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EDITED TRANSCRIPT

ADI - Analog Devices Inc at Morgan Stanley Technology, Media & Telecom Conference

EVENT DATE/TIME: MARCH 01, 2016 / 7:00PM GMT

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PRESENTATION

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Good morning everyone. Thanks for being here. My name is Craig Hettenbach. I am one of the Semiconductor Analyst here at Morgan Stanley, focusing on the analog and MCU spaces. Very pleased to have with us Analog Devices today. To my left, CFO, Dave Zinsner and to Dave's left Mike Lucarelli, Investor Relations. So, welcome and thanks for being here guys.

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Thank you, Craig.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

So, we can maybe just get the macro out of the way. I mean that's a big focus overriding I think day one and into day two here. Given that you just reported a couple weeks ago, if you can just give us a sense and just what you're seeing in the environment, and if there's any kind of differences by geography, if you will?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, good question. So, I mean one advantage we have is almost 50% of our revenue is industrial. We actually have a pretty good read into the industrial markets across the globe. I would say, it has been pretty constructive, I think 2015, in general, was a little slow for the broader businesses. Some of our verticals did quite well. And so, they kind of kept us in the game there. But the rest of the broader industrial market was a little bit weaker, but at this point now things are kind of stabilized in the quarter.

We were seasonally down kind of mid-single digits and that's pretty much what we see year-in, year-out from the industrial business. We predicted it would be up, probably high single-digits next quarter. And again, that's kind of -- in the range of seasonality. I think there is no question there is all kinds of data points out there that would make you concerned what's going on. We just haven't seen it in the order flow.

So the way we're operating is to just be very cautious right now. Right now things are fine, but they sometimes turn on a dime and the only thing we can manage at this point is the operating expenses and our inventory levels. And so, we're just going to kind of manage those very, very cautiously in the near term and see how things develop.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. And to the point that you're not seeing it in the business, that's one of the questions we get, investors try to map the concerns in the macro data points versus the broad-based analog companies has been relatively healthy, right? Yet if you take a step back, where at summer there was a big correction to the supply chain. So can you maybe talk about that in terms of maybe some of the supply chain source some of these more meaningful corrections and then now at this point has leaned out?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, it is possible. I mean one thing we have is, we recognize revenue on a ship-out basis. So we're not necessarily as concerned around other channel, the distribution channel, kind of manages their inventory levels. I would say though that just in monitoring them, they have been holding -- at least our inventory is about 7.5 weeks very, very consistently through a number of quarters.

So they are actually a decent proxy of how the end customers are thinking about their own inventory levels and I think when they see those out of kilter is where they start to move around their inventory and we just haven't seen that. So I would read that most of the supply chain out there has kind of recognized this is kind of an uncertain environment for some period of time here and is operating very cautiously and visibility improves.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. Alright, now that we can get past some of the macro and look to dig into the business and specifically with ADI, very strong franchise in data converters, strong in amplifiers, so signal conditioning; not as much as of a focus on power management but just what separates ADI versus the broader analog peer group?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Well, as you point out, it really does start with the data converter. I mean I think we more define it as single processing. What we're trying to do is take real world signals, convert them maybe massage the signal in some way and transfer it over to some digital application, an FPGA or DSP or what have you to do the processing. And so we really sit there between the physical and the digital world and help create the interface.

I think more and more of those customers that we deal with are looking for us to do more and more of the total system for them, as they hollow out their engineering resources on the hardware side and focus most of their spend in software. And so overtime, we have developed or licensed or partnered in some ways in areas that are outside of our domain that is, as you point out, primarily in the converter or amplifier RF I would point out, maybe some sensing in those domains.

What we will do is partner in some cases, we'll license the technology in other cases, and where neither of those make sense, we'll acquire. So for example, we thought we needed to own the microwave technology outright and so we went in and bought Hittite in 2014. I think it's those kind of elements that drive our acquisition strategy.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. And then, maybe just building off of those building blocks in terms of technology. We can talk about some of the verticals. The consumer space, you had tremendous growth last year. A lot of questions around that in terms of the traditional ADI base of business right; this broad industrial very fragmented versus in the consumer space you tend to see customer concentration. So what's your kind of go-to-market and approach to opportunities in the consumer space?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes. Well, I do think that the fundamental strategy for us or objective is to do things that are very difficult to do that require a lot of advanced technology that are highly differentiated in the marketplace and that we think we can sustain over multiple years whether that's one generation or that's multiple generations, however the application evolve. And so, I don't think that we were necessarily kind of forcing ADI to be away from the consumer business. I just don't think that there were a ton of things in the consumer market that really checked the box on those elements of our strategy.

As it turns out, we had some weakness over the course of five years in the consumer business and then lo and behold we find some opportunities that really do check those boxes. And when that happens we're going to go after those businesses and particularly in this case, when the R&D investments are relatively minimal, given the fact that the technology is quite challenging to do, the gross margins are acceptable to us, we're going to go after those businesses and that's kind of what happened.

And as a result, consumers stopped kind of the slow bleed that was on, which was a decline about 8% a year and turnaround and grow pretty significantly. Now, I mean the consumer business will have its choppy periods from quarter to quarter and I don't think that's necessarily a big concern of ours. It's really how it kind of evolves year-in, year-out and whether we think that technology maintains the kind of its advanced nature so that we can continue that barriers to entry relative to the competition.

And in these cases, I do think that those are the characteristics of the businesses that we have won in the consumer space and that based on the pipeline that we think we will win in addition to this business over the course of next few years.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

You touched on gross margin in terms of being able to participate in these type of markets, that is one thing. If I look at the broad-based analog market you have, the nominal margins in markets like industrial, consumer tends to be a little bit more competitive. So is there anything from a roadmap perspective, from the advancement of technology that you see that you can say, okay, this could ride for a little bit.

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, well I would point out that the gross margins, although might -- clearly they got to be more competitive than the broader industrial business. But the gross margin was very good. They're right around the corporate average in the consumer space. So it's not like, we win a lot of business in the consumer market and that causes gross margin erosion because that wouldn't happen.

Like I said, I think when you focus on advanced technology and when you focus on differentiation, you'll get -- if [Danium] I guess partner with the right customers, we're willing to pay for that. You can do fine in this market. You can have good gross margins and that's the position I think we're in today.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. And to put aside, maybe some of the concerns about the consumer market, maybe you can talk about just the opportunity you had and really to ramp a business in substantial volume, sure there is learning curves along that and there is -- you can take this and hopefully deploy it into other types of applications. So is that one of the things you can leverage as well?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Right. Okay so, on the first part, what have we learned. I would say that, I think that we probably -- given that it was our first time ramping to those volumes in a long time at least, we probably erred on the side of caution in a lot of points in our own supply chain. And then, the end customer also probably erred on the side of caution at a number of points after we shifted.

And so as a result, I think that there was cushion in a lot of different spots and then once all of that got figured out over the course of the last half of our fiscal year, then everybody doesn't need the cushion anymore. They kind of got the flow of it and they want to compress that cushion and that's what happened. And I think that that was not entirely unexpected. I think we did expect that, that was going to be the case, maybe not quite the magnitude, but definitely we expected that at some point that that would happen.

I think now that we're in this situation where we kind of understand how to build volume at the appropriate levels, I think what we do need to do is probably squeeze out a little bit of that cushion in a lot of those different steps, so that we aren't caught; because the revenue downfall is not that big a deal. The bigger deal was that we had to take the inventory reserve. That's probably the more disappointing thing.

So I think if we managed the supply chain, our own supply chain a lot better, we won't be in that position again and we won't have the volatility. As it relates to, can we use the technology? The fundamental technology that we were using is a precision-based signal processing. It came out of the industrial space which is one of the reasons why it didn't require a ton of R&D, was because we already had that fundamental technology.

I would say that we're likely to be restricted in how we apply that precision technology in the consumer space. But when you broaden it out to other markets, I think the restrictions are relatively minimal. And even in the consumer space, it depends on, at the end of the day it's the symbiotic relationship between our technology and how the customer implemented it that really made it work and I don't know that we finds that symbiotic relationship, again, quite honestly.

So I'm not sure there is an opportunity in the consumer space even to do something like that. But like I said, the fundamental precision technology and some other thing that we're probably aren't even thinking of it at the moment, in a consumer application, I think is eminently doable and very possible with other OEMs out there.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got. If we can segue to the industrial market, which is much bigger and your largest end-market over 40% of sales. That's a very fragmented space. So I think one of the difficult sometimes investors have is just, what is in that drove kind of the catch all of [health]. If you can just speak to maybe within industrial, a couple of the bigger more important sub segments and what growth drivers you see there.

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Right. So, probably half of that business is too broad -- what I'd call broad market businesses, instrumentation and factory automation. And that market hadn't been incredibly dynamic. The benefit of it was the life cycles were really long and customers didn't ordinarily want it, because the component wasn't that expensive relative to the overall system. They weren't very anxious to sign you out. And so we could generally get very good gross margins, good cash flow, didn't require a lot of R&D, but nevertheless, didn't grow a whole heck of a lot.

And I still think that business is great. I mean we generate a lot of cash flow from that business. There is a dynamic though going on in those particular markets around IoT. But I think IoT gets probably over hyped, but I do think there are some realities in there around trying to get smarter systems, particularly interfacing with the cloud to do better analytics, to do preventative maintenance, to do things that factories can really utilize and save a ton of money in or some sort of instrumentation device.

So that I think is real, and I think that there is an opportunity for some growth there. I think probably it's not going to happen in the next few years, but we are putting a lot of our investment into the space around sensing, analyzing, connecting. But I think ultimately we'll drive a lot of growth in that space. The other half of the business are more vertical type markets.

So healthcare would be one, which incidentally has an IOT play, vital signs monitoring, which right now for us is more of a kind of a consumer application, but ultimately will become more of a clinical grade type system that hospitals and doctors' offices will use. I think that's a good market for us. I think that business will drive good growth for us over time.

We have an energy management system. Energy is obviously a really important part of everybody's lives and there are lot of innovations, again, around IoT but also around just better efficiency that continue to drive good growth in that market. And then the one that -- probably if you had asked me, before we acquired Hittite, I probably would have discounted a lot. But now that we've acquired Hittite, actually it has turned out to be a really great business for us as the aerospace and defense business.

Aerospace and defense for us was just a lot of dogs and cats; we had designed into a bunch of different applications as the defense contractor. Now at this point, given that Hittite had a real business around that, they were building systems and everything into aerospace and defense market. Now I actually think that that could be a really exciting market for us. In fact it actually grew quite well in 2015 and although we saw some softness in the broader market, it was actually the growth in the aerospace and defense business that actually helped us right thought it pretty effectively.

So anyway, I think that, believe it or not, may be good or bad there are things going on in the defense space and the good thing is it's usually around technology. That is where the military is spending their money. And so, I think that we'll actually see pretty good growth out of the aerospace and defense business over time. Am I missing anything Mike? That's basically the verticals.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. On just the theme of IoT, do you feel like you have all the pieces or are there things that you look to add to that in terms of, to provide better solutions. How are you approaching?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes. So our IoT business is in the several hundred million dollar size at this point. I think we have all the components, although a lot of those things are licensed. For example, we'll do MCUs but we'll leverage ARM for that. Some of the connectivity will leverage third-parties to get the connectivity. In some cases, we will partner up with certain players out there, some of which you probably never even heard of that have, for example, the database around all the biometrics data that can utilize our sensors to analyze that data and provide it to say an insurance company or a hospital.

I think over time, it will make sense to own more of that. There is no question about that. And so really we're just in the kind of nascent stages of really figuring out what components of that we want to own, what we're willing to license, what we're willing to partner to get all the capabilities that we need. But for now, our engineers, the engineers that develop IoT systems do have everything at their disposal. It is -- at this point may not be the most effective way to have it at their disposal.

Maybe they should own instead of license in certain cases; maybe we should be licensing instead of partnering in some cases. But they have it all at their disposal and now it's just, I think, how it evolves overtime. Overtime, I think you'll see us acquire that technology or at least a chunk of it in order to make the applications more robust and more aligned with our technology and more differentiated relative to competition.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it, wanted to segue over to the automotive market; another important market for ADI and I want to walk through just some of the fundamental growth drivers from a content perspective. But maybe first and foremost, hit upfront just the investor concerns around peak production in North America, global risk to automotive. So from your customers what are you seeing from a production and the health of the automotive market?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

I think that's actually pretty good. I think the one advantage that and I -- probably any semiconductor company get up here to talk about the automotive business will probably say the similar thing, which is that there is so much content increasing going on in the automotive space that as long as it's not completely falling out of bed, it will actually drive growth, regardless to whether you have good underlying uniform growth.

There definitely was a consumption in China, particularly on the luxury side that may or may not be at risk. Hard to tell at this point. I actually think North America is going to do fine, quite honestly. And I think at the moment, I think the luxury market is holding up well. If we had a recession, then usually the luxury market gets impacted and the challenge is that the luxury market is where a lot of the silicon content has been going.

And so maybe overtime, we actually could see weakness, but assuming macro kind of hangs in there, I think the dollar content will really be the story and I think us, probably along with a lot of other peers out there that are servicing that space are going to see pretty good growth in that market. For us, which is what likely we're going to say when you talk about investor concerns, the one concern we've had is that over the last 18 months it hasn't grown. So it's been growing at double digit rates practically for the last five years and then, all of a sudden it kind of leveled off.

And the question is, what if all the momentum kind of come out of that business? And the answer, not surprisingly, I was expecting to say this, it's no. But I think in this case, there is a really pretty clean story on why that's the case. So we have really three categories in automotive, we have infotainment; there is powertrain and then there is safety. And safety actually can be really sub-divided into two sub categories. One is passive safety systems. Airbag deploying will be a passive safety system or an active safety system that literally takes control of a vehicle in some way and helps you do something better than what you might ordinarily have done hence you've been in control.

In the passive safety, there has been, I think, some element of assets commoditize and that really caught up to us in kind of the back half of 2014 and clearly most of 2015 that business kind of eroded. And so, as a result, that one was coming off while the other businesses were doing pretty well, but the net, net of it was kind of flattish.

The good news is that passive safety has kind of gotten to a level where it isn't much of a headwind anymore and a lot of the other areas that we made investments in are starting to really kick in. So, in the active safety ADAS, which we had in ADAS and we had ADAS systems for a while now. But they do over the last I'd say a year or so started to hit inflexion point and we're starting to see some really good growth out of that business.

Right now, it's using 24-gigahertz radio technology. It's going evolve to 77 gigahertz radio technology over time. Again, good leverage of the microwave technology that we acquired through Hittite. So, I think that that's going to be a great opportunity. So I expect safety is going to start to become a real tailwind to our business.

In the infotainment space, we've just announced in January, if anybody noticed, was a win with Ford on what we call A2B audio, which is an audio system that distributes kind of high performance audio usually and basically relatively cheap cabling that's kind of can reduce the weight of the cars, make them more fuel efficient, cheaper to implement, but it still delivers superior audio. And so, our first win is with Ford, but I would say, we've got a pretty good stacked-up set of opportunities that go to basically almost any OEM you can think of. And so, we may not win every one of them, but I think we have a really good opportunity to attract some very good growth in that part of the market as well.

And then in powertrain, there is a lot of technologies we're developing, but one that, I think in the near term has done very well for us is start-stop battery technology, which also makes the car more fuel-efficient by stopping the car, when the car stops and then it'll start back up again. Almost like a hybrid vehicle does, but in a regular engine and can certainly improve the fuel efficiency of those cars.

So, I actually think coming into the back half of 2015, we're going to see pretty good growth in automotive and I think longer term we're kind of off to the races, back to the levels of growth we had seen in the last five years.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Interesting. For ADAS specifically, I mean I think if there is a lot of hype and excitement around IoT, ADAS may take it to another level. I mean, every company is talking about it in terms of the growth opportunity. You mentioned the microwave technology, is that kind of the core competency that you look to leverage and be competitive in the ADAS market?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, pretty much. I mean as you point out, there is a lot of hype around what can actually be done in the near term at volume and safely for cars and I think most of it at this point is going to be just around fundamental radar technology and that coupled with centralized system that does something to the vehicle to help you avoid doing something that would ordinarily be a disastrous situation.

And I think it's that simple and the more and more advance ADAS systems get, the more and more accuracy you're going to need in those systems. Obviously this move to a higher frequency is part of it, because they're going to not only -- I mean the near term systems are going to be able to recognize that something is moving in front of you, the more advanced systems are going to say, hey that's a person and he is going X miles an hour and they'd calculate that if there is an intersection, where you guys are both going to meet.

So, I think that basic tenant of what they're looking for kind of plays to our strength in terms of [ADAS]. Now there clearly will be others that participate in this space in other ways. There is going to be certainly a digital component to this and so I think the digital players in this space will have those that are making investments and coming up with the processing to do these things. So obviously the advantages as well.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. Want to talk about, just before we get into M&A and Hittite and your strategy around M&A. Just want to talk about the remaining end market of comms infrastructure. Certainly a lumpy business. Got hit last year but looks like to be recovering. So can you give us a sense of just kind of what you're seeing in wireless infrastructure and what your visibility is in that market today.

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

So wireless, like at the beginning of last year, it was running over $200 million. It hit its low point in the third quarter at about $140 million. Some of that was just lower capital spending across a lot of geographies. Having said that, I think China was the biggest cause of the decline with the fraud investigation that was almost a halt to a lot of the new deployments and that certainly impacted us.

We have since come back to about $170 million a quarter level. And probably about two-thirds of that is actually the wireless shipments. And so I would say we're -- just to do a baseball analogy, we're probably fourth innings back from the trough (multiple speaker) spring training. But we haven't recovered back to the pace we were at the previous peak. So I think there is more to come overtime, what I just not sure of is when that comes.

The good news for us, I think is that overtime the level of integration and where they want to go from a [lithography] standpoint; these are the OEMs. I think really is an advantage to us in particular, we have the leading technology, that's 65 millimeters for an integrated transceiver. We'll be taking it quite a step function down in terms of lithography in the next generation. We're working with every OEM you can think of that supplies wireless base stations to a market and so I think that our position is least as we see it over the next three to five years looks like we're going to be in a better position in five years than we were at this time we are today in terms of market share and position.

And so I think we'll actually do pretty well in that space and then I think the question is whether you see any real meaningful increases in capital spending for comp and that I hate to predict because I think anybody that's try to predict that is generally wrong.

So I think what we're modeling is that it's a relatively modest growth, couple of percent a year increase in capital spending, but that together with our position on the integrated transceiver and what we believe it's going to be a pretty good market share story over the course for next five years, means that we should do at least twice that, I think.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Okay, great. Just on the topic of M&A that's going to wave within the semiconductor industry. But different companies have different approaches, right. You're seeing some companies go for just consolidation synergies. I think ADI's approach is a little different, at least the way I see, with what you've done with Hittite in terms of technology. So can you talk about your approach to M&A and what makes sense for ADI in a consolidating industry?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, I mean I don't know that we have a gun to our head to consolidate for the sake of consolidation. At this point now, I definitely think that there is a certain size where you feel kind of pushed out of a lot of the large OEMs because you can't bring enough technology, but when you think of processing side, I think we have the technology we need.

So now it's a function of how much more we could augment that to kind of integrate more elegantly, provide solutions to our customers that they pay a lot more for than they do for today. And so, I think that really is actually the tenant of our M&A strategy which is, look for opportunities where we don't think we can do it organically and where it doesn't make sense to partner or license for one reason or another.

And those are the areas we look for acquisitions to help us out. In some cases, there just isn't an acquisitions so we're going to be closed out in those cases. But every so often you get the right technology, you have the right company that you think is going to be additive to what we're doing and where they are willing to sell which is not always the case flow and the stars align and an acquisition gets done.

That I would say is probably more our strategy. I think IoT is going to be a place that where we'll focus some acquisitions on. I think industrial more broadly is an area we'd like to have. There are some technologies that we'd like to add to our portfolio and it will run again. I'm sure a lot of them will be smaller companies that no one has ever heard of, but I think there will be a few that have meaningful revenue that will add good accretion to the earnings story.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Got it. Well I had some more, but I want to make it interactive with investors. So if you do have a question you can raise your hand and they got a mike over there.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Can you guys talk about entering the quarter, how back-end loaded your quarter is, this quarter versus typical? And also what your [turns] business looks like versus normal?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Right. Yes, so the backlog coming into this quarter was actually high relative to, I guess, historical levels. I guess the only caveat to that is typically the consumer business comes in with a lot of backlog and so given that it's a higher percentage of our revenue on a relative basis over the last several years might not be the best read, but I mean I think we came in feeling pretty good. It's not a back-end loaded quarter by any stretch.

We had pretty good momentum from an order perspective in January, which is good and February was a little softer, but it was pretty identifiable with the Lunar New Year, a phenomenon that we see almost every time. Obviously, that's not always in February, but when Lunar New Year occurs, we generally see some softness and we saw relatively consistent profit to prior years.

And so I think at this point we feel -- maybe I got the sense, I only had two one-on-one so far, but I did get the sense that we're probably echoing a lot of what some of the other broader semiconductor companies have said, which is that we actually feel pretty good about kind of the order flow right now while reading the paper and the headlines and wondering why all the negativity dude.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Alright, any other questions?

Unidentified Audience Member

Give a little more color on the write-down that you guys had for the inventory? You mentioned there was room for a write-down. Can you just talk about the reasoning behind that? Was that an expected thing as you came into that device that you would be needing to do some amount of inventory correction as generations with the move forward? Can you just add some color to that?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes. No, this was not our finest hour. We did not expect to write down inventory and it was a colorful discussion I had with the operations group, a lot of, I would say a lot of profanity was thrown at them. But I think at the end of the day we started to rely a lot on forecast data and probably got over confident with that forecast data, because every week things were slightly better than the last week. And so I think we started to get a little relaxed in terms of how we were building, how we're managing our foundries in terms of order flow to them, what we were taking on.

And then, that coupled with the fact that I think the OEMs didn't necessarily expect at least, up until maybe a few weeks before that, didn't really expect the volume to be at the level it was from an end consumption standpoint for their customers. I think the demand being a little softer, coupled with the fact that we got a little lazy, I guess, left us with a chunk of inventory and from an accounting perspective, without getting too locked up in the details, there is a methodology we take to be extra-conservative on the inventory levels and make sure that if we don't have real good near-term visibility to the consumption of that product, we reserve it.

So over time, it may be that we end up -- that inventory ends up getting sold. So I wouldn't say it necessarily was a 100% negative in terms of cash flow. It might be just a timing cash flow issue. We shouldn't have built it when we did, but ultimately we would have needed to build it anyway. And that's my best read at this point on it.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Okay, maybe I can come back to just M&A and Hittite. Can you talk about things that came in better than expected. I mean overall, it feels like it's been a good deal and that's a good base as you look about future deals. But what things did you learn by doing Hittite that you can use going forward? What's surprised you positively or negatively?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

I think it worked out really well for us. I think probably we hadn't acquired something of that size before and we were probably a little overly pessimistic and I remember going into the discussions with the Board regarding can we really manage this? Do we know what we're doing? We probably were overly pessimistic about our own ability to get things done.

As it turns out, I think one of the things that and I know this having worked with these guys for seven years, they are unbelievably process oriented; very, very detailed; very analytical in the way they approach it. And I think that they do a very good job when tasked with these kind of integration projects, they execute unbelievably well. So I think that that's positive.

That makes us confident now that we know what we're doing when it comes to integration. I think it helped that we picked a business that had a pretty broad set of customers relative to its size that were in markets that we understood that even though it was a different technology, it was still roughly kind of similar to what we knew; all the engineers talked the same language. I think that was helpful.

I think culturally it was very similar. They were based in Chelmsford, Mass, which is maybe 20 minutes from Wilmington, Mass which is where most of our operations are. So they all had the same crappy Boston accent, but I don't have. So I think that that helped a lot too. I think the concern you got to have is that you don't kind of get -- again, back to the inventory; I think don't get overly confident that we can invent the greatest acquisition every time. We got to be really methodical about this. We can't assume that we can fix every problem that another company might have. We got to be disciplined around valuation.

Some people might argue that we paid more than we should have, but it was definitely a healthy valuation, but those and others where that had been kind of kicked around internally that has been more obnoxious than that. And so, I think I'm willing to pay a good price for a good asset. I don't want to pay an insane price for a good asset and I don't want to pay almost anything for a bad asset.

So I think the important thing is for us to be very cautious and prudent and not think that we invented the perfect acquisition process and that anything we do is golden for us.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Okay. Just in closing, last question on just the cash returns side. I mean your balance sheet is rock solid so I'm sure it's a good place to be in today. 12 months ago, us and others probably pushing to return more cash. So just how do you approach cash returns with the dividend and buyback and M&A?

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Yes, well we just borrowed -- I'm sure everyone saw $1.250 billion in December. We have this kind of thing where -- I had to think here where most of our cash gets generated offshore, but most of the needs of that cash are onshore. So, one of the things we did to get ourselves shored up is to put some cash on the US balance sheet.

I think we're in a great position. I think the stock [trades at] good price. We've been buying back at a pretty healthy clip now. It kind of depends on how the stock goes for the rest of this quarter, but if it remains in the kind of current range it's in, based on the mechanics of our buyback program, we should be buying back probably north of $150 million this year, this quarter rather.

So I think, we got a good process there. We also, as you point out, have the dividends. I think we're one of the higher dividend payers out there right now. We've been growing it every year, I think we've grown it 13 times in 12 years and that's going to continue to be a strategy of ours going forward.

So returning at least 80% is definitely the strategy and then on top of that I think overtime we do have probably more cash than we needed and we don't need necessarily to be in a position where we have kind of a net cash position on the balance sheet, And so overtime, through a combination of dividend, buyback, acquisitions, I'd expect us to slowly get to a situation where we're kind of the reverse of where we are today.

Craig Hettenbach - *Morgan Stanley - Semiconductor Analyst*

Interesting. We'll leave it at that. But I really appreciate you spending the time with us today Dave.

David Zinsner - *Analog Devices, Inc. - CFO, SVP Finance*

Alright, thank you.
