should say, as well as from a manufacturing standpoint in terms of supporting the additional business that comes in. We're highly focused operationally from a standpoint of looking to scale and scale quickly. I spoke about the capacity additions that we -- that I mentioned earlier on. It's about taking a long-term view in relation to that rather than looking at things that are very, very short term and satisfying short-term demand. So from that perspective, I certainly believe that we are setting ourselves up operationally even today, right, to start in that journey.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Yes. And Gary, you're right. If you look at the Linear acquisition, at the Analyst Day, we talked about doubling the growth rate kind of from low single to high single digits, and we've done that from a Linear standpoint. And the other important part was we didn't sacrifice with that. We actually expanded our gross margins in that portfolio while growing faster. I think that mindset of let's take Maxim to the same thing, meaning grow faster, more profitably, that's what we call a success in that deal. And we'll outline more details around that in a few months' time. But you're right to think there's a lot of combatorial benefits like there were in Hittite, Linear and now Maxim.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Got you. Okay. On your earnings call last week, you outlined a prediction of double-digit percent revenue growth as a baseline for fiscal year 2022. What's the blue-sky scenario under which Maxim can secure more production capacity? How would that lead to potential upside to your baseline forecast for the year?

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Sure, I'll go up that one because I was on the earnings call. I mean, it'll be higher, right? I mean, first order, tongue-in-cheek. But I mean, what's amazing is we grew a lot this year in '21. Everyone in the industry -- we grew probably 20 -- close to 20% this year. We're talking about another year of double-digit growth across all our markets. It's not 1 market driving this. It's automotive, industrial, comms and consumer. I think that's very important to say it's broad-based again.

And that's with Maxim being supply constrained. I mean even if Maxim is kind of flat from here, they'll grow high single digits. So we think we will grow a little bit above that as things loosen in the back half of the year. And what's also important is if you look at next year for us, revenue is growing. But what's equally impressive is the gross margins for '22 will be higher than '21. And why is that so impressive? If you think about it, Maxim, great company, their gross margins, we call it, 67%, 68%. We have a full year of Maxim. Yes, our gross margin will be higher in '22 than '21. So we're growing double digits at better gross margins in '22.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Appreciate that. Let me switch back to John and ask you about your perspective on post combined Maxim, ADI as a company. Your goals for internal versus external, front and back-end production resources, your perspective on what's the right mix between direct to customers and those sales that go through distribution. And related to distribution, how much of that will be focused on lead generation versus just order fulfillment?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

So let me share, first of all, before the acquisition, our mix of internal to external was approximately 50-50. And immediately post-acquisition, we're probably in the 45% internal range. Now as we move forward, I certainly think that you will -- we'll see us head back closer to the 50-50 type of mix. Remember, at the end of the day, we don't run the business in terms of saying that we want to do it on a 50-50 basis. But we will build product and map production to the most appropriate and required capabilities in order to ensure that we meet the overall demand.

So I would expect us to see that. I think that one of the fantastic things that we gain from the Maxim acquisition is additional internal capabilities. Maxim have brought to the party a very large wafer fab facility in Beaverton. We have the opportunity to continue to leverage that capability. In addition to that, they have a 0.18 capability internally as well as Maxim also developed their own processes.

So from a process development standpoint, they have their own process, which allows them to be able to modulate demand across their whole supply, both internally as well as externally. I like that model. I think it provides a lot of flexibility. It also provides resiliency into the supply chain as well. And I think we're going to leverage -- certainly look to leverage that as we go forward.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And on the topic of distribution, I'm sure my colleague, Joe Quatrochi is watching this, who covers Arrow and Avnet. Could you give us a little background in how you're trying to consolidate your main distribution partners post-acquisition?

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Do you want to talk about that?

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Yes, so -- I mean, we consolidated them. So I mean, Avnet went public, the Maxim line from Avnet is moving to Arrow. So we always wanted -- it's a natural efficiency. Same thing we did with Linear, with ADI, we consolidate Arrow. We're going to Arrow again. So Arrow is our #1 global distributor. We'll still use regional guys like [Megnika] and Excelpoint in Asia. But it's a win-win for both parties. I mean I think you get natural efficiency by going to one and those guys are extent of your sales force trying to sell more of your product. And as John said earlier, being larger, we're the biggest analog player using distribution. It's about half our business. They want us and we want them to grow our business faster and we'll pay for that as long as they grow the business faster. And that's kind of what we worked with them towards from a distribution standpoint.

And like I said, if you look at ADI and Maxim, half -- a little over half revenue went through distribution. There are some benefits that you combine where some companies become bigger, go over a threshold and we'll take some of those companies direct. But really, we always like our distribution partner for kitting. We're finding new customers, holding that inventory, and we'll continue to utilize them in that manner.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. John, I'm sure you weren't able to look completely under the hood prior to the Maxim acquisition closing. And so 3 months post acquisition close, what have been some of the -- I want to hear 100% to your perspective, some of the positive and negative surprises that have come up now that you've had a fuller look under the hood.

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Sure. It's a great question, Gary. And you're right, there's only a certain amount of under-the-hood reviews that you can do. I've shared some items with you, but I'll repeat them. I think from a -- first of all, from a talent perspective, certainly, as I've been able to engage with the organization, I am very, very impressed with the talent, the energy that's in the organization. And in terms of the desire and push to move forward and to move quickly in terms of getting the companies integrated.

When we did the LTC deal, we kept LTC's Power as a separate organization for 2-plus years. We've focused this time in terms of with the scale that we have now from a Power perspective to really get that integrated quickly. And that's what's driven a lot of the energy and excitement across the organization. So that certainly from a talent perspective, that's one area. I believe from a capability standpoint, as I mentioned, the breadth of the manufacturing -- Maxim did an excellent job over the years in terms of restructuring their manufacturing. But they still brought a very, very good footprint with them, both in terms of Beaverton, their operation in the Philippines, which is highly additive to what we have, in addition to their test operation in Thailand, which adds to our overall flexibility from a manufacturing perspective. So I really like the footprint that we've got from an operational perspective.

I think Maxim have also spent a lot of time and been very focused on their new product development process. And in particular, I think they bring a level of discipline associated with both the decision rights around whether to start a product. And indeed, once they have made that decision in terms of the monitoring of the progress in relation to that and making critical decisions as they move forward. They have invested in a robust process as well as an automated process in relation to that. I'm looking forward to uplifting that and leveraging that inside ADI. I think they bring a great DNA with them in terms of new product development focus. And I want to tap into that DNA and spread that right across the ADI domain.

So that's -- there are certainly very, very strong positives on that. I would say, not a negative, but an item that ADI can bring to the table is that we have a different focus from a customer perspective. And I think this is a huge leverage for the combined entity. Now as we continue to look and build out to those revenue synergies, the type of approach that ADI has with customers truly defines the type of engagement, the type of opportunities that we get, the value that we're able to extract from our engagements with our customers and deliver to the operation. So I want to bring the ADI customer engagement model back into the Maxim -- legacy Maxim organization.

But that is going to be our standard -- our operating mode. And as I think I mentioned earlier on, many of our customers come back and tell us, "Hey, keep the way you work with us. Keep the ADI model. That's what we want to see in the future."

So the customer responsiveness, the engagement around that is critical for us for the future. So that's the other side of the coin I would bring.

Gary Wade Mobley - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I think we're a minute past our time. It's been a great discussion. And John and Mike, I really appreciate the time that you gave us and the insight into this Maxim acquisition. It's been very helpful. Thank you, again.

Michael C. Lucarelli - *Analog Devices, Inc. - Senior Director of IR*

Thank you, Gary.

Joseph Hassett - *Analog Devices, Inc. - Senior VP & COO of Maxim Business*

Thanks, Gary.
