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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

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**Mike Britchfield** *Analog Devices, Inc. - VP, Industrial and Instrumentation*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Afternoon session with Analog Devices. I am Vivek Arya, semiconductor analyst at BofA Merrill Lynch.

And absolutely delighted to have Dave Zinsner, the CFO of Analog Devices, and Mike Britchfield, the VP of Analog Devices' Industrial and Instrumentation segment join us. What we will do is to try to keep this informal Q&A fireside-type session but feel free to raise your hand if you want to ask questions. Maybe first of all welcome.

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

Thank you.

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

Thank you for joining us. And maybe let me start off at the very high level, Dave, if you could give us a sort of a State of the Union and how do you see the demand environment shaping up right now? And most semiconductor companies that have presented at the conference have been generally positive --

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

That is good.

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

But also somewhat conservative in that we have seen the last few years good first half but things tend to not be as robust in the second half. So just give us what you are feeling right now.

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

Yes, so for those of you paying attention to the earnings call we had a pretty good quarter. We were up 11% sequentially, up 5% year-over-year; gross margins were excellent, about 66% now; operating margins approaching 32%, also excellent.

So business is doing well. All end markets were showed growth. And I think that is important because it was a very broad-based kind of lift to the business across virtually every subsegment within every end market as well.



So we are quite pleased with what happened. I think coming into the quarter we saw fairly good momentum in terms of order flow, which we talked about in the call. Again it was fairly broad base.

And really the first couple of weeks of this quarter coming into the earnings looked quite strong as well. So we got it up again. The trouble with the semiconductor space is you get four weeks of visibility given the lead time so it is difficult to go much beyond the quarter in which you are talking about to talk.

And I think that is why you see a lot of CEOs and CFOs of other businesses be conservative, as we are too. You know we just simply don't know what the situation is.

I would say, though, that anecdotally at least things look pretty good. The macro kind of indicators can sometimes be choppy but I think in general are positive.

Capital spending which we are heavily tied to both in Mike's business and in the comm infrastructure business looks like that situation is improving. We definitely are all aware of the kind of buildouts that are going on in several regions in the world in the wireless space. That is also a positive for us.

And this kind of electrification of the car, you know more semiconductor content in cars has helped us out. And I think that has got some momentum, too.

All the signs point to a good environment for the future. I think we all just hedge it because we have been through situations in the past where the second quarter and it ends up being for us the second fiscal quarter, the first calendar quarter, for those reporting on a calendar basis looks good. And then there is a head fake and things doesn't carry on.

But as we sit today, I don't see that happening. We'll have to see how things go but at the moment, I think the situation is fairly positive.

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

Are there certain things that are perhaps not as robust as you would like them to be at this stage?

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

Well, we have like small end markets that always have challenges regardless of whether we put up a good quarter or a not-so-good quarter. Our military avionics business, which is in Mike's business group has been a little weaker of late, not surprisingly given kind of all the spending dynamics there.

But the pipeline looks quite strong so I think that one will see some good recovery. And our consumer business has been kind of a lagger for quite a while now.

It showed some momentum but it is hard to declare victory with one quarter of improvement. But we do have some interesting design opportunities in that segment that are just starting to translate into revenue so I would imagine that we do see some momentum there.

But outside of that, I would say across the board, just about every business line did better in the second quarter. And I think the third quarter is going to be pretty good for virtually every business line.



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

You know be it step to a different segment but if you start with the comm infrastructure, obviously China is helping a lot with the base station buildout. Do you have a sense of how many have been built out, how many remain to be done this year?

And what we have seen is every time we start feeling a little comfortable that this is going to be a multiyear rollout, it generally happens to be usually a one or two year. So, how are you seeing this buildout?

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

Well, I would say we are kind of bracing for the idea that that buildout might be a choppy, so to speak. I think we are a few hundred thousand, a couple hundred thousand to a few hundred thousand base stations into what is supposed to be a 1 million kind of base station build over a couple of years.

We will see whether that is a really linear kind of progression or whether we see some choppiness in that space. I think we have to expect that there will be some choppiness in there.

But on the backdrop of that, I think the US market is a lot more linear in terms of the way build outs occur and that we have seen some positive support from the US markets. And in Europe, we are starting to see the very early stages of what I think is some improvement in bandwidth in those regions. So, we might accept some volatility around China but I think it is overcome by pretty good markets, or pretty good performance in the other areas.

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

Have you observed any shortage of components or double ordering of components? Because it is funny, one week we hear that your power amplifiers are short, that is why next quarter buildout might not be as good.

Sometimes we hear, look, every company is reporting such good numbers and the buildout is not there, so maybe they is double ordering of some components. So which one is it?

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

I don't know what you mean from other -- I don't have great insight as to whether other players out there are short parts. Our lead times in that space are within the kind of four- to six-week time frame we quote.

So we are not seeing any challenges in terms of meeting demand. I don't see any signs that there is double ordering going on in the comm infrastructure space. However, I know that about like two days after the cancellations start happening, so I don't know if I am the best indicator of it either.

I do think that in a situation where demand is going quite strongly there, in general, OEMs are going to carry higher inventory levels. Because they are not going to want to miss the opportunity to ship something and let a competitor get the business.

So my guess is that it is probably elevated and as long as demand maintains itself you know there will be no challenge. You know if demand adjusts at some point then maybe the inventory has to be adjusted and they will adjust it.

And that will be the quote unquote double ordering. But as I stand today, I see no indication that in-demand is anything but strong. And no signs of any kind of cancellations or push outs or so forth.



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

Got it, and what about other regions? I think you had mentioned US could perhaps have offset some of the volatilities and variables in China. What about Europe, you know that also seems to be phasing out?

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

Yes, like I said I think US is going quite strong in the second quarter. And I think that was one of the other reasons why our communications business was up like it was because of that.

My guess is that we had a very little bit of improving dynamics in Europe impact the comm infrastructure business and that that is still on the come for us. And I do expect my Irish brethren here probably can attest to the fact that the network in Europe is in need of an upgrade, particularly if you want to get any form of data. So it was bound to happen and it does look like we are starting to see the early stages of that.

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

Got it. And in terms of content, where are you seeing your content growth? Because the case was made that every (inaudible) had to move from 2G to 3G to 4G that there is going to be content expansion for the semiconductor vendors.

Are you able to measure that? Are you really seeing that in margin supply?

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

Yes, pretty much. Actually in the 4G it is actually easier to measure probably than prior generations because where the dollar content is occurring in 4G is number of radios per base station.

And they array these things in such a way and build or modularize this I guess would be the way to say it in such a way that we have a pretty good sense for how many radios are going in a 4G versus how many radios on average are going into a 3G. And so I think we have a pretty good sense that we are getting a 20% to 30% less per base station as things kind of roll into 4G.

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

Got it and then lastly within comm's infrastructure, the broad category, could you give us a sense for how it breaks out between say radios versus backhaul? And then even in non-wireless, or I would say wired or other enterprise --

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

So, about two-thirds the business is wireless related. The other third is a combination of wireline networking and so forth.

Of the two-thirds that is wireless, I would, I am going just throw out that probably 85% of it is actually base stations. And that the rest of it is backhaul and repeaters and things like that.

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

Got it, okay. Then maybe let's bring Mike into the discussion on the industrial side. Give us a sense on the industrial side where are you seeing the growth site, whether it is by geography, whether it is by application?



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**Mike Britchfield** - *Analog Devices, Inc. - VP, Industrial and Instrumentation*

So I think in industrial we tend to look at in a number ways. When you saw my title is actually industrial and instrumentations. We take those separately and then we also look at the healthcare business and the defense business separately as well.

To me, what I am seeing is the strength at the moment and I think it is quite encouraging is in the automation business. Because automation it is first of all growth in automation is good indicator of the macro environment, good indicator of confidence of our customers in terms of either new plants or upgrades or extensions, existing implants for factory automation or process control.

So, to me that is a very good indicator. And we are seeing a lot of strength in automation for the last couple of quarters.

I think as Dave says, the early indications are that that strength is continuing. I think in our view that is a combination of the broader market growth and also some gains that we have made over the last number of years starting to come into production as we have moved our R&D more into B2B area. I am more focused on automation.

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

And then if we look at the industrial revenue it is not just for Analog Devices but for other companies as well, we sort of had a peak in 2010, 2011. And even now a number of companies have actually not managed to recovery past that.

I think your revenues are still sort of below those levels. Why is that the case? Was it just that was an abnormal supply chain expanding situation?

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**Mike Britchfield** - *Analog Devices, Inc. - VP, Industrial and Instrumentation*

Yes, I think you are correct there. When I looked to the fact if I recall the time, I remember writing of course as we all did the quarterly reports at the time and trying to estimate how much of the revenue in that particular, we had one particularly high quarter, I think it was Q2 2011.

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

In the second quarter. Yes.

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**Mike Britchfield** - *Analog Devices, Inc. - VP, Industrial and Instrumentation*

And I remember trying to estimate how much of the revenue in that quarter was real and how much of it wasn't. I think actually subsequent events say like probably even overestimated how much was real.

In my view at the moment is that on a real and demand level, we are quite close to 2Q 2011. I think we are not there yet, so you are still correct in saying we haven't quite recovered from that peak but we are not as far off as the numbers would say.

I think there was a significant factor perhaps up to, I can't think of the numbers, you know up to 10% of the number of that quarter that was either -- we had a few one-off demands in there as well. But mostly driven by double ordering and panic buying based on the tragedy in Japan and then subsequent problems in Thailand and other places.

So there was a lot of that included in there. So I think we are not quite there but we are coming close back to the real demand level of 2Q 2011.

Which I think adds, one of the reasons that I'm actually quite encouraged by this is not just, I think it is not just a move backwards to some reasonable level, I think we're getting close to the peak. So that was certainly the peak for industrial.



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

And how does this Internet of Things sort of factor into your thinking about growth prospects?

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**Mike Britchfield** - Analog Devices, Inc. - VP, Industrial and Instrumentation

So the Internet of Things is something that if you look at what Analog Devices clearly has been involved in this area for a number of years. What it does really is that there is a major drive for all of our customers to have more and more information in the cloud.

So what that does is that drives demand for connectivity which of course plays to an ADI strength in terms of radios. And also as you have more and more data in the cloud, it drives a lot of demand for more and more sensing. And the sensing of course drives both sensors, which are another area that ADI has strength in and also the processing and the conversion after that sensing.

And that is where we see the real importance of IoT, if you look in that sense. It is not necessarily just for the buildings or measuring things in your home which to some degree is quite standards-and-commodity based than ZigBee-based.

It is what is happening in the true industrial markets and we are saying that as more and more data is held in the cloud, that drives our customers to measure more and more. And to be monitoring more and more. And that is true whether it is in factories or whether it is monitoring bridges for seismic events or structural stability or whatever.

So there is more and more sensors for pipelines. So that is where we see IoT if you like as being important for ADI as opposed to the more hyped version where you are measuring every part of your body while you're walking around in the house.

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

And the laptop tells us stuff. Do you think you have the portfolio to be successful or do you think that is an area of say tuck-in acquisitions or otherwise?

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**Mike Britchfield** - Analog Devices, Inc. - VP, Industrial and Instrumentation

We certainly have a strong basis. I think I'll let Dave talk with acquisitions perhaps but I think in terms of the strong base, I mean we have 20 years-plus of experience in sensors.

Starting up in gyros, accelerometers, moving on to photonics, IR sensors. We have 25 years experience and there is a lot of knowledge base built up there.

We have obviously plenty of experience in the radio and in the converters, in the piece which says well, you need to have both I think low-power and also secure processors, I think we have experience there. And that it's an area we are investing in as well, the ultra-low-power area.

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

Got it.

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**Mike Britchfield** - Analog Devices, Inc. - VP, Industrial and Instrumentation

So, I would say I wouldn't rule it out but I think it is something, I don't think we need to have those tuck-in acquisitions to be successful.



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

Got it. So maybe Dave, since he mentioned you control the checkbook, is that an area of promise of growth? Because people always ask what is the next big thing for the semiconductor industry.

And as it used to be PCs and then into phones, as you look out the next four or five years do you think you will need to make acquisitions? First of all, is there such a thing (multiple speaker).

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

I subscribe to a wave of requiring as Mike more eloquently said, it is of sensing and communications and the signal processing that goes around that. So we definitely subscribe to this kind of third wave, I don't know, Internet of Things again is an overused word.

And I think in every end market, and really every product portfolio, we are looking out five years and looking at what are the things are necessary that our customers are starting to tell us are going to be challenges down the road for them. And in most cases as Mike points out, we have a bench strength of people and core technology that probably enables us in a lot of cases to do that organically and that won't require M&A.

But there are the certain technologies out there that I think the ROI is going to be there for us to buy it and tuck it into our Company. So we are active and looking for opportunities to do that.

The ones we have done more recently have been relatively small but I think helpful to the cause. My expectation is that we will do more of those kinds of things and maybe things at slightly larger scales, at a slightly larger scale to help drive the growth.

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

Got it. And then maybe on the automotive site, that has been a significant growth driver for a number of semiconductor companies and you guys have done exceptionally well there. How much of that is just a cyclical pickup?

You know cars are getting older, people are buying more and they are perhaps upgrading to slightly better cars. And how much of that is real content gains in new features that you are seeing? So there is perhaps more of a secular move there rather than just a cyclical pickup aspect to it.

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

So, well first of all I think one of the key things that you have got to recognize with ADI is in 200 --, actually Mike reminded me about it this morning, in 2009 we really made a conscious decision to move a fairly significant part of our R&D away from consumer and into markets that we would call business-to-business. So that includes Mike's business, the industrial business. It includes the healthcare business and it includes automotive, and includes comm infrastructure.

So we had already been a player in automotive but we made some meaningful investments in automotive. Really took it up a notch in that timeframe.

And as a result, we have gotten a lot of traction in a market that just happened to be on the upswing of electrification. You know where, for safety reasons car manufacturers want to have more sensors. And they wanted to be that to communicate back to some central system within the car.

They wanted more video, they wanted more ability to determine whether the car was departing from the lane, or there was an obstruction in the road. They wanted more information, more infotainment so to speak. They wanted to monitor batteries, make cars more fuel-efficient.

All of that stuff was, we need to do all these things. And to do it in a cost-efficient manner and not have a car that weighs like 1 million pounds and is the size of this room, most of it has to be done through miniaturization through semiconductors or through MEMS devices.

And so we made a lot of investments in that space during the timeframe that I talked about. And as a result, I think we hit a real macro trend right at the time that microtrend was really hitting and that was the reason why we have done so well.

It is less to do with unit volume growth. It has been growing but it is relatively modest. And more to do with just more and more dollar content for analogue and for ADI specifically within the car.

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**Mike Britchfield** - *Analog Devices, Inc. - VP, Industrial and Instrumentation*

So it is probably a combination Dave. I mean going back to the original question, I think it is a secular thing in terms of more and more content. Certainly we are not spending on unit growth of cars per year.

There are a few areas where I think if you look to the stuff that Dave talked about in battery monitoring and start-stop, that I think is something where there is just a greater proportion of cars every year equipped with that technology. And ADI has a large share there.

So there is a piece there that says we are growing as the number of cars with that technology grows. And then there is the other piece that says we are in the vanguard of new areas in lane departures and other safety, 2C safety areas will be a focus for ADI. So they are actually growing in terms of electronic content.

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

And one of the things about what we did, we've grown that business I think in 2008 or somewhere in that timeframe, I think the business was about \$225 million. We are basically at a run rate above \$500 million at this point.

So, that is a tremendous growth rate, particularly in a choppy macro environment. So, this is a business that we have executed very well in.

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

And then finally consumer I know that you have been deemphasizing that segment and the last few years in semis was about the consumer but now it seems as of the next few years it will probably be more about the kinds of things you are now involved in, right more CapEx, more business-to-business. Are there still areas of the consumer where you think are still it makes sense to be in and those can be profitable to you?

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

Yes, definitely. I mean I think we take, we look at every end market. And we start with the are there places where we can be innovative and develop technology that customers and maybe their customers' customers will really value?

And that is kind of the overarching premise for how we go to market. And there are still those areas within the consumer space. And in it kind of ebbs and flows sometimes.

Sometimes there is less of that and sometimes there is more of it. We have to partner with companies that are trying to drive the innovation curve obviously. You know in a timeframe over from 2009 to today, a lot of it was not going that direction.

So there were a fair amount of platforms that you know we just kind of rolled off. And we didn't see the next generation of innovation.



But, I think more recently we have seen some areas particularly in the sensing space that give us some optimism about being able to get a good return on the R&D that is necessary to drive the innovation. And my expectation is that we have kind of bottomed out in our consumer business and that these opportunities will actually drive some growth in the consumer business on a go-forward basis.

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

And does the fact that now you are just picking and choosing opportunities in the consumer space, does it have any bearing on gross margins? Can they exceed prior peaks? Because the mix is now more favorable than it was.

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

Well, clearly the mix has been favorable to us because the business-to-business part of our market does have higher margins on average than the consumer business. So that has been mix favorable.

But surprisingly if you stick to innovation, you do get paid for it. And so, even our consumer business, the gross margins within that space are probably higher than 80% of the semiconductor companies out there.

So I wouldn't worry too much about if we do really well in that space whether that is going to be maybe modestly dilutive to gross margins but it will be very accretive to operating margins and earnings. So it will be a high-class problem to have.

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

Got it. So let me ask my question again. Can gross margins be above the higher peak?

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

That is what you were really aiming for? Yes, I mean they certainly can. I think that our focus is to drive innovation and get paid for, and that carries high gross margins.

And our other focus is to optimize the use of our internal facilities which aren't quite optimized at this point. You know, they are running about 75% utilization at this point. And we are going to want to see those go up at the higher levels.

So those two things combined with a lot of kind of little blocking and tackling on little things here or there that we think can help improve gross margins we think we can do better in terms of gross margin. Now, what I don't want to really paint ourselves into the corner of is promising some number that forces us to not take advantage of a market that might be a 60% gross margin, technically that is dilutive to the business but we should be taking 60% gross margin businesses if we see some opportunity there.

So, that might offset some of the upswing and so we'll have to kind of see. But, I think in the near term, you're going to see some improvement in gross margins.

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

And how much of that is just from a utilization perspective?



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

A fair amount of it is going to be utilization. Mix really for us it moves the needle 20 or 30 basis points or something like that. It really is more a utilization story.

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

And then operating margins, you know your gross margins have recovered closer to the peak. Operating margins are still a little further away.

Is there something about the OpEx that needs to change? Is it at the right levels right now?

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

Yes, I think an absolute dollars it is at the right levels for where we are today and the opportunities we see. I think over time we would like the percentage of OpEx as a percent of sales to come down.

You know it is running in kind of the mid-30% and we'd like it to be in the low 30%. And I think that is very doable. We can get leverage from where we are spending today and we should get leverage from where we are spending.

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

And then talk about your manufacturing strategy, internal versus external. But also we have seen both TI and Maxim whether internally or partnered to get 300 millimeter capability. Is that of use to you? Or is just that they are in more consumer high-volume businesses, perhaps it is not really an apples to apples with what your strategy is.

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

I guess the basic strategy is for things that are kind of CMOS, fine-line lithographies, 90 nanometer and so forth, 65 nanometers, we are going to generally do those outside. And for things that are bipolar and those, that ilk, particularly above 2.5 micron we are going to end up doing those internally.

And that is kind of the basic-like elements of that. There is more exotic reasons why we do one versus the other but the basic approach is that. I'm sorry what was second question, Vivek?

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

Yes, so just internal versus external and then the 300 millimeter.

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

Yes, the 300 millimeters. So 300 millimeters is I know we have run those numbers constantly. I mean we still have a 6-inch capacity for the most part.

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**Mike Britchfield** - Analog Devices, Inc. - VP, Industrial and Instrumentation

Maybe the memory can fix them.



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

8 inch, well but if we do some 6 inch in foundry. So, in general we haven't even made the case in a lot of cases to move to 8 inch, let alone into the 300 millimeter side.

So in an environment where a lot of this stuff is kind of batch-oriented, very small volumes, it is hard. Wafer size tends not to be a great determinant of the cost.

In fact, half the cost is actually in the backend. And that is not affected by the wafer.

So we haven't really seen a big reason to do it. And to the extent we would need it most likely it would be in the highest volumes that we have in CMOS and we do a lot of foundries for that anyway.

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

Got it. And then on the return of cash, there is one school of thought that is sort of the TI model that let us repatriate, let's not have an asset sitting unproductively overseas and let's return 100% of free cash flow.

And then there is another school of thought which is earnings should be high and we have to have the right balance and I know you are sort of in the second school. How do you contrast the two and do you think this is the right strategy or you think there is room to actually rethink this in terms of cash reduction?

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

Well I mean we are I think we leave the cash or have the cash where we think we need the cash. And we have a policy to return 80% of our cash flow to investors. We think that is kind of the right amount.

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

100% that is --

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

You can do 100% but we do 80%. You start giving away all your cash and then you're not doing anything strategic, I think.

So we do focus on this 80%. We have got the US kind of cash flow and leverage capacity to be able to do that without touching that international cash. So why we would bring it back and pay a tax when we don't need it, I don't know.

I mean ultimately we to have to find a use for that cash clearly. I think some of that will be M&A related. Ultimately we will have to kind of see how it goes but at this point, I kind of like the model we have.

I think it generates good earnings. It hasn't inhibited us in any way from doing anything we wanted to do.

And as we talk to investors, I think one of the things that they are most focused on is the dividend and the level of the dividend. And I think from a percentage payout ratio, however you measure it, we are at kind of either the highest or one of the highest out there and that is kind our goal.

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

And in terms of buybacks, I know you have a formula to sort of modulate how you do buybacks. I know hindsight is 20/20 but has that been the right formula? Is it time to revise it?

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

We did tune it up at some point. I can't remember exactly when we tuned it up. Maybe a couple quarters ago, to make it more aggressive.

But I kind of like, honestly, half the people that when I talk to investors they kind of bemoan the fact that everybody buys when it is too high so I felt like taking the emotion out of this. This is just the best approach for us.

So we used technicals, we used rolling averages and when it goes below the rolling average that is when it executes and I don't ever have to think about it. If at some point we look back and it is not returning the 80% that we want it to return, then we will adjust it in some way to make it happen.

But I still want to stay with a philosophy where I am not getting involved in when to buy because I stink at this. If I could do that, I would be out in the audience making a fortune buying stocks so. I just assume let it kind of manage itself.

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

Got it. I am not a technical guy but let's say hypothetically you are doing the right thing in terms of the 200 moving av rate or the 50-day moving av, etc. But the stock is still lagging the S&P and lagging the stock. Then are there ways for you (multiple speaker).

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

Yes, although I would say if it is lagging the stocks and lagging S&P, it's got more to do with the fact that our performance is lagging the stocks and lagging the S&P. And so I think we will spend more time worrying about driving the growth rate up and driving the operating margin leverage down. My guess is the stock buybacks although interesting don't to enough to influence the stock rate.

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

And then finally in terms of M&A. You know last year, so many years ago when TI acquired National, right, that was a very large consolidation in the industry. Unfortunately that was sort of that local peak in the industry and we didn't see much for a few years.

And then we saw Avago acquire LSI late last year, that was received very positively. And auto assembly, TriQuint has been received very positively.

How do you think about consolidation in the industry? Do you think ADI should participate in that? Or it should be more of a case of more tuck-ins ahead of that?

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

Well, my guess is that the industry will slowly consolidate, I am not surprised about that. It happens more slowly than anybody expects it to. And I don't want to give too much credit to my competitor but it is easy to sit back and say they bought it at the peak.

One, how do you know that? And two normally nobody wants to sell when they are not at the peak. So you know they took advantage of somebody that was ready to sell at the right time.



So, I think for us, we are probably not going to be the poster child for a consolidation. That is not the way we go about M&A.

For us it is really about technology, getting the right technologies that are very strategic to ADI that we think will drive growth rates beyond what the market grows at and let those that consolidate for the sake of consolidate do what they are going to do. Whether that is not to say that they may not be meaningful acquisitions of some size and scale but it will start with technology and customers requiring that technology for us to support them.

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

Let me see if there any questions from the audience?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

I just wanted to delve into the consumer business a little bit. You said that is maybe in the upturn. As a percentage of sales, is that around high single digit now or is it 10%?

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

Consumers, yes, it's a little bit over 10%.

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### Unidentified Audience Member

And in the past like digital cameras have been an important form factor. Going forward where do you think ADI's technology is going to be take advantage of what form factors, tablets or what?

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

Yes, and you're right, cameras were the big component and that was kind of a headwind for us over the last few years. It has kind of stabilized at a level that I think works for us.

We have another part of the business which is what they call -- that we call a prosumer, I don't know if that is the right word or not. But it is basically a lot of kind of high-end home entertainment systems, broadcast studios and so forth.

It actually operates a lot like the industrial distance. Fairly stable but not growing like a weed or anything.

And then the third component and these are roughly evenly divided, a third, a third, a third. A third component is portables which is kind of a broadly defined term.

It captures iPads and tablets. It captures phones. It captures wrist devices and so forth.

So all that gets collected in portables. I think that is the area where we have some opportunity to drive growth. Sensing I think is going to be an increasingly more important part of that market.



I think the right kind of signal processing is going to be important in certain applications. And that is kind of the area that we are going to focus on.

But we are going to be niche about it. You know they are not going to try to get to 500 million units and two handset providers.

We are going to try to like pick the areas that we think have really high performance requirements. And so those are probably going to be at smaller volumes than the overall portable space.

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

Great, thank you. I think with that, we are at the end of our time.

Thank you Dave, thank you Mike. Really appreciate you taking the time. Thanks everyone.

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

Thank you.

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