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# EDITED TRANSCRIPT

ADI - Analog Devices Inc at Bank of America Merrill Lynch Global  
Technology Conference

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Vivek Arya** *BofA Merrill Lynch - Analyst*

## PRESENTATION

**Vivek Arya** - *BofA Merrill Lynch - Analyst*

Welcome to this afternoon session after a nice lunch hopefully everyone has relaxed and willing to jump into the exciting world of semiconductors once again. So I'm Vivek Arya, I'm the semiconductor analyst here at BofA Merrill Lynch. And I'm delighted to have Dave Zinsner, CFO of Analog Devices and we are also very pleased to have Jim Mollica, who is the Head of Finance of the Manufacturing Group at Analog Devices join us. And this will be a very interactive Q&A session. Please feel free to raise your hand at any time.

I'll kick it off with a few questions, but like I said please feel free to raise your hand, if there was any questions. So welcome Dave.

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**David Zinsner** - *Analog Devices Inc. - Chief Financial Officer*

Thank you.

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**Vivek Arya** - *BofA Merrill Lynch - Analyst*

So maybe Dave we'll go into the fundamentals, but two exciting words have been coming about this conference M&A. So I was when you look at M&A from the context of Analog Devices first of all, are there areas that you have to get into, is there anything about the current environment, which makes it more likely or which just makes M&A more interesting at this point? And then if you could then follow it up with what kind of financial metrics you would think of if you were to consider [any of that]?

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**David Zinsner** - *Analog Devices Inc. - Chief Financial Officer*

Well, I mean I don't think I'm saying anything earth shattering, but my guess is what's driven a lot of the M&A momentum as of late is valuations are in pretty good shape, lot of companies are trading at historical highs and you couple that with very cheap cash; cash is basically free at this point. I think those are probably the two things you need to create a perfect storm of M&A activity.

I think for ADI though it isn't spurred on by cheap cash or valuations, but more about how we are going to progress strategically with our roadmap, with our customers and really look at what are the things as we think about delivering solutions to them. What are the things that we don't have in the portfolio today that we will need ultimately to deliver what the customers -- to deliver to the customers, what they need. And so a lot of that stuff obviously, we can get done organically I mean, we have a huge R&D resource to our own -- or to help us out. And so for the most part we defer towards organic but every so often and like in the case of Hittite, we don't have the means to kind of build up the scale in that technology quickly enough to meet what our customers are looking for and those are the times where we go and look at M&A. We're always actively looking probably looking, obviously it has to meet the financial benchmarks and it has to make good financial sense for us and for the shareholders. But I think it has to start with, there has to be a strategic reason from a customer perspective for us to go and do an acquisition.



**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. One good thing about Analog Devices it's a extremely profitable business, but in many ways does it rule out a lot of targets because lot of them may not have as profitable metrics as you guys do. Does it make for a narrower set of targets?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Right. Well, I mean, in the case of Hittite, obviously the margins were already well within the range. But we were able to make their margins and we will ultimately make their margins quite a bit higher. And so, my guess is that for companies where the margins are a little bit lower, we'll probably be able to figure out through our scale and our breadth be able to lift up their gross margins to a level that makes sense.

But once -- when I, as you look at our strategy, it is about innovation and it is about proprietary capability. And so, in general, those businesses just carry higher margin. So ideally or it's unlikely I think that we would dip down into low margin businesses because it doesn't meet the criteria of innovation and proprietary capability more than anything.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. And just the last question I promise on M&A, at least from my side is, what do you think about lateral consolidation so not ADI specifically, but when investors look at right the industry, so you have a number of large digital fabless companies and you'll see a lot of them are involved in M&A right now. And then, you have a much more fragmented analog universe, so we can look at that and say, well, that should be right more accepting of M&A, but it hasn't happened as much in the past. Industry conditions are such that people are more likely to look at lateral consolidation within Analog?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think for Analog like historically, it's a really I mean generally a high margin part of the market. It usually generates very good cash flow; it's not a fine line lithography for the most part. So it doesn't require a lot of capital. So, all those things mean any company probably can survive forever, as a standalone analog company and do okay, at least up until a point. But I think what is -- what has shifted is, there is from a customer perspective, at least what we've seen is a shift towards more solutions orientation to what they're after.

So, they're not really after, they don't come to us as much about, okay, we want a data converter with certain figure of merit parameters met, it's more -- this is not a problem we're trying to solve more from a systems perspective, how can you help us solve that. And so it requires us to do more than just a bigger merit improvement in certain components. We actually have to elegantly put all those things together and maybe you have some software to it. And in some cases, maybe even have some of our peer companies technology integrated in us -- at least on a board level with our technology to make it work the way it should. And I think as that shift happens, I think it makes it difficult for pure component, which tends to be the smaller analog companies to really stay in the game, or at least grow from where they are today.

So I would guess that over time, those companies will find a need to find a home and a bigger platform. And there have been instances and I was looking -- I was looking this chart for the Board for a discussion on M&A that we do every June and I did a slide of the last four years, how many of the analog mixed signal companies like kind of the small or like less than \$1 billion market cap.

But there has been -- there has been actually a lot that gone away. It just happened kind of slowly, you need -- like in a slow boil, you just didn't notice it. But there is definitely those -- there is companies going away in that space and there hasn't been a lot of investment in the smaller startups and so there hasn't been a backfilling that's been -- that's occurred to fill in where those companies have disappeared.

And so, yeah, there is certainly the universe is getting smaller and smaller of available small companies in the analog space. So I would imagine maybe, it's quite a bit behind the digital universe, but I would imagine that that consolidation continues.



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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. So, maybe, let's go to fundamentals equally exciting. When the year started, I think there was a general feeling that the macro was starting to look better that we're getting into a period of seasonal strength. And I think Q1 sort of was okay but since then data points have been more mixed as we see across the -- how do you see it from your perspective?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, so we have a lens that is about the broader economic conditions and then we have some of these ASSP markets that either up or down based on specific situations in those markets. In the industrial business, which is more of the broad market, where you get a sense for how the macro is doing, I think it's doing fine. It had a good growth quarter, last quarter. We expected to be roughly the same this quarter, which is very similar to what seasonally it's been over the last few years.

We have -- seen no build at the OEMs in terms of inventory. We've seen actually the inventory levels of distribution come down a little bit. So they are very healthy. And so I think that that business conditions of the industrial market look quite good, not fantastic, not good solid. The communications market for us is probably more exposed to the wireless part of the market, wireless infrastructure space and I think it's not a surprise to anyone that there was a fraud investigation that occurred in China with the telcos there and that kind of put the brakes on any sort of build out in China for I think, however long, I don't know exactly, but it's certainly slowed things down in our April quarter. I suspect it'll be slow again that's what we kind of built into the guidance. I think it'll be slow again in the July quarter and then, who knows, we'll see how it goes. It may turnaround in the October quarter. I think at a minimum in the next few quarters, it will definitely turnaround.

In the auto space that has been largely seasonal as well and we expected it -- we expect it to be down this quarter, but that's exactly what happens because, the July month tends to be a month in which automotive customers shut factories down for some period of time so largely seasonal.

And then we have this kind of -- which I'm sure you'll have (inaudible) questions on (inaudible).

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**Vivek Arya** - BofA Merrill Lynch - Analyst

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

We have our consumer business that is in the midst of ramping again and so that one looks obviously for us at least really healthy. I can't comment as to how that looks -- more broadly to customers expect to -- peers that are exposed into the consumer space.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. So maybe, let's start with the exciting part of the consumer business. For many years, you have deemphasized that business right, for the right reasons now it seems to be picking up. The concern always is that -- is this going to be a sticky business. Number one, especially if you're not devoting as much R&D to it, right. So, how do you balance that?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think what we do is -- what we do particularly well, as we take technology wherever we first kind of develop it. And we tried to create a, I'm going to create a word; we're going to -- we try to platformize it. We try to create a platform out of that core technology and see where we can apply it and what end markets is interesting. And this just happens to be a platform technology that we -- that came really from one of the other



markets and we collectively with a particular customer, identified an opportunity, where we could take that technology [tweak] it to were -- to what the customer specifications were and it would really make a difference in their application.

And as long as it meets that criteria, we -- it's generally a platform technology that we can leverage. It does something really innovative. It's something that customers really value and we think it's got legs to it in terms of general -- multigenerational opportunities. We'll do it regardless of what end market. I don't think we're -- we had a big X on our strategic roadmap for consumers. It's just there weren't a lot of obvious places, where we could check the boxes on our strategic roadmap and we identified one we could. And hence in reality, I actually think that as we've started to work with this customer and on these first set of capabilities. We've identified other things that we could do that are kind of platform capabilities that we could follow on with. And so I think there is a kind of close partnership with the customer that will allow us to really extend that business even from where it is today. And now we're obviously we'll look at other customers and see whether there are opportunities, where they will value that innovation or any innovation and we'll be able to apply the same model.

So the good news I think we long believed that consumer would have -- was eventually going to kind of not be the headwind it was. And I think we indicated in 2014, hey we think we've gotten this turned around and then we had some pretty good line of sight quite honestly to this particular set of opportunities that we now find ourselves with at that point.

So we kind of knew why it was going to turnaround, but it's not exactly what we thought it would. So and that's -- that was the idea is to get all of our end markets marching in the same direction.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. Now I know in the past, you had so I'm not being customer specific, but in the past you had certain consumer sockets then you don't have them. What gives you the confidence it will be multi-generational this time.?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Really it's I mean, it's the close relationship we have with the customer on the design side that helps; there is very senior level engagement between ADI and that customer. But you do all that and you hope for the best I mean sometimes it doesn't work out, but I think that just based on the level of dialog and what we're hearing, I think we feel pretty good about--

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**Vivek Arya** - BofA Merrill Lynch - Analyst

And these are new capabilities or are you think you're taking share from somebody else?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

This is new. We don't like to do stuff that everyone else can do. This is a stuff that people aren't doing.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. And how should we think about just gross margins and just broadly, the consumer business do they become a headwind is are there different criteria you look at gross verse operating margins could be very good, maybe gross margins are not as good? How do you--



**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

I mean it's clearly, gross margins in the consumer business are more challenged than some of the other markets. But I think it's to a level that we can manage through it quite easily and overall our gross margins will stay with -- definitely stay within the model and we're working very actively to identify things from a cost reduction perspective, not only in the consumer space, but beyond the consumer space, that will help us move our gross margins up to the high-end of our range. And I think we've a pretty good line of sight and our ability to do that.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. So, maybe if you could just go one step deeper into that, anything specific, maybe yourself or Jim could point out, anything that helps within the consumer? Is it just the pricing thing that keeps gross margins low or is that -- what about or is it something about the product or the design that keeps gross margins--

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Why our gross margins lower in the--

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Yes, in specific consumer products?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think one, they promise higher volumes generally. And so, we are a volume-based kind of profile so that drives a little bit of it. And also, a [1%] of the bill of materials in our consumer product versus in an industrial product usually. And so, they are way more price sensitive, but the technology was a challenging technology to develop ultimately. And so when we do that we try to monetize it with good pricing, fair pricing, once that pricing reflects the value. And so, I think that we will be able to manage we thought this becoming a headwind into us.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. And one thing I've seen sometimes with other products, with this consumers, they tend to have their own software, lot of their own IP. Just conceptually, does that restrict you from selling this kind of platform technology into other handset makers?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think that functionality certainly is probably specific to that customer. But ultimately, our capability is around precision and high speed and in the precision space, we can leverage a lot of that capability to other markets and customers.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. got it. And then, maybe going through the industrial business, which is your largest end market. I know it's a hodgepodge of a lot of different end markets, but I think the health end market has been doing, could you talk more about that? And at what point do you feel comfortable sort of breaking it out because the one issue that we run into is that, I think most investors really like Analog industry model to write the profitability, but to actually predict sales right there on that many things. For example in consumer, you can say well, there is so many handsets time, so much ASP, et cetera, but how do you actually try to forecast an industrial business. So, if you could give us the next set of level of detail around industrial analog?



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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

So we have the same problem. Actually--

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**Vivek Arya** - BofA Merrill Lynch - Analyst

It's not just PMIs that you look at.

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

No, but it's -- it is tough to read, because you're talking about at least 70,000, 80,000 customers in industrial. And just probably 15,000 plus products that you're selling into that space. So it's really difficult to pick the thing that's really going to launch it forward. There are some markets that are more ASSP oriented and those markets are a lot easier to predict healthcare being one of them, it's a very ASSP market, there's a lot of -- we did a lot of imaging in the past in healthcare.

It has, I think more of our investment is in vital signs monitoring (inaudible) clinical grade vital signs monitoring capability of that market and something -- it's actually something we leveraged of the consumer market actually which again, something we like to do is take something that's a platform and drive it to another market.

Let's see what else in that market, there is the defense business has a very ASSP orientation to it that's doing fantastic. In fact it was I think the largest sub-segment within industrial in terms of sequential growth in this quarter. We had a tremendous position that we got, when we acquired Hittite and it really changed our whole view into that market and what we can do there. And so that's been an area that we're going to focus on. And defense in general is a pretty flattish market, but the areas around technology and innovation is actually growing with the sub-segment particularly in the right specific fields within that area like communication. So I expect that business to actually have good growth profile to it.

The rest unfortunately, as you know, it's a lot of instrumentation businesses; it's a lot of our factory automation businesses. I would say that there is -- I need to bring it out, because it's an over-used, over hyped term, but there is a broader kind of IOT macro trend out there and although I -- everybody brings it up and people re-configure the way they present their business just to have IOT in there like with the Internet of like 1999 some of it is actually real, I mean there we talk obviously to tens of thousands of customers, and there are a lot of customers that are going through our product offerings and trying to figure out how did we more connected to the node, be able to monitor at the node, maybe be able to calibrate something at the node and then take whatever is the really important data and connect it back to some analytics system.

And that is absolutely really happening and we are working with thousands of customers in developing capability around that that will then leverage core -- that core capability and distribute it to the tens of thousands of customers that will ultimately need it.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. One thing to use that -- over-used IOT is, we've seen a lot of microcontroller companies right go hard after that market because they start with the processor, but then they have made acquisitions of some connectivity. So let's assume there is a IoT market priority market let's assume it does get bigger over time. Do you think you will need to assemble pieces of these different IP internally or you can just partner and attack a lot of those opportunities?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Some of those are partnerships; some of it is licensing I guess, which will be a form of partnership. We have a lot of capability actually in-house to do a lot of this stuff. And then in some cases, we might need to acquire some of that capability, which we will do.



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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. So how do you forecast industrial?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

I think PMI no -- I we basically look out at the ASSP markets and try to predict where the contents going and where we think based on that larger customers where we think their volumes are going based on what they are saying. And then we for the broader market, we try to come out with some economic estimates of what's happening. I think at the end of the day if -- it has traditionally grown at like a 2x multiple to GDP. And so, I just listen to what GDP forecasts are generally and I'm going to figure that it's going to grow around 2X of that because (inaudible).

And the reason it grows at a twice the rate is because it keeps becoming a higher level of the bomb. And I don't see any period particularly with IOT coming in, I don't see any period where that's going to stop. In fact -- and some -- some would argue that it might accelerate. So I think at a minimum, we're safe to conclude the best degree that is going to grow at and I operate with that and make variations based on how successful I think we can be in the ASSP space.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. Just the last question then on industrial. How much is Hittite helping in that business and is it just reselling their existing products or is it opening up new opportunities?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well. I'd say right now, most of the growth we're getting by virtue of having Hittite is Hittite's underlying organic business growing. As you know, the semi -- particularly in the analog space, it takes a -- particularly in the industrial space, it takes a few years before, you see any revenue from something you designed in. But the level of design activity has been tremendous, it really has. And ironically, I think the way we viewed it was we would get a lot of their products and we would help -- we would open up this gigantic channel for them and (inaudible) they would get all kinds of opportunities, and that has happened. But actually we found just as much of an opportunity going the other way, where particularly I can -- in the defense base where they have the actual beachhead to this and it's opened up all kinds of data converter and amplifier opportunities for us. So it's -- I think the design momentum has been well in excess of where we thought it would be and you know that it will end up translating to revenue a few years down the road.

The other thing that we -- that we've been able to do is we've taken a kind of underrepresented set of products within Aero and [Outnet] the major distributors and we've now launched them into those distributors among others. And that I think we'll have tremendous opportunity. There was definitely a hunger out there from distribution to have microwave, millimeter wave products in their offerings and so they were very excited and very quick to get these stuff up and ramping in their -- in their networks. And so I think ultimately that will translate into additional revenue for us as well.

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**Unidentified Participant**

Got it. Then jumping to automotive, automotive over a three, five-year period has grown very well for ADI. In the last couple of quarters, there has been somewhat of a slowdown. Is it just the lumpiness in the business, is it just certain sockets coming and out of the design cycle. How do we think about that? Does the auto slow down worry you at all or is it just normal course of course--





**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

I think in the automotive space, what -- what had happened is normally in analog, you win some; you lose some and you just hope you win more than you lose and that's how you grow. And in the automotive business from around the 2000 like eight period, it was running a couple of hundred million dollars. We were about in the 1000, I think all the way up until, maybe last year and then we kind of moved back you win some, you lose some type model. But I think it was -- it was more owns stumbling than it was really anything else competitive positions or technology whatever so. There is clearly an opportunity for us to get back on the -- [we're about] a 1000 again. And 2016, it does look like it's lined up to be closer to that, I think 2017 models look even better or 2017 year, I should say looks even better.

There is a number of technologies that will advance in automotive quite considerably in the near future like ADAS; like some of the power train systems, where we have a commanding share of the start-stop battery technology, there's some other things, which I think I'm sworn to secrecy on around power train systems where we can do some sensing and monitoring that really make a difference to the customer reduces their cost, lowers their weight makes them more fuel efficient and so those technologies will start to bear fruit in the coming years. And so I think, this was a short-term call it, slight pause and we'll be back on the right pace next year.

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**Unidentified Participant**

Got it. It's not lacking a certain capability, it was just--

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

(multiple speakers) didn't execute the way we should have.

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**Unidentified Participant**

Got it. And then going to the communication side, it seems like it should be a secular growth area, right. I mean for bandwidth continues to go up, but it turns out to be extremely lumpy so how do you deal with that because I imagine at right now other than consumers it's probably the most lumpy business that you have?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Yeah maybe the most lumpy business at least this was this quarter. I mean it's it is what it is. What we do is try -- we understand that there is going to be this ups and downs that go on in that business but that from a trajectory perspective it is up into the right because of the need for more bandwidth and more density of the networks. So if that's the case we kind of figure out where they kind of in between [fix the spot is] between the ups and down and that's the projection of the revenue and we invest to kind of meet that level of demand and understand that we're going to have periods where it's not going to be robust and we're willing to accept that.

We're pretty good I think at reacting. I mean the good thing about that businesses is actually a very low capital-intensive part of our business. It's mostly done externally from wafer perspective. And so we can modulate that without absorbing a lot of overhead expense that hurts us. And ultimately the ROI on that business is actually very, very good. And we're now developing well, actually we have in production like 65 nanometer transceivers, which I think are best in class by a year at least that they are making great, it's getting -- I should say great traction from a design perspective in the wireless communications space we'll be going to a next generation of that very quickly that we're developing.

So I think that it's a market we should be in. It's hard to do. It requires a lot of innovation. And as long as we only have a couple of these things that kind of bounce along we've got a big enough business that we can manage through it.



**Vivek Arya** - BofA Merrill Lynch - Analyst

So if there is an wireless the spending shifts from macro base stations to small cells does that become positive negative neutral for ADI?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

It's really a better story for us for a number of reasons. One the dollar content of Analog as a percent of the total dollar content in the small cell radio is higher than it is in on a macro base station so that's number one. Number two, it does require or maybe required be a strong word but it generally supports an integrated transceiver technology to be able to do what small cells required to do, which we have leadership technology position (inaudible) magnitude. So from a share perspective, we should do pretty well not that we aren't doing great in the macro, but we should do better even in the small cell.

And then lastly, the number of radios deployed if you believe what the pundits think is the way this will go, in terms of small cell versus what it has done in macro it is in order of magnitude higher. So those three things are all in our favor and so, we should be able to do, to see the small cell business grow quite effectively assuming it materializes the way it supposed to. And what I've heard from a few of the major OEMs in that space is they're expecting a meaningful rollout of small cell towards the end of this year and 2016 is set up to be a pretty good year for small cell.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. Who do you compete with in that specific transceivers yeah?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

We compete against the gigantic Dallas company, generally, almost in every case.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. And we have that gigantic Dallas Company present earlier. So one thing they--

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

We don't mention it. I get struck by lightning if I--

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**Vivek Arya** - BofA Merrill Lynch - Analyst

So we can't at all talk about the Dallas Company, we can't talk about Cupertino; we can't talk about the Korean company. But one thing they did mention is, what sets them apart is scale and 300 millimeter facilities and a lot of sort of feet on the street that again sort of another version of the scale argument. Do you see that in terms of head to head competition, do your sales guys really see 10 of their guys come at you or 10 times the breadth of the product?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think that TI definitely has great manufacturing scale, they have a great sales force, that's significant in size, and they have a great, a fairly expensive product portfolio. All of those things are true and TI is a fantastic company. I think that the way we differentiate ourselves from TI and anyone else is, what we try to do is think about it from solving the customer kind of problem and be fairly agnostic to what kind of parts we're trying to sell. It's all about, okay, you have a problem, we have core capability, we can invent a lot of other things, what can we do in terms of merging those two things together to really makes a -- make a difference at the customer end.

And so, that's I think a different way of going at it and there will be a set of customers that just want components and they'll probably more often than not go there. But I think when they want a more elegant kind of solution [solves] the problem that meets what they're thereafter I think in a lot of cases, they go to us and the only exception to that is the 800-pound gorilla and data converters is us. And so, in that sense kind of in the high-speed precision orientation of converters and even to some extent, the high performance [end-space], we are the 800-pound gorilla. So we kind of dominate those discussions and even in the broader market, we're the ones that customers buy from.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Got it. Does that high market share prevent you from gaining more market share?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

We continue to gain market share in data converters now I think for the last four or five years and that's after being at a pretty meaningful level of the market so I don't think so. I think what's happened is as things consolidate and as companies really rationalize their R&D, which is also another theme that's going on I think in general, they have found that the data converter market is tough to get an ROI on because we do have such a good position there and we have just about anything anybody would ever need in terms of data conversion. So I think that a lot of times competitors are starting -- are giving up in that space and we are just picking up a little bit of what's remaining. And I think to some extent, our most significant competitor in that space it's probably been doing around the same thing.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

All right. Maybe I'll pause there for questions. Just one second.

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## QUESTIONS AND ANSWERS

### Unidentified Participant

I think you guys have been pretty open about Hittite kind of above expectations for a while, what is the upside at Hittite since you close that deal been largely driven by something specific to their business or that asset or has there been something more structural with how you guys have integrated that -- that's kind of more of a core competency of ADI as you think about acquisitions, longer term or integration in general?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Well, I think part of it was a little bit of luck. I think one of the things we did just because we needed somebody to manage that business combined with our own is we took Rick (Technical Difficulty) Hess, who was the CEO of Hittite and he -- we had him run the broader business and that ended up being a fantastic move because it sometimes particularly a culture like ADI, which there are a lot of antibodies at ADI that kill off good new ideas sometimes, that kind of forced Hittite instantly become acceptable within the company because the leader was actually somebody from Hittite and he wasn't going to let that falter. So that was one thing, which actually I don't think we had thought through why that would necessarily be beneficial, but it turned out to be beneficial.

The second thing was as it turns out; everything about it was so similar to ADI in a lot of ways. The culturally the engineers thought the same way. It was literally in our backyard (inaudible) and Wilmington are 20 minutes apart. So I think culturally it's just folded in perfectly with what we were doing in a way that probably we'll never have another acquisition like that it folds in that perfectly on.

And then really I think, we because we had done a lot of these acquisitions I think, we were skeptical about revenue synergies. And so we've dismissed most of it, as we were doing. I mean we had like -- we have -- we think there'll be a lot of things like that but we -- I don't know, whether



we can quantify it, we shouldn't count on it; it should just be a blue bird here and there. And by doing that, we actually massively underestimated the potential of our scale [married] with their technology and what that was really going to ultimately mean. So it was just -- it just worked out perfectly in every respect.

And then the one -- the other thing, I think we sometimes at ADI undervalue within our company as we're an unbelievably good operating business. We have the operations people at ADI are unbelievably good. And so -- where the other issue that we -- when we were talking about this acquisition and [granted] it, it's like one-tenth the size since you wouldn't think you have these discussions internally. We start -- how can I we really integrate this. We haven't done a bigger acquisition and it turns out that is a core competency of ours that we probably didn't value as much going into it that we really have some unbelievably good talent within the company that can just methodically switch over things that they were doing in a completely different way. And one day wake up and boom it's the exact way ADI runs that particular part of the operation.

I think those things really made it successful.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

Maybe in the last few minutes we have left one question on margins. Your business model has done extremely well, but you're getting closer to the target so that's one part of the question. The second is, when I look at the high quality business margin in the space, right that's yourself and Linear Tech and other one and there is a big delta in terms of margin. So talk about your own margins right what are the opportunities to expand beyond the targets? And then can you ever get to the kind of margins they have like why there is such a big difference?

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Yeah. Well, I got that question at the Analyst Day and my response to that one was almost similar to this one, which is we've a profile of exactly the same margins in our company when you extract out a few things at well above the size of Linear. So part of it is just there are couple of markets that don't sustain that level of margins and we want to participate in them for various reasons. Our platform works in that space; we can leverage it; on the bottom line, it might have good ROI or good growth potential or whatever and so that's part of the reason. But there still a lot of things we can do in terms of the gross margins. I think, we'll get to the high end of that range and then we'll think about what we can do beyond that. But first, I want to get to the high end of the range Jim and I, Jim actually runs most of the cost reduction program and really the price improvement program. I mean, our ASPs have gone up I think steadily over the last 12 quarters and so that's a big component of improving gross margins obviously is that piece. And then there are a number of things on the cost side that Jim speaking for you, but he is just actually relentless I don't know if you have anything to add.

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**Jim Mollica** - Analog Devices Inc. - Director of Finance Manufacturing Group

Yeah, I think it's a -- it's a lot of dirty work in terms of we meet systematically with our sales force and our manufacturing groups. We meet as a -- as one body. It's not them versus us or us versus them. So there is a real team effort there. And as Dave said, it's about hard work; it's about culture; it's about turnover [everywhere] to see what's there and we can do better and I think over the last several quarters, we've actually done that. So there's a lot more work to do as Dave said since we're not at the high end of the target yet, but we're getting there.

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**Vivek Arya** - BofA Merrill Lynch - Analyst

All right. That's been very impressive. I think with that we're at the end of our time.

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**David Zinsner** - Analog Devices Inc. - Chief Financial Officer

Okay. Thank you.

**Vivek Arya** - BofA Merrill Lynch - Analyst

Thank you so much Dave. Thank you Jim. I really appreciate your time. Thanks everyone for joining us.

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