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ADI - Q1 2015 Analog Devices Inc Earnings Call

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OVERVIEW:

ADI reported 1Q15 sales of \$772m and diluted EPS, excluding special items, of \$0.63. Expects 2Q15 revenues to be \$810-830m and diluted EPS, excluding any one time item, to be \$0.70-0.74.



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PRESENTATION

Operator

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

(Operator Instructions)

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



Ali Husain - Analog Devices Inc. - Director, IR

Great, thank you, Jennifer, and good afternoon, everyone. Thank you for joining Analog Devices' first-quarter FY15 earnings conference call. We've posted a press release and relating financial schedules on our IR website at investor.analog.com, and I'd encourage you to follow along as we go through our results today.

Our agenda for this afternoon's call will be as follows. First, I will provide a brief overview of our first-quarter results; then Dave Zinsner, our CFO, will review our financial performance in the first quarter, and provide our business outlook for the second quarter. Then Vincent Roche, our President and CEO, will provide closing remarks. And after Vincent's comments, we will open it up for questions.

Today's call will include non-GAAP financial measures that have been adjusted to exclude special items, in order to provide investors with useful information regarding our historical results and our outlook. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP measures are included in today's earnings release, which is posted on our Investor Relations web page.

The information we're about to discuss, including our objectives and our second-quarter outlook, includes forward-looking statements. Our actual results could differ materially from these forward-looking statements as a result of various factors, including those described in our earnings release and our most recent 10-Q.

Except as required by law, we don't undertake any obligation to update the forward-looking statements made by us today to reflect subsequent events or circumstances. Therefore, this conference call will include time-sensitive information that may be accurate only as of the date of today's live broadcast. And with that, let's get to the main program.

Revenue in the first quarter came in near the very high end of our guidance range at \$772 million, decreasing 5% sequentially, and increasing 23% year over year. Communications infrastructure and consumer applications exceeded our revenue plan, while industrial and automotive were about in line with our expectations for the quarter. Revenue from communications infrastructure customers, at 26% of sales, decreased 4% from the prior quarter, as both wireless and wireline applications decreased sequentially. Communications infrastructure revenues increased 45% year over year, and 14% on an organic basis.

Consumer revenue, at 12% of sales, increased 1% sequentially. Within consumer, growth in portable consumer applications offset seasonal revenue declines in this sector. Over the past several years, we have been refocusing our consumer investments around performance-centric prosumer AV and user experience-centered portable devices. In the first quarter, our consumer business registered its first year-over-year quarterly revenue increase in five years, growing 27% over the prior year's first quarter, which we believe is a good sign that the headwinds we were facing in this sector have abated.

The industrial market, at 45% of sales, performed as expected, decreasing 6% sequentially as a result of fewer business days for ADI, our customers, and our distributors in our January quarter. Compared to the prior year, industrial revenue grew 21% in the first quarter, and 11% on an organic basis.

The automotive market, at 16% of sales, decreased 8% sequentially, as car manufacturers took their seasonal production breaks over the holiday period. The long-term trends for the electrification of automobiles remains strong, and ADI is very well positioned across infotainment, powertrain, and safety applications.

In total, our core businesses of industrial, communications infrastructure, and automotive represented, again, 88% of our revenue in the first quarter, and have combined for 11% compounded growth over the last five fiscal years, and 14% growth in our FY14.

So, now I'd like to turn the call over to Dave for details of our financial performance in the quarter, and for our business outlook for the second quarter of 2015. With the exception of revenue, Dave's comments on our first-quarter 2015 P&L line items will exclude special items, which, in the aggregate, totaled \$21 million. When comparing our first-quarter performance to our historical performance, special items are also excluded from



prior-quarter and year-over-year results, and reconciliations of these non-GAAP measures to their comparable GAAP measures are included on Schedule E in today's earnings release.

So, with that, Dave, it's all yours.

Dave Zinsner - *Analog Devices Inc. - CFO*

Thanks, Ali. Good afternoon, everyone, and thank you for joining us today. As Ali just outlined, ADI had another very good quarter. Sales in the first quarter totaled \$772 million, and diluted earnings per share excluding special items were \$0.63.

Gross margins of 65.6% in the first quarter decreased from the prior quarter's 66.4%, primarily as a result of lower factory utilization, but were better than our plan on a better mix of business. Compared to the prior year, gross margins increased 50 basis points on a better mix.

Excluding purchase accounting adjustments, inventory on a dollars basis was flat to the prior quarter; and on a days basis, was 126 days on lower sales. Utilization rates in the first quarter were in the mid-60s, and we are planning to increase utilization to the mid-70s in the second quarter. Inventory and distribution on a dollars basis was also approximately flat to the prior quarter; and on a weeks basis was approximately eight weeks on lower sequential sales.

Operating expenses of approximately \$264 million declined \$5 million from the prior quarter. The decrease was primarily due to savings resulting from the prior quarter's restructuring action. Operating profit before tax of \$242 million or 31.4% of sales decreased 180 basis points from the prior quarter, but increased 240 basis points over the prior year.

Other expense in the first quarter was approximately \$7 million. We expect our net interest expense to be approximately \$5 million per quarter for the remainder of FY15.

Excluding the reinstatement of the R&D tax credit and other special items, our tax rate in the first quarter was approximately 15%, which we expect will be our rate for the remainder of FY15. Excluding special items, diluted earnings per share in the first quarter was \$0.63, as I mentioned, near the high end of our guidance, and up 29% over the prior year.

At the end of the first quarter, our cash and short-term investment balance was \$2.9 billion, with \$740 million available domestically. We had approximately \$870 million in debt outstanding, resulting in a net cash position of \$2 billion.

During the first quarter, capital additions were \$24 million, or approximately 3% of sales. Our capital expenditure plan in 2015 is to be between \$150 million and \$165 million.

We have a strong financial model that generates solid cash flow, and we remain committed to returning cash to our shareholders. For the trailing 12 months, we generated \$883 million or 29% of our sales in operating cash flow. We also generated free cash flow of \$729 million or 24% of sales; and returned \$790 million or 108% of our free cash flow to shareholders in the form of a dividend or share buybacks.

Our quarterly dividend is a very important part of our total shareholder return philosophy. During the quarter, we returned \$115 million to shareholders in dividends. In addition, today we announced that our Board of Directors has approved a \$0.03 increase to our quarterly dividend to \$0.40 per share, payable on March 10, 2015. This represents an increase of 8%, and is in line with our model to increase our dividend annually by 5% to 10%.

During the quarter, we repurchased approximately \$60 million of our stock, which helped reduce our diluted share count by about 1 million shares. At the end of the first quarter, we had approximately \$700 million remaining under our current Board-authorized share repurchase program.

So, now to our outlook for the second quarter, which, with the exception of revenue expectations, are on a non-GAAP basis, and exclude special items that are outlined in today's call and release. After a solid first quarter, we are planning for revenue in the second quarter to be in the range

of \$810 million to \$830 million, or up approximately 5% to 8% sequentially. At the midpoint of this range, revenue would increase 18% year over year, or at a high single-digit rate on an organic basis.

By end market, we expect industrial and automotive to lead our sequential revenue growth, and for the communications infrastructure and consumer end markets to remain stable to the first-quarter levels. We are planning for gross margins to increase to approximately 66.5% on higher utilization and a continued favorable mix. We estimate that operating expenses will grow approximately 2% to 3% sequentially, which, of course, is well below the sequential revenue growth we expect to achieve in the second quarter.

Based on these estimates, and excluding any one-time items, diluted earnings per share are planned to be in the range of \$0.70 to \$0.74 in our second quarter. While this is solid operating leverage, our utilization rates are expected to be only in the mid-70s levels in the second quarter, and we continue to carefully manage our operating expenses. Based on our first-quarter exit rate, we estimate we have approximately 500 basis points of operating leverage remaining in our financial model, given that the high end of our operating margin model is to 36% of sales.

So, to wrap it up, the first quarter was a very good start to the year. We had a strong year-over-year revenue growth, with quality earnings and cash generation, and we expect an even better second quarter.

So, now I'll turn the call over to Vince.

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

Thank you, Dave, and good afternoon, everybody. As I mentioned last quarter, during these calls I will occasionally provide additional perspective on the market and technological trends that are driving ADI's business, and the growth opportunities ahead for ADI.

Now, today I'd like to give you some insight into our strategy in the industrial automation market specifically. This market is characterized by a diverse set of many thousands of customers, and myriad applications with long life cycles. Customers not only demand highly innovative products and solutions, but these products and solutions must function at very high levels of accuracy, robustness, reliability and efficiency in very harsh operating environments. These dynamics create high barriers to entry, making industrial automation precisely the type of market that ADI actively pursues for sustainable growth and attractive returns.

Within automation, ADI has a long heritage of providing technologies and product solutions in such areas as programmable logic controllers, distributed control systems, field instruments, motor controls, robotics and industrial sensing. This business has traditionally served a variety of factory and process automation customers in such areas as automotive, pharmaceutical and chemical manufacturing, among many others.

But today, our customers' customers are responding to unprecedented challenges. In an effort to remain globally competitive and boost productivity, while decreasing energy costs and their carbon footprints, our customers are focused on increasing the agility, the safety, and reliability of their manufacturing systems.

Facing the scope of these challenges, customers are racing to re-architect their system designs, and are working to transform yesterday's factory floor into the connected enterprise of tomorrow. And this transformation is showing up on ADI's bottom line.

In our FY14, sales into the industrial automation market represented about 25% of our \$1-billion-plus industrial business, growing 14% compounded over the last five years, far outpacing the growth of our served available market. And we are very optimistic about our continued growth in this sector. Now let me explain why.

The industrial automation sector is largely about precision sensing, monitoring, control and communication. We have spent the past 50 years building our expertise and our brand, with our high-performance precision analog and mixed-signal processing capability, where we can supply thousands of products to our many thousands of industrial customers at sub-1-part-per-million quality levels.



In recent years, we've been increasing our product development and systems engineering investment in this area. In addition to our data converter, linear, DSP, RF and MEMS portfolios, we continue to broaden our reach with the addition of, for example, isolation products. We are better positioned than ever to understand our customers' signal processing system needs, in order to deliver more complete solutions that anticipate and address their pain points.

Now, I'd like to give you a couple of examples of the results of these investments. Today in the area of process control systems, our customers need to maintain several hundred manufacturing platforms that are hardwired and dispersed all across factory floors. Not only are these systems inefficient, but they require teams of service personnel to roam the floor and manually ensure that each individual system is operating effectively. A couple of cogent examples will explain how we are changing the game here.

For example, ADI's product designers have produced a groundbreaking highly integrated software-defined signal processing solution that has the ability to reduce our customers' several hundred platforms down to just a few that can be individually reconfigured with software to adapt to the various applications needs. This helps make customer systems more flexible and agile, while decreasing their maintenance and service costs. In addition, ADI's software configurable platforms enable customers to pack 50% more channels into the same or smaller form factor, without performance compromise, and at the highest safety and reliability levels.

Another example: More than 40% of the world's electricity is consumed by industrial plants, with inefficient industrial motors consuming most of this electricity. In these applications, ADI is enabling highly precise measurement and controls to enable our customers to create the highest accuracy, efficient, and reliable motor control systems. In these same applications, our isolation products are increasingly becoming a key differentiator for ADI, enabling machine and operator safety by isolating the electronics from high-voltage operating conditions.

Also, our MEMS sensors are increasingly coming to the fore in industrial automation, and are a key differentiator for ADI. In machine health monitoring applications, for example, our MEMS vibration sensor, with an embedded radio frequency transceiver, enables remote monitoring of industrial machine health to detect [error and] machine failure, and to save our customers' customers from costly plant downtime.

So, in essence, these are the forces driving what many of our customers call industrial 4.0. Our customers are increasingly relying on ADI's signal processing system domain know-how, our products and technologies, and we are very well positioned to capture the opportunity, and to drive revenue growth for ADI well into the future.

And so, with that, we would be very happy now to take any questions that you might have on any part of the prepared remarks here.

Ali Husain - Analog Devices Inc. - Director, IR

Jennifer, can we get to the Q&A, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Jim Covello with Goldman Sachs.

Jim Covello - Goldman Sachs - Analyst

Guys, good afternoon. Thanks for taking the question, and congratulations on the really strong results and guidance. If I could ask first on the consumer side, it's terrific that, that the issues in that segment seemed to have played the course, and don't seem like they're acting as a headwind



going forward. Do you think that the resolution of the issues in that segment is more just the fact, of the segments that you are letting roll off kind of fully played out? Or do you think you've actually gained some share in that segment, that's enabling that segment now to be -- not a head wind anymore?

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

Good question. I think it's largely a case of the headwinds being largely behind. We have been building some core technologies, using some of our precision technologies, for example, to develop some new products that will come on stream in the future here, particularly in the portable area. But I think it's really a mixture of the headwind is largely behind us and I think we've got some tail winds now that will propel us through the parts of our business -- the two areas that we focus being, [prosumer], the audio-video prosumer area, and the portal area where we've been, I'd say, modestly investing but doing some really exciting things that would (inaudible) have been and will come to fruition in the not too distant future here.

Jim Covello - *Goldman Sachs - Analyst*

Terrific. That's helpful. And for my follow-up, if I could just ask Dave. Dave, you mentioned utilization going to the mid 60%, I think, next quarter. Can you give us the range where that's been over the last couple years, kind of high and low?

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, I think it's -- actually Jim, it was the mid 70% for Q2.

Jim Covello - *Goldman Sachs - Analyst*

I'm sorry.

Dave Zinsner - *Analog Devices Inc. - CFO*

It was mid 60% for Q1.

Jim Covello - *Goldman Sachs - Analyst*

Yes.

Dave Zinsner - *Analog Devices Inc. - CFO*

And I'm just scanning through it. It peaked out in the second and third quarter of 2014 in kind of the mid 70%. Let's see -- I'm just looking in the low. It probably got down to about 50%. In the first quarter of 2013, at least, it was 50%. I am not sure beyond -- before that.

Jim Covello - *Goldman Sachs - Analyst*

So we're getting back to a pretty healthy level here in the --?



Dave Zinsner - Analog Devices Inc. - CFO

Yes, 70%, in the mid 70%s. We have -- I would say that in 2011 -- of course, that was heady times (laughter) -- but in 2011, we were in the low 80%. So we certainly can operate this facility at a utilization level that's much higher than we are today, and we would get, obviously, the incremental gross margin fall through from it. So that's not out of the realm of possibility.

Jim Covello - Goldman Sachs - Analyst

That's terrific. Really, really helpful. I appreciate it, and congratulations again.

Vincent Roche - Analog Devices Inc. - President & CEO

Thanks, Jim.

Ali Husain - Analog Devices Inc. - Director, IR

Thanks, Jim, and operator, before we move on to the next question, just a reminder we'll have everyone try and keep to one question. The call will run until 6.00, and so feel free to requeue after asking your first question. We'll get to our next caller now.

Operator

Our next question is from David Wong with Wells Fargo.

David Wong - Wells Fargo Securities, LLC - Analyst

Thanks very much. Can you give us any feel for the communications infrastructure end market by geography? Are there some regions that are relatively strong, and others that are relatively weak at the moment?

Vincent Roche - Analog Devices Inc. - President & CEO

I'd say, America has been strong. We're still -- everybody is waiting for Europe, but I think it's been really a story about America, China, to some extent Japan and Korea. We had good strength in India as well over the last couple of quarters. And I think we're expecting China to continue to be reasonably strong, at least for the first half of the year in TV systems. And again, we expect a growth year this year in communications infrastructure for ADI.

David Wong - Wells Fargo Securities, LLC - Analyst

Great, thanks.

Vincent Roche - Analog Devices Inc. - President & CEO

Thanks, David.

Operator

Your next question is from Chris Danely with Citigroup.



Chris Danely - Citigroup - Analyst

Thanks, guys. Can you just talk about what the Hittite contribution was during the quarter, and then how you expect that to play out for the rest of the fiscal year?

Dave Zinsner - Analog Devices Inc. - CFO

Hittite was in kind of the mid [\$70 millions] level, which was kind of consistent with where we thought it would range. Obviously, in the back half of the year, we're thinking that it's likely to be up from where it is today. I would guess, that the second quarter is going to be, given that we think communications is going to be relatively flat, I would guess Hittite is going to be relatively flat too.

Chris Danely - Citigroup - Analyst

And revenue too, please?

Dave Zinsner - Analog Devices Inc. - CFO

I beg your pardon?

Chris Danely - Citigroup - Analyst

Revenue, too?

Dave Zinsner - Analog Devices Inc. - CFO

That's what we are talking about.

Ali Husain - Analog Devices Inc. - Director, IR

That is what we are talking about.

Chris Danely - Citigroup - Analyst

Oh, okay, got you. I thought you were talking about margins.

Dave Zinsner - Analog Devices Inc. - CFO

Oh no, revenue. Yes, that was revenue. Yes, margins are consistent with where they -- Hittite's margins have been historically.

Chris Danely - Citigroup - Analyst

Great, thanks.



Operator

Your next question is from Doug Freedman with RBC Capital Markets.

Doug Freedman - *RBC Capital Markets - Analyst*

Hi, guys. Thanks for taking my question. This is the time of year when new pricing kicks in on value purchase, volume purchase agreements. Can you give us a sense of what impact that's having on your quarter going forward? If that was in line with what you've seen seasonally in the past, or more or less?

Dave Zinsner - *Analog Devices Inc. - CFO*

It's more or less in line, although we've taken a lot of steps around pricing to get more disciplined. And this year, I think we did better than in year's past in terms of the agreements with the key customers. We've also really kind of scrutinized our pricing across the long tail as well, to make sure it was consistent with the value that we're providing. And in some cases, actually there was a little bit of an increase. So I think we did pretty well on the pricing side. It was generally very stable through the negotiations, and I would think through 2015, we will have very, very stable pricing.

Doug Freedman - *RBC Capital Markets - Analyst*

Great. Thanks for that detail, and congrats on the results.

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

Thank you.

Operator

Your next question is from the line of Craig Ellis with B. Riley.

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

Thanks for taking the question, and nice job on the dividend increase, guys. The question is really just a clarification. You noted that there was upside versus expectations in consumer and communications infrastructure. To what extent, was it much more one or the other? And given that consumer contributed to the upside, why did mix play a role in better gross margins?

Dave Zinsner - *Analog Devices Inc. - CFO*

I think they were both kind of equally as strong. I don't think there was one specific area that outshines the other. From a mix perspective, generally, actually our consumer business has pretty good gross margins. They're up north of 60%. So they actually don't impact our margins as much as you might think, and obviously communications is above the corporate average, so that's very helpful to our gross margins. So that's generally why the mix turned out to be a positive for us this quarter.

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

Thank you.



Operator

Your next question is from Stacy Rasgon with Bernstein.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hi, guys. Thanks for taking my question. I wanted to dig into the gross margin guidance just a little bit. So we've got about a -- I think its 90 basis points of upside, but we have utilization going up 10 points or so from the mid 60%, the mid 70%, better mix, higher revenues. I was just trying to figure out, how do we think about the relationship between gross margins and utilization, I guess, on a point for point basis? And are there any headwinds that are affecting the margin guidance mix, while they are offsetting some of the tail winds that seem to be there?

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes. So I think, the general rule of thumb is usually, that for every 1% increase in utilization, you get 10 basis points of gross margin improvement. We're roughly guiding in the kind of 66.5% range. It obviously it could be better. Certainly, there are a lot of kind of good things happening in the gross margin side in the second quarter. Mix is generally a bit better because industrial has good strength in it, which is what we predict. And, of course, the utilization should lift it up.

There is always a few things that can go against you. And I think, given that's the case, we generally factor that into the gross margin guidance when we give it. But like you said, it could go a little bit better. I think the fall through on gross margins for the second quarter -- Ali, correct me if I'm wrong -- is 80%, right?

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

That's correct.

Dave Zinsner - *Analog Devices Inc. - CFO*

And that's also a good rule of thumb. As revenue goes up, you generally get 80% fall through, and that kind of ties to the 66.5% which is what we go with. But this quarter was a perfect indication that we can't exactly nail it down to the [electronics], to the tenth of basis points. And so, there could be upward momentum depending on how things go.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

Got it. Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Sure.

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

And Dave, not only does the gross margin drop through at 80% at the mid point of guidance, but the operating margin is also around 70% drop through. So thanks for the question, and we'll get to our next caller.

Operator

Your next question is from Ross Seymore with Deutsche Bank.

Matt Diamond - *Deutsche Bank - Analyst*

Hi, guys. This is actually Matt Diamond on for Ross. Hey, congrats as well on the results, and the guide. There has been some talk about changing seasonality in the industry. I'm curious, so from a bookings perspective, how does the current bookings dynamic compare to normal seasonal, to the extent that normal really applies?

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, I actually think that -- I would say, that the cycles are seeming to be less predictive at this point. But seasonally, I think things are happening, as they normally happen year to year. We saw bookings, obviously, come down initially in the quarter and, obviously, were soft through the Christmas period. But after that the bookings levels did ramp up in the January month, and February up until this point was quite strong.

So it's kind of consistent with -- and of course, that momentum happened a lot in the industrial and automotive space. So it's kind of consistent with the guide, that our opinion is that industrial and automotive should see very good sequential growth this quarter. And there's a lot of stability around the other two end markets, consumer and communications infrastructure, which generally would be a positive indication that those will be stable through the second quarter. And that's -- the second quarter generally for us seasonally is a very good quarter, and I think it's lining up to be a very good quarter for the second quarter.

Matt Diamond - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Thank you.

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

Thanks, Matt.

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

Get to our next question, call, operator?

Operator

Your next question is from Romit Shah with Nomura.

Romit Shah - *Nomura Asset Management - Analyst*

Yes, thank you. I was hoping you guys could talk about the M&A environment. As you've probably heard, [Micrel] is looking for strategic alternatives; Freescale is reportedly for sale. So if you could just talk about that, are you guys getting pitched a lot of deals, and what's your appetite these days? Thanks.

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, well, bankers have to earn a paycheck. And so they've always been interested pitching us deals, regardless of whether it was good environment or not. (Laughter). But in any event, we do have an active acquisition program in place. That was how we got to the Hittite acquisition last year. I think for us, it continues to be about, what do we think is going to be important for our customers, for us to have in terms of technology? And then, we kind of look out across the universe of opportunities to see if we can find that technology in companies, be it relatively smaller or large.

And so, generally, if businesses are getting shocked, I wouldn't say that it incentivizes us either to do it or not to do it. Really we start fundamentally with this list of what are the things we want in our portfolio that we don't think we can do organically, and those are the things that drive us to do acquisitions. And at this point now, nothing to talk about. We continue to survey the landscape, but there's nothing active at the moment.

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

Well, job number one for us, Romit, is to make sure that we shelled out a significant amount of money to buy a great asset in Hittite. We are determined to make sure that we create the leverage that we believe is available, both on the top line and the margins, in terms of building up a really important \$1 billion-plus franchise here for RF and microwave. So that's job number one for us at this point in time.

Romit Shah - *Nomura Asset Management - Analyst*

Well then, you've been -- just to that point, you've been very vocal that any potential acquisition has to be strategic, and that was one of the clear merits to the Hittite deal. But I wonder, looking at what's been done over the last year in particular, the Avago LSI transaction, if you're more open minded to doing something that may stand out more from a financial perspective?

Dave Zinsner - *Analog Devices Inc. - CFO*

We're not in the business of doing things just strictly for financial reasons. We've got to have strategic merits for us to do it.

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

Yes, for us it is really about making sure that the combination of ADI and Hittite is capable of creating something greater than the sum of the parts. In other words, we can put our two pieces together, and over time produce growth that was beyond the reach of both the companies separately. So we're well on track. I'm delighted with the response from our customers.

We've some great examples just very, very lately. In fact, where in the communication sector in particular, the Hittite, there's a tremendous vein of really good engineering and technology there, that the customer relationships, the breadth of coverage that we have in the channel; that we're bringing Hittite now to places that we had hoped were possible to bring Hittite, based on just ADI's scale, depth and breadth. So I'm very, very pleased so far with what I'm seeing.

Romit Shah - *Nomura Asset Management - Analyst*

Great. Thanks for the color, and congrats on the great results.

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

Thank you.

Operator

Your next question is from Harlan Sur with JPMorgan.

Harlan Sur - *JPMorgan - Analyst*

Thanks, guys, and congratulations on the strong quarter and outlook. On the solid industrial trends in the business, I'm interested in the regional trends within this segment here in the April quarter, and what sub segments in automation, instrumentation, healthcare, energy are you seeing strength?

Dave Zinsner - *Analog Devices Inc. - CFO*

For the second quarter?

Harlan Sur - *JPMorgan - Analyst*

Yes, for the second quarter.

Dave Zinsner - *Analog Devices Inc. - CFO*

I think our two biggest sub markets are industrial instrumentation and automation, and those we expect to have very good second quarters. Healthcare is probably going to be up a bit, but it would be relatively modest, and I think defense is probably going to be relatively flattish. The energy management, which is a smaller component, is likely to be a little bit up.

Geographically speaking, obviously, the two major markets that industrial serves is the US and European markets. When we looked at the bookings levels for those two markets in industrial, that supported a pretty meaningful increase for the second quarter on a sequential basis. So, I think those two areas will be probably the ones that outshine the others in terms of performance.

Harlan Sur - *JPMorgan - Analyst*

Great. Thank you very much.

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

Thanks, Harlan. Can we get to our next question, operator?

Operator

Your next question is from Craig Hettenbach with Morgan Stanley.



Craig Hettenbach - Morgan Stanley - Analyst

Yes, thank you. On Hittite, understanding that some of the revenue synergies will take time to play out. But can you give any early stage anecdotes in terms of things you're looking to do with distribution channel, or customer engagements after closing Hittite?

Vincent Roche - Analog Devices Inc. - President & CEO

Yes, there's a lot of activity. We -- during the past three months or so, we launched Hittite into our channel. So we've gotten the attention of our biggest distributors globally, and we've put more than a thousand product SKUs into the distribution channel. So it will take time, but the response -- I've spoken with these distributors myself, and their response has been very, very positive, to creating leverage and expanding the reach of Hittite across the globe.

And as well, I just mentioned, that we've seen some terrific evidence of deeper penetration of Hittite, particularly into some of our larger customers as well. Where the engagements and the combination of ADI's mixed-signal with Hittite's very, very high performance analog, RF, and microwave technologies; that combination is starting to change the game, in terms of the kinds of conversations we're having with our customers. So for example, in the instrumentation area, we've gone from competing against each other on product sockets, to having a conversation now about how that customer manages their frequency plan across their entire product portfolio.

One of the very large routing companies is working with us on some very advanced technologies that Hittite has brought us, in particularly the cable area. So there's lots of empirical evidence that the combination of the pieces, and ADI's just breadth and coverage of customers globally is making a difference there.

Craig Hettenbach - Morgan Stanley - Analyst

Yes, thanks for the color, Vince.

Vincent Roche - Analog Devices Inc. - President & CEO

Thank you.

Operator

Your next question is from the line of Vivek Arya with Bank of America Merrill Lynch.

Vivek Arya - BofA Merrill Lynch - Analyst

Thank you for taking my question. My question is really on the automotive segment. So Vince, you're done very well over the last few years. But when I looked at the last two quarters, automotive sales have been roughly flat to modestly up, which is somewhat different than what we have seen from the competitors. So is this just order lumpiness? Do you think you have a complete portfolio in automotive? What will be the catalyst to turn automotive segment back to what overall Company growth rates can be?

Vincent Roche - Analog Devices Inc. - President & CEO

Yes, good question, Vivek. So the automotive for ADI -- 2014 was actually a strong year for automotive for ADI. We grew at 3 times the SAR, and have done so also over the last four years or so. So 2014 was a good year. I believe 2015 will be a growth year for ADI. We believe that the long-term projection for this business -- I think we said publicly, it should be that we can grow this business at a minimum of twice the rate of SAR. And I think the business, as has been in the past, capable of growing 3 times the rate of SAR. So it's a very sizeable business for ADI now.



We've done well in the past. I believe it's a terrific growth opportunity for ADI in the future. However that said, it is a lumpy business to some extent, given that there's really probably 10, 15, 20 customers that really matter; big programs that tend to last a long time. So I think the way to look at it is, that some years, we will achieve 3 times, some years we won't. But I think overall, you've got to look at this business over the long-term.

We've been increasing our investments. We've got terrific diversity now, in terms of customers, products, and there is a lot of new things happening in automotive in terms of safety systems. We've got some exciting new technologies that we've been introducing, as well into the real technology preparers out there, in terms of things like noise cancellation, infotainment, powertrain. I think the future is going to be very, very bright for the industry and for ADI.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Okay, thank you.

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

Thanks.

Dave Zinsner - *Analog Devices Inc. - CFO*

Thanks, Vivek.

Operator

Your next question is from Steve Smigie with Raymond James.

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

Great, thanks a lot. I'll add my congratulations on a nice quarter and guide. Dave, I was hoping you could talk a little bit about what you think the share count might look like in the April quarter? Or at least the magnitude of share buyback you guys might be contemplating?

Dave Zinsner - *Analog Devices Inc. - CFO*

Good question. I guess, I'd have to be somewhat of a prognosticator of what I think the stock price is going to do over time. I mean, generally speaking, if the stock is strengthening through the quarter, we would unlikely be buying -- yes, that's the right way to say it -- because we tend to buy when there is kind of historical weakness in the stock, and when there's not, we tend not to be a buyer.

So I don't know exactly what's going to happen to the quarter. I hope it actually goes up and to the right. But the way we've modeled it is, we thought that the share count would be in the kind of 316 million, 317 million range. It's possible, it could go a little lower than that. It's possible it could be a little higher than that.

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

Great, thank you.



Dave Zinsner - *Analog Devices Inc. - CFO*

Sure.

Operator

Your next question is from Tore Svanberg with Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, thank you, and congratulations on the record revenue outlook. Vince, I wanted to follow-up on the industrial automation segment. I think you said it has grown about 14% CAGR the last five years.

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

Yes.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Which was a period when industrial automation was sort of just scratching the surface as far as the opportunities. So should we expect that business to potentially accelerate from that growth rate? And do you have other sub verticals within industrial that have that same growth profile?

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

Yes, it's a good question, Tore. We've been, generally speaking, increasing R&D in the industrial space over the last several years, We've been strengthening and broadening the portfolio, the signal processing portfolio. So I think we're making our basic products and technologies more attractive to our customers, the industrial customers.

We've also, incidentally, been increasing the footprint of our field operation, in terms of selling an application's resource over the last five or seven years, developing the relationships, building the engagements at the engineering level. So, I think we're in a good position in terms of products, that we've got the coverage that we've got in the industrial space. And also, our customers as I've said in the prepared remarks there, many of our industrial customers are asking us to get more involved in helping them instrument -- to sense, to be able to create information for them and communicate information about machine health for example.

So my sense is, both in terms of the things we are doing organically as a Company, and both the market will enable ADI to do, it'll be a bright future. I think also in the instrumentation area with the addition of Hittite, we're able to do new things in the microwave sector and instrumentation, in aerospace and defense for example, as well. And everybody is expecting a lot from the energy sector, and it's been lumpy.

It's based on regulation and government mood, and so on and so forth. But it's an area where we've got some good technology on the metering side, on the communications side, and we've a broad portfolio of products that sell into the transmission and distribution of electricity as well. But I think in terms of being able to create leverage here, automation is going to be strong for ADI, particularly strong. And as I said, the high frequency part of instrumentation, I think is going to be good for the Company as well.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Very helpful. Thank you.

Operator

Your next question is from John Pitzer with Credit Suisse.

John Pitzer - Credit Suisse - Analyst

Yes, good afternoon, guys. Thanks for letting me ask a question. Congratulations on strong results.

Relative to the guidance in April, if industrial and consumer is sort of stable/flattish Q on Q, it means the other two buckets -- I'm sorry -- industrial and auto need to grow about double-digits sequentially. I'm just kind of curious, is one bucket growing faster than the other? And I hate to use the word normal seasonal, but would you characterize double-digit sequential growth in the April quarter as normal seasonal? Or are there other drivers like content growth that you think are starting to kick in the April time frame for those two buckets? Thanks.

Dave Zinsner - Analog Devices Inc. - CFO

You're correct, in that's roughly what has to happen. I think that the industrial business will on a percentage basis do better than the automotive business sequentially. And I actually I think there is -- it's hard to gain a lot of share in industrial in a quarter. This is a business that doesn't move quarter to quarter. It doesn't even move year to year in a lot of cases.

If you look at the sequential growth rate in the 2014 second quarter, I think industrial grew at about 13% sequentially. And that's been kind of the range of what we were probably talking about for industrial for this second quarter. So it's basically seasonal. We'd like to believe that we have invested a lot in automotive and in the industrial space. We've moved a lot of R&D away from some of the more high flying consumer opportunities, and into these areas over the last five or six years. All of that takes time to get traction. And I do believe that 2014, and at least how things are lining up for 2015 for those markets, does indicate that we've got momentum in these businesses. And that the fruits of the labor of all this R&D investment that we made over this five year period, is starting to pay off in terms of revenue, design wins, design-ins and so forth.

John Pitzer - Credit Suisse - Analyst

Helpful. Thank you, guys.

Dave Zinsner - Analog Devices Inc. - CFO

Sure.

Operator

Your next question is from C.J. Muse with Evercore ISI.

C.J. Muse - Evercore ISI - Analyst

Good afternoon. Thank you for taking my question. Dave, in the prepared remarks, you talked about 500 bps remaining in terms of operating leverage. Curious if you could talk a little bit about your underlying assumptions there, in terms of what kind of top line mix utilization you require to get to that kind of number?

Dave Zinsner - Analog Devices Inc. - CFO

Yes, the margins of these businesses -- of course, there has been some mix impact quarter to quarter, in terms of the impact to gross margins. But I think largely, they're fairly close to each other. I don't think we have to rely on one business doing better than another business, in order for us to kind of hit the targets.

Our goal is to get to 68% gross margins. And given that we're -- what, 250 basis points below that I guess, at this point? 250 of the 500 basis points is going to come from just gross margin leverage, which is largely going to be a function of, we believe, factory utilization, a higher top line on some over some fixed overhead expenses, and just a laser focus on this, in terms of pricing discipline and cost discipline. And I think we've been able to do a fairly good job, in both of those areas over the last couple years to improve the gross margins beyond where they would have been.

And then, the rest is obviously, trying to get the operating expenses down a couple hundred basis points as a percent of revenue, and that will get us the rest of the way there, to get us our 500 basis points of improvement. I don't think it's going to happen next quarter. Obviously, I don't know that it happens next year necessarily. But in a fairly stable environment, with some growth, like we think we can do, over the course of four or five years, I think we'll have a very good steady march towards improving that operating margin leverage that we talked about.

C.J. Muse - Evercore ISI - Analyst

Very helpful. Thank you.

Dave Zinsner - Analog Devices Inc. - CFO

Sure.

Operator

Your next question is from Ambrish Srivastava with BMO.

Ambrish Srivastava - BMO Capital Markets - Analyst

Hey, thank you, guys. Pretty solid execution here. Just on order trends, Dave, is there any difference in European order trends at the [distys] versus here, given the currency upheaval that we are seeing?

Dave Zinsner - Analog Devices Inc. - CFO

You mean just orders from distributors on us you mean?

Ambrish Srivastava - BMO Capital Markets - Analyst

Right, right. Given that they are sitting on depreciated currency?

Dave Zinsner - Analog Devices Inc. - CFO

No, I mean, obviously the currency moves around a bit. We transact mainly in dollars, and so sometimes they get a windfall in terms of gross margins. Sometimes they don't. But their business is shipping our product, and so they're going to need to hold the inventory to be able to do that. And we don't think they are going to adjust their inventory behavior based on some kind of FX perturbations.

Ambrish Srivastava - *BMO Capital Markets - Analyst*

And then your earlier response, you did say -- I just want to make sure I got it right -- for the guidance, you did say that you expected both European and the US geos to be strong, correct?

Dave Zinsner - *Analog Devices Inc. - CFO*

Correct.

Ambrish Srivastava - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Your next question is from Ian Ing with MKM Partners.

Ian Ing - *MKM Partners - Analyst*

Yes, thanks for taking my question. Communication segment, down only 4%. You thought it could underperform the other three segments. Just trying to understand how your [cows] business can outperform FPGAs? You've heard Xilinx talk about a flat to low growth environment they are facing this year, and your converters do often sit next to FPGAs. Just trying to understand the source of outperformance?

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

Yes, this is another area of where we've been investing heavily in increasing ADI's reach across the radio sub system over the past number of years. So we are, as we've said several times, our content from generation to generation has grown. And that is the case in, for example, 4G today as well, where we're getting somewhere between 20% and 30% more [BOM] value per 4G radio subsystem. And so, ADI in terms of diversity in that radio application is stronger today than it's ever been.

Ian Ing - *MKM Partners - Analyst*

Helpful, thank you.

Operator

Your next question is from Steven Chin with UBS.

Steven Chin - *UBS - Analyst*

Yes, thanks for taking my question. Another one on geographic demand if I could. Relative to Japan and China, could you talk a little bit about how the order trends are looking in those two geographies, especially in the industrial end market? And is it still in a correction mode, or do you sense a trough coming any time soon? And also, any foreign exchange related impact to longer-term orders especially in Japan? Thanks.



Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, at this point we aren't seeing impact from FX changes. I think in general, industrial again, it has a pretty good second quarter. So I'd expect those businesses to do okay. I think we have generally -- I don't necessarily remember how it breaks down by segment -- but in total, we expect China and Japan to be relatively flattish. So my guess is industrial does a little better. Some of the other markets probably do a little bit worse, and that kind of nets it out to it's relatively flat.

Steven Chin - *UBS - Analyst*

Okay, thank you.

Operator

Your next question is from Vijay Rakesh with Sterne, Agee.

Vijay Rakesh - *Sterne, Agee & Leach, Inc. - Analyst*

Yes, good quarter. Just on the automotive side, can you talk about which segment you're seeing strength in automotive? And also, geographically what's your exposure in automotive? Thanks.

Dave Zinsner - *Analog Devices Inc. - CFO*

Geographically, we're probably more concentrated, kind of, at the European automakers to start with. And then, a close second is the US, followed probably by Japan and Korea equal levels. The strength for the second quarter on a sequential basis, my guess is that we'll see strength across all three of our sub segments, infotainment, safety and powertrain. I don't think any particular sub segment is going to do necessarily better than any of the others.

Vijay Rakesh - *Sterne, Agee & Leach, Inc. - Analyst*

Great, thanks.

Operator

Your next question is from the line of Chris Danely with Citigroup.

Chris Danely - *Citigroup - Analyst*

Thanks. Before round two, can I sneak in two quickly please?

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

Go ahead. (Laughter).



Chris Danely - Citigroup - Analyst

You talked about the end markets. Can you just give us a sense of the ranking of end markets you expect, as far as growth goes for the calendar year? And then also, would you characterize your overall environment as better than seasonal, and what do you think the drivers of the better than normal seasonality would be, if it is like that?

Ali Husain - Analog Devices Inc. - Director, IR

Better seasonal for the year you mean, or?

Chris Danely - Citigroup - Analyst

Would you characterize like the current orders environment as a little better than normal or (multiple speakers)?

Dave Zinsner - Analog Devices Inc. - CFO

Yes, that is the same question I thought we got a little bit earlier, but I think it's generally pretty seasonal in terms of the order flow. And then, as far as we rank the end markets, it's a little early to be able to try and do this. But I think all four markets will likely grow this year.

Chris Danely - Citigroup - Analyst

I would hope so.

Dave Zinsner - Analog Devices Inc. - CFO

Yes. Now we obviously, get a lift in the industrial and communications markets, by virtue of the fact that we have Hittite in there. So obviously, they are likely probably to do better than the other two, because they get a full year's effect of Hittite, versus one quarter's effect of Hittite that we had in 2014. And then, consumer is probably the next, and probably auto is going to be the slowest this year.

Chris Danely - Citigroup - Analyst

Okay. That's perfect. Thanks, guys.

Operator

The next question is from Doug Freedman with RBC Capital Markets.

Dave Zinsner - Analog Devices Inc. - CFO

They're all recycling.

Doug Freedman - RBC Capital Markets - Analyst

Yes, we're coming back in. (Laughter) One more for you. I know you guys had been working on improving some of the margins in the MEMS business. Can you give us where you're at, and the progress of that program?



Dave Zinsner - *Analog Devices Inc. - CFO*

On the baseball analogy, I would say we're in the second or third inning. We do have some products that are starting to come out that carry better margins. Obviously, they take some time to get traction. My guess is that traction doesn't happen until kind of late in 2016 maybe 2017, and that will be kind of an inflection point for us in terms of improving gross margins. We're obviously focused on the cost side of the equation as well, and we've made steady progress. So yes, margins are improving, but they still have a ways to go to get to where we think they'll be acceptable.

Doug Freedman - *RBC Capital Markets - Analyst*

What percentage of sales should we characterize MEMS as now?

Dave Zinsner - *Analog Devices Inc. - CFO*

It's in the mid single-digits I think.

Doug Freedman - *RBC Capital Markets - Analyst*

Great, thanks again.

Operator

Your next question is from Mark Lipacis with Jefferies.

Mark Lipacis - *Jefferies & Company - Analyst*

Thanks for taking my question. Dave, I think this one is for you. Accounting bulletin 606 on revenue recognition, it seems like it's effectively trying to eliminate sell-through revenue recognition, and it's already causing some companies to rethink their -- how they recognize their revenue. So are you -- have you guys looked at this? And if so, can you tell us how you think this may impact you guys? And when you might expect to implement it, and would it cause you to recognize a big chunk of the \$280 million in deferred revenues in one quarter? Thanks.

Dave Zinsner - *Analog Devices Inc. - CFO*

Wow, that's the first time I've ever gotten an accounting question I think. I feel so honored. Yes, the -- we are aware of the bulletin. It does seem to indicate that at some point down the road, the sell-through way of recognizing revenue might go away.

In a couple years -- I'm not actually even sure what year this all starts to come about. I think, it's like 2017, 2018. So we have a ways to go, before we have to worry about it. I'm not even sure whether you restate history, and then, as if you had never done revenue recognition on a sell-through basis or, yes, a sell-through basis. So we'll have to kind of see how that goes. It's quite a few years away though, so we haven't spent a ton of time worrying about it.

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

Yes, Mark, for ADI I'd say it's probably effective in our FY18 here, so I think we've got have plenty of lead time here to deal with it.



Mark Lipacis - *Jefferies & Company - Analyst*

Fair enough, thank you very much.

Dave Zinsner - *Analog Devices Inc. - CFO*

And if there is like some, one quarter kind of impact, what we'll do is we'll provide some sort of pro forma schedule, so it's very easy to tell how we've done from quarter to quarter, so it doesn't cause an issue.

Mark Lipacis - *Jefferies & Company - Analyst*

Sounds good. Thanks.

Dave Zinsner - *Analog Devices Inc. - CFO*

Sure.

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

Thanks.

Operator

Your next question is from Deepon Nag with Macquarie.

Deepon Nag - *Macquarie Research - Analyst*

Hey, guys. Thanks for taking the question. Could you talk about how the tax synergies at Hittite are progressing? And longer time, how are you guys thinking about balancing your needs for onshore cash and the falling tax rate?

Dave Zinsner - *Analog Devices Inc. - CFO*

The tax structure of Hittite is now fully integrated with our tax structure. At this point now, we're pretty much realizing effectively a lower tax rate for Hittite. There's probably a little bit more that will fall through by the time next year rolls around. But I think for the most part, the big step function improvement has already happened.

And you're right, we constantly balance kind of US cash flow needs and international cash flow needs over time. I think we have plenty of cash in both locations, and certainly plenty of liquidity beyond the cash that we have on the balance sheet, to be able to manage both entities effectively without a kind of a meaningful adjustment to our tax rate.

In the event that one particular entity needs cash and the other can provide it, there may be some cash flow that moves from one location to the other. And that would have some effect on the tax rate, but it would be relatively minor, and I don't think it would have a big impact on earnings.

Deepon Nag - *Macquarie Research - Analyst*

Great, thanks. And if I could actually sneak one quick one in on small cells, just how design traction in that business, and how should we think about that as a percentage of your revenue in the next couple years?

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

Well, the design activity been tremendously successful for ADI. We've been working hard on building a set of transceiver technologies that are highly integrated in terms of the RF and the mixed-signal chains. And as I said, we have great design in coverage across the globe. And it's my expectation that somewhere in the late part of this year into next year we'll start to see it become a meaningful portion of the business, assuming that the rollouts take place at the rate we expect.

It's hard for me to give you an exact prediction in terms, of what proportion of our revenue. But I think it's true to say that, from what our customers are telling us, and what the carriers believe that, the deployments will begin in the second half of this year in earnest some time. So when they happen, we'll benefit very, very well I believe.

Deepon Nag - *Macquarie Research - Analyst*

That's great. Thank you again.

Dave Zinsner - *Analog Devices Inc. - CFO*

And I would just add, Deepon, on the small cell thing, a lot of times it comes down to the definition of what is a small cell versus what's a macro. The miniaturization of the macro base station has been happening for several years. And in fact, I think if you look at the stats on some of these macros, they are actually placed about 50 meters apart. So do you call that a macro or do you call that a small cell? But in any event, I think our sense is that small cells in the back half of 2015 should start to layer on top of what we're doing on the base station, on the macro side. So overall, should be a good year for com infrastructure. So with that, let's get to our next question.

Operator

Your next question is from Vivek Arya with Bank of America Merrill Lynch.

Vijay Rakesh - *Sterne, Agee & Leach, Inc. - Analyst*

Thanks. Just a quick one. I believe Dave, in response to a prior question, you mentioned Hittite was about mid \$70 million in Jan, and you expected it to be sort of flattish in April. If you could clarify that? And just, on a like to like basis, how should we think about the growth at Hittite in FY15? Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, actually now that I think about it, the industrial business is likely to have a pretty good second quarter. So I probably -- I was thinking about it from a [coms] perspective. But yes so, of course, the industrial will go up. So I guess, sequentially Hittite will be up in the second quarter versus first quarter. And then, what was your second question, Vijay?



Vijay Rakesh - *Sterne, Agee & Leach, Inc. - Analyst*

Yes, just for the full year, conceptually from the time you acquired Hittite and where you expected the growth rate to be, now that its been under your belt for a couple quarters, how are you thinking about full year growth trends for the -- (multiple speakers)?

Dave Zinsner - *Analog Devices Inc. - CFO*

It's going really well. I think that the likelihood is that this thing is going to grow kind in the double-digit range, and that was what it had been consistently growing at for awhile. It had a couple years, just like everyone else, where it wasn't doing that. And then it turned it around and started to do pretty well. So that's pretty consistent with what we thought. I mean, it wasn't too terribly different than what -- where we thought things would end up.

I am very excited, as Vince pointed out, that there is a whole bunch of new designs that Hittite was unlikely to have gotten had they not been part of the ADI portfolio. And Hittite actually helped us in some cases, win some business on the signal processing side, that we wouldn't have ordinarily had gotten had it not been for having the microwave capabilities. So the business is performing at least as good as we thought it would. But I think that the revenue synergies that we'll get over the long-term are going to do much better than we thought we would, going into the acquisition.

Vijay Rakesh - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Sure.

Operator

Your next question is from Craig Ellis with B. Riley.

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

Thanks for taking the follow-up, guys. Back to the consumer segment. With the retooled product portfolio, is the consumer business now a business that can grow on par with the rest of ADI's businesses? And if not, is it north or south, and what kind of visibility do you now have in that business? Is it short-term, a quarter or two, or is it longer-term with the mix of applications that you now have exposure to?

Dave Zinsner - *Analog Devices Inc. - CFO*

I think it grows at the levels of the rest of the business now. It's thankfully, not a head wind. Of course, consumer is a little bit lumpier, so there may be years where it does a bit better than that, years where it does a little worse than that. But I think in general, that business should grow around the corporate average.

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

Yes, just to add to what Dave said there, Craig. So we're not interested in a business, as you know, that hasn't got legs to it over the long-term. We like sustainability. We like diversity. We like good returns. And I think in the consumer area, we've been very, very clear that with our customers, give us the problems that are really, really hard to solve, and those are the problems we've been getting. So also, not just one generation at a time.

We are building this business, albeit the innovation cycles are -- they're short. They are very, very rapid. But as best we can, we're able to see at least a couple generations out from the existing solution, if you like. So we are trying to apply our algorithm for the rest of ADI, where we're trying to build a long-term view in the spaces. A few targeted application spaces particularly in the portable area as Dave said, where we think we can get good sustainable growth over the longer-term.

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

Thanks for the color.

Operator

Your next question is from the line of Tore Svanberg with Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, just a quick follow-up. Dave, you guided OpEx to be up 2% to 3% sequentially, which is half of the rate of your top line growth. Is that how we should think about OpEx growth for FY15 as well, sort of half of your revenue growth?

Dave Zinsner - *Analog Devices Inc. - CFO*

For the total you mean?

Tore Svanberg - *Stifel Nicolaus - Analyst*

Correct.

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, I haven't quite done the math. But I think in general, what we're trying to do is, have it average around what the fourth quarter of 2014 was. So I think the fourth quarter of 2014 was about \$270 million. And so, we're roughly thinking, we will average that over the course of the four quarters of 2015. So that probably does have the effect of half the rate of revenue growth. But I guess, it obviously depends on what the revenue growth rate is, and I'm unable to predict beyond the second quarter what that's likely to be.

Tore Svanberg - *Stifel Nicolaus - Analyst*

That's very good, thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Okay, thanks.

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

All right, Tore. Well, thank you, and I'll throw it back over to Vince to close out the call.



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

Well, thanks, everybody for the questions on the call here, and hopefully you're as excited as I am about the results and the future of ADI. We continue to focus our investments on profitable, diverse and sustainable markets, where as I said just awhile ago, there are tough problems that need to be solved, and where the barriers to entry are high.

We also have a culture. We just turned 50 by the way, and what has sustained this Company over the 50 years, and will bode very well for the Company in the future is that we've got a culture that's driven by innovation, excellence in everything that we do, and a real passion for solving the deepest challenges that our customers are dealing with. And it's my sense that this will be a great business for many, many decades to come. So once again, thanks for listening in, and we look forward to you speaking at an upcoming conference, or at next quarters earnings call.

Operator

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

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