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EDITED TRANSCRIPT

ADI - Analog Devices Inc at Citi Global Technology Conference

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PRESENTATION

Editor

Audio in progress.

Chris Danely - *Citigroup - Analyst*

You all know them as one of the highest qualities in semis, dominate the converter market with over 40% market share. It's one of the highest margin products out there. Also, their two largest end markets are two of the fastest growing end markets in auto and industrial.

What you might know is they have also done very well in M&A. They recently made an acquisition of Hittite that has been very, very accretive and, oh, by the way, they have a really big design win at Apple that we think is going to be over 10% of revenue.

Here to talk about it is Dave Zinsner, the CFO, and Ali Husain, the Senior VP of Investor Relations. Since ADI just reported a few weeks ago, two or three weeks, I thought I would give Dave a chance to recap what he is seeing in the overall business conditions, and then we will jump right into Q&A.

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

Thank you, Chris. Standing room only in the room. We must have won a consumer socket.

Yes, so the third quarter was a good quarter. We posted \$863 million in revenue. That was a record for us. We were up 5% sequentially, which that's a pretty good result for our third quarter, above what we would normally see for a seasonal third quarter. We also came in at the high end of our revenue range and our earnings range, both at \$0.77 in earnings. So all in all, a very good quarter for us.

Our guidance, as I think most of you know, was \$910 million at the midpoint, plus or minus -- was it 20 -- what is it, \$30 million?

Ali Husain - *Analog Devices, Inc. - Treasurer, Head IR*

Yes.

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

Yes, \$30 million -- plus or minus \$30 million. So we obviously are expecting a big fourth quarter, and as Chris intimated, we will see a lot of growth from the consumer part of our business in the fourth quarter, which is what is leading the strength.



I would say from an end-market perspective, the way we are looking at it, as I said consumer is going to be strong for the third -- or for the fourth quarter, as it was in the third quarter. Industrial has been largely in line, although it's a tale of, I think, two underlying themes within industrial. In our application-specific part of our industrial business, we did quite well in the third quarter and I think we will do pretty well in the fourth quarter.

We have seen in the broader part of the market a little bit of weakness, and I'm not an economist, but I'm going to guess that we saw that weakness because of the perturbations within the currency movements and also the oil and gas exposure not so much that we have, but that our end customers have, which I think affected some of their demand. And so, they were a little bit weaker.

But all in all, that is the benefit of a diverse business is some things will be up and some things will be down, but largely everything held on track in the industrial space.

Automotive was down a bit in the third quarter. That is definitely what we see in the third quarter because it includes the July month, which tends to be a month where the automotive end -- or automotive manufacturers take some shutdowns, and so largely, as expected, it should come back in the fourth quarter.

And then, the communications business, which many of you were tracking more than the consumer business before, that was the story of the day, that has been down the last couple of quarters mostly because of the slowdown in buildouts in China. And there is some belief that that will recover at some point here within this year. I'm not going to pick a time frame for when that will recover, but I feel pretty confident that it will recover at some point. They do want to build out the next generation of 4G within China, and so we would expect that to recover at some point here in the not-too-distant future.

And so, that's basically a rundown of what we said in the third and fourth quarter. It took us an hour, but it took me only 10 minutes to do it.

QUESTIONS AND ANSWERS

Chris Danelly - Citigroup - Analyst

That's okay. It gives me plenty to chew on for Q&A. I guess let's just start.

We can take consumer out for now, because that's a little bit of a one-off, but in terms of the state of the overall semi market, if you X out your consumer business, is the rest of your business, do you feel like it's okay, a little worse than normal, a little better than normal, seasonal, a little below seasonal? What's your sniffer here, your sense (multiple speakers)

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Clearly if you take consumer out, I would say in total it is a little bit worse than -- we are definitely in a little bit of a cyclical downturn.

But most of the downturn is a result of this communication -- this wireless communications slowdown. And that has really affected our business. I mean, that business was up over, I think, \$200 million in a quarter and it's now running about \$140 million. It has come off quite a bit in two quarters. It has stabilized at this point, and so I think we're at the level -- it's certainly troughed and now it's a question of when that recovers.

I think industrial, as I said, the broader market is a little bit weaker, but it is on the margin weaker. It's not massively weaker. And the ASSP part of that space picked up the slack. I feel actually pretty good about industrial. Obviously, I am not ignoring every macro headline out there and we certainly have to pay attention to it and I can't predict whether it will get weak at some point, but as I sit today, that business is very stable.



Chris Danely - Citigroup - Analyst

And how about on the automotive side? Some of your competitors have said things are falling off. Some of your competitors have said things are okay. You guys are pretty much in the middle where you are guiding it down, but I think you said that's pretty much normal seasonality. Could you just describe that for us?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Well, we were certainly in the range of what could potentially be a seasonal third quarter. We were definitely on the weaker side of that for the third quarter. So, I think we were down 7% sequentially and that -- we would probably run anywhere between 3% and 7% in the third quarter sequentially.

So on the margin, it is a little bit weaker, but I think it will come back a little bit in the fourth quarter and I don't see something systemic out there that would suggest that there is something going on that's massively cyclical.

Ali Husain - Analog Devices, Inc. - Treasurer, Head IR

And I would just point out in the second quarter automotive grew 13%, which generally is better, actually, than it usually does in the second quarter, so I think our sense is the second quarter probably did a little bit better than it usually does and the third quarter probably did a little bit worse than it usually does, but overall, as Dave pointed out, I think we're tracking to where we would expect to be seasonally here in the fourth quarter.

And just a point about the communications infrastructure, we said it on the earnings call. The order rates were so weak during the quarter. I actually have a spreadsheet that tracks how we are doing on an organic basis in the wireless infrastructure space. Unfortunately, that spreadsheet only goes back five years, and in those five years, we had never seen a quarter this weak.

Now you have to remember, this last quarter was the third consecutive sequential decline in that business, so we feel -- actually, we feel when we talk to the customers, we look at the order rates as well, and we look at the inventory levels, and things look really like they had troughed out there.

In terms of guidance we gave, we said we expected communications to be about flat. Now if things turn up, could we benefit? Absolutely. The question just becomes around the timing of it. But I think we are perfectly positioned certainly from an inventory point of view to do well. We are very well positioned, obviously, across all the various OEMs, really good technology that's very well positioned with the customer.

So I think as soon as that market starts to percolate again, I think you're going to see ADI do very well in that space.

Chris Danely - Citigroup - Analyst

Yes, if you look at the spending patterns in the first half or even what the spending looks like in the second half, it looks like it's going to be just from the China carriers alone a pick your -- 70%, 80%, 90%, and they have clearly underspent so far this year. So when you talk to your boots on the ground, why do you think they have underspent and then what do you think it takes to get them to start filling out the purchase orders?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

I think -- in the wireless space, you mean?

Chris Danely - Citigroup - Analyst

Yes, in China, yes.



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

I think they actually have to turn on the deployments, quite honestly. There was certainly -- as always happens when demand starts to fall off, everybody looks at their inventory levels and go, oh, my God, they got a lot of inventory. And so, they work their inventories down significantly and usually overreact.

So, it's a -- I do not think that they will bring inventory levels back in line until they feel comfortable about the end demand situation and when that is going to turn on.

But Vince was over there I think within the last two months. The guy that runs the auto and comms business, Rick Hess, was over there within the last couple months, and both of them heard from the Chinese OEMs -- obviously, there are other OEMs that is playing in that market -- but the Chinese OEMs to be ready for this thing to turn on and turn on sharply.

So, they tell you that for various reasons, one of which is to make sure you get the inventory in line to be ready to supply. But I feel pretty confident that that is an indication that things will be turning on here again in the not-too-distant future.

Chris Danely - *Citigroup - Analyst*

And on that note, how do you guys feel about your inventory in the channel? And to the extent you can, maybe talk about broader semi inventory in the channel from the competitors.

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

Yes, on the distribution side, inventory is running around 7-1/2 weeks, which has historically over the last several years been what they've been running at, so it looks healthy. It looks in good shape.

We have less visibility into the OEMs and their inventory levels for our parts. We can look at their total inventory and get a sense for how they view the world, and I would say unless demand were to move in one way or another, it is about where it should be, and I don't think there is a big inventory overhang out there, quite honestly.

Now demand went down, that would be different. Of course, demand went up, we would have to start pumping up inventory a little bit ourselves. But by and large, I think it's a pretty healthy environment for inventory.

Chris Danely - *Citigroup - Analyst*

And, I'm sorry, can you talk about inventory at ADI versus historicals and (multiple speakers)

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

Yes, so we are at 128 days of inventory, which is actually a little bit elevated for us. I think we would like to be more in the 110 days.

There is a reason why we are at the inventory levels we are, one of which is, as you mentioned, a large OEM customer and socket wins there and so we do have to be prepared. And so, we have to build up inventory in advance of the deployment. And so, we did that and that elevated our inventory a bit.

On top of that, we have -- we are transitioning away from one of the foundries that Hittite was using, which we knew prior to our acquisition was going to happen. But when you do that, you have to go out to all your customers and ask them how much inventory of that particular part, because some are sensitive to foundry changes, and so you build up a certain amount of inventory for last-time builds -- or last-time buys and we did that.

And then, thirdly, quite honestly, we had a little bit more communications -- wireless communications inventory, not quite expecting this level of deterioration, and so we were left with a little bit of inventory, which will serve us well down the road when the thing does turn back on, but has kept the inventory levels a little bit elevated.

But all three are pretty manageable and two are definitely by design. And so, my expectation is we will see inventory days come down in the fourth quarter, and then I think we will have a pretty steady improvement on inventory days over the next four quarters.

Chris Danely - Citigroup - Analyst

So probably see things normalize in a couple quarters (multiple speakers)

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Yes, I would say the back half of next year we should be in pretty good shape.

Chris Danely - Citigroup - Analyst

Okay, great. Speaking of communications in China, that's a big topic of conversation out there. Do you guys have weekly China meetings on Japan or how do you guys view that? Are you concerned? Are you freaking out? Are you not freaking out? We get all kinds of different reactions from the semi industry from we haven't seen anything yet to yes, we are concerned, to who knows.

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

On the macro side of China?

Chris Danely - Citigroup - Analyst

Yes.

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

We certainly pay attention to it. I would be lying if I said we didn't. There is not a ton we can do about it, other than this is the nature of the business we're in. These things happen all the time where there is economic indicators out there or suggestions that countries are going to see weakness, and all we can do is try to effectively manage the supply chains so that we don't get too out of kilter and carefully manage our operating expenses so we haven't built up a lot of OpEx ahead of demand.

Those are the only two things that are really within our control. What happens from a macro standpoint, there is not much we can do about it. But we look at it mainly just so we are planning appropriately how much resources we want to have and how much capital and inventory we want to have.



Chris Danely - Citigroup - Analyst

So the phones are still ringing? (multiple speakers) cancellations for (multiple speakers)

Ali Husain - Analog Devices, Inc. - Treasurer, Head IR

You know, it's funny, Chris, we sit in this war room before we get on the earnings call for at least a couple weeks before we get on the earnings call and we start thinking about what are the things that we want to say, and it has become part of the mood, I guess, at least for the last five or six years to talk about the uncertainty in the macro environment.

And so, we really don't talk about it anymore because it is part of the mood now. It's just prevalent. It is permeating everywhere, and sometimes it's a little worse and sometimes it is a little bit better. But we are staying in, I think, some kind of a band here. It is hard for us to prognosticate, obviously, in the macro, but I can just tell you when we sit around and we think about how we're going to talk to investors after our quarter, we have been in this uncertain environment for several years, so as a company, all you can do is just manage to it.

Chris Danely - Citigroup - Analyst

Yes. I guess we're five weeks into the quarter now. Would your book to bill normally be above 1 at this point? Does that mean anything?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Quite honestly, I don't know whether -- what the normal is, but August generally is not a robust month for us maybe is the best way to say it, neither on orders nor on shipments, quite honestly. You have Europe mostly shut down for three of those weeks. Even North America tends to be a little slower. But I would tell you that the month of August was similar to what it has been over the last four or five years.

Chris Danely - Citigroup - Analyst

Okay, so as to whatever normal is these days.

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Whatever normal is. It was pretty normal.

Chris Danely - Citigroup - Analyst

And then just before we start to talk about the consumer end market, between automotive versus industrial, which do you think represents higher long-term growth for ADI?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Good question. Well, industrial is a lot bigger, so even if it grows at a rate that's slower, it still probably adds more revenue.

But I think automotive as an end market has more of a content story to it than collectively all the industrial markets. I think there are industrial markets that have dollar content stories.



There is going to be this IoT proliferation, so certain parts of factory automation and so forth will experience higher dollar content. The healthcare space will definitely experience higher dollar content over time with vitals -- clinical-grade vital signs monitoring and so forth. But auto as one market certainly has a dollar content story over time, so it should grow at a faster rate than industrial.

I think for us we have not -- we have had years where we have grown exceptionally fast and we have had years where they've been below the average, and unfortunately, 2015, it looks like it will represent a year that is below the average, which happens. Sometimes you win more than you lose. Sometimes you win as many and you lose as many. And this just happened to be one of those years like that.

But as we look at the pipeline, there are some products that we are going to be introducing in infotainment, in safety, like, for example, for ADAS, that will be, I think, very well received by the market where the design win activity is going to be quite good. And so, we certainly should be back on the pace of a growth rate that we've seen in the past in the automotive space.

Chris Danely - Citigroup - Analyst

Have your long-term growth thoughts or investments or anything like that changed in the communications market after what's happened this year?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

No, because I think it's hard to predict that there is going to be an investigation of fraud that is going to slow down wireless spending. That was somewhat unpredictable.

I think overall the thesis around the communications business in total, which is that the proliferation of digital devices and what will end up being the proliferation of digital nodes around everything, is just going to require more data transfer both wirelessly and by wire and the bandwidths and the stress on the networks is going to ever increase, and so I think there is going to consistently be at least over the next five or 10 years investment in that space and there will be these periods where things for one reason or another take a pause or slow down.

But I think over time the thesis around building out and enhancing the network still exists. And one of the more interesting things about this is I think that the level of expertise and investment you have to have has challenged a lot of the competitors in that space for us, and so we have seen competitors, quite honestly, fall away in that space, not have the ability to keep up on the innovation side.

And we have obviously put a lot of investment in that space, so I think if anything our position in that market is going to be even stronger over time.

Ali Husain - Analog Devices, Inc. - Treasurer, Head IR

And it's also the cross-portability, really, of this technology, right? So, it is easy to talk about wireless infrastructure, but what we do are the radios, and the radios go in macro base station, they go in small cell base station, but that underlying technology is going to be part of our IoT solutions in the industrial space. It is going to be in the automotive space. It is going to be in the healthcare space, and that's what we are very good at doing. We build platforms and then we cross-purpose those platforms across various end markets.

And to Dave's point, particularly in the RF microwave and millimeterwave space, we've got a great position. Hittite helps our position and you need a lot of R&D to keep up those spends and to maintain your position, and I think we have shown a willingness to do that and I think the ability to monetize our innovation across various end markets plays perfectly in the communications space.

Chris Danely - Citigroup - Analyst

Nice segue to my next line of questions, speaking of platforms that you have designed that get deployed in different applications. So just consumer, nice design win there. All of us are trying to figure out or are worried how sustainable this is. You had a major design win at a large consumer OEM several years back that went away. Some of your competitors have had that happen as well. Some competitors maintain those design wins. So can you just give us any thoughts as to why this should be sustainable?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

I think in the past where we have won -- first of all, we have won a lot of consumer products that have lasted seven or eight years and they just don't get the press or the headlines. And so, there is definitely historically evidence that we can have a product in the consumer space that will last many, many generations.

We think that this is one of those and we think we have more products in the pipeline that will add to what we already have won. And, of course, you can never guarantee that you will win all these designs, but I think we have a really good set of technologies that I think are pretty clever and I think the right OEM will be able to leverage that technology into some pretty exciting products.

And so, I actually think that the story that maybe a couple of times hasn't played out will not be the issue that we have in this case. And we actually have pretty good line of sight that not only have we won this generation, but we have won the next generation, so I don't even -- I'm not even concerned about that.

I think also it is important to point out that there are going to be certain OEMs, major OEMs, that will transcend one specific end market. And so while you might consider a particular customer a consumer OEM, I think in the future those lines are going to blur a lot and that they'll be ones that we want to hitch our wagon to that will drive innovation not only in the consumer space, but in other end markets that we obviously have indicated are important to us.

And this particular technology and this particular customer I think is one of those customers. So, I think it's important not only to be hitched to this customer for the current socket we have won, but also for the things that we will develop for them not only in the consumer space, but in other markets potentially that they might want to play in.

And at the end of the day, what we're about is we're about innovation. We are about inventing really cool technology and trying to drive it into the marketplace in any application that might make sense. And in this case, that turned out to be a consumer application, and so we are fine with that.

And really, it's consistent with the strategy we have had from the beginning. It is not that we sit there and look at one specific market and say thou shalt not be in that market. It is more about when it is not -- when there is not innovation and when the technology isn't really hard to do, then it is not an area that we are going to participate in, and in this case, that wasn't the case. It was to our technology and the customer was trying to drive some innovation in their application.

Chris Danely - Citigroup - Analyst

Do you think that you could use this with different customers? Does the customer have a lockup on this thing or could it conceivably go to different customers? Have you seen other customers with interest in the product?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Well, in a lot of cases with these kind of ASSP-oriented products, we generally don't take that technology to their competitors.

Chris Danely - Citigroup - Analyst

They don't like that, do they?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

They don't generally like that. But what we do do is we utilize that capability. In fact, we were utilizing some of the underlying technology in other markets outside of consumer, but we will take that technology and use it in other end markets, and we have that ability and that's part of our model. That's how we leverage our R&D across a number of different end markets.

Chris Danely - Citigroup - Analyst

Is there opportunity to add some more functionality or technology to the current product?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

There is opportunity to add more functionality to that product, for sure.

Chris Danely - Citigroup - Analyst

And do you think it's possible or is it conceivable that you guys could be second sourced on this product? Has that ever happened before?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Yes, it happens. It is possible. We're going to try like heck not to have that happen, obviously. Solid on the supply, solid on the quality, fair on the pricing, and generally that doesn't happen. It could happen. There is no indication that it is going to happen, though.

Chris Danely - Citigroup - Analyst

And as far as the margins go, obviously right now they are fine. Would you anticipate margins to stay in the same range over time or could they go down? Would that be palatable to you guys?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Largely, the more innovative ASSP parts, regardless of whether they go in the consumer space or whatever, generally have some form of price erosion. We have that built-in [expectation], particularly as volumes go up.

We have fairly aggressive efforts on the cost side to bring the cost down to be in line with the price erosion. We're expecting that, and in this case, I think we have plans to mitigate the P&L effect of it, so I wouldn't imagine it's going to be an issue.

Chris Danely - Citigroup - Analyst

Yes, so even with price erosion, the margins should be fine?

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

Should be good.

Chris Danely - *Citigroup - Analyst*

Should be appropriate.

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

There we go. We want to be appropriate here.

Chris Danely - *Citigroup - Analyst*

If it came down to some sort of bend on margins or sacrifice in volume or walk or whatever, has that ever happened to you guys before? How would you react? What would be the protocol there from a (multiple speakers)

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

There are definitely situations where we -- where it stops making sense for us, but it's really -- it is one-off decisions. It depends on the customer engagement, what additional pipeline we have with them, how appropriate and the importance of why the pricing is coming down relative to the innovation we are providing and so forth.

So there is a whole bunch of factors that get applied to make a decision as to whether we are going to go forward and win business beyond the one or two generations we're in. And then -- that will be in this case.

But, again, I -- actually, those situations haven't been that significant. There haven't been that many, quite honestly, but there have been a couple and we will see how it goes.

Chris Danely - *Citigroup - Analyst*

And I don't know if you guys have ever had a 10% customer before. Does it even enter into the equation? Does that enter into the conversation or is it just, okay, we might have a 10% customer? Do you have to change anything (multiple speakers)

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

Well, we like to be diverse. There's no question we like to be diverse, and heavily concentrated in one customer is generally not a good thing over time. But if it drives growth in the near term, I would say it is not a big deal for us.

Chris Danely - *Citigroup - Analyst*

Yes, and there is nothing you have to change as far as inventory management or logistics, other than keeping this inventory (multiple speakers)

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

I would say I have to tell you that the -- because a lot of the logistics aspect of this thing has already run its course, so to speak. We have already built the inventory, shipped out obviously a lot of it, and the operations group did an amazing job. And I think really, really high volume is not generally what we do a lot of, but yet the operations group, I thought, did an exceptional job managing through this. We had no hiccups whatsoever in the process.

Chris Danely - *Citigroup - Analyst*

You had no lead time extensions?

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

Nothing. It was phenomenally well done.

Chris Danely - *Citigroup - Analyst*

Great, and the last question, what would -- for the finance weenies like myself that keep models on you, what does this do to seasonality or normal seasonality? How should we think about (multiple speakers)

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

Yes, so about as much as I have been able to indicate, because my crystal ball usually only goes out one quarter, but I have (multiple speakers)

Chris Danely - *Citigroup - Analyst*

That's one quarter farther than mine.

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

(multiple speakers) and tried to make it go out another quarter, I would think that typically -- taking cycles out of the mix just for a second -- typically, seasonally, we would be down in our first fiscal quarter about mid-single digits, call it 4%, 5%, maybe 6%.

Chris Danely - *Citigroup - Analyst*

In the January quarter?

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

In the January quarter.

Chris Danely - *Citigroup - Analyst*

Okay.



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

That's for the total Company. Generally, industrial is a little bit weaker. The consumer business is weaker, but it has been a smaller percentage of our revenue. The rest of the markets generally hang in there.

I would say that this year what we would say is it will be seasonally in the high single digits, only because consumer will be a bigger portion of the revenue in the fourth quarter and the consumer business tends to have a pretty big step off in the first quarter. Of course, it comes back then after that, but that's generally what we see.

Chris Danely - *Citigroup - Analyst*

Okay, so a little bit of a depression in January, but then your fiscal second quarter, I would assume it would (multiple speakers)

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

Yes, usually that comes back, and then industrial tends to have a really good second quarter. And then, the really -- the big wildcard in this is what does comms do? If wireless communications were to come back, say, in the first fiscal quarter, it might mute this a little bit. We will just have to see how it goes. Hard to predict.

Chris Danely - *Citigroup - Analyst*

Hopefully, they come back before then. Before I get onto a different topic, does anybody from the audience have any questions?

Unidentified Audience Member

Yes, you mentioned briefly in your comments that the new socket that you -- the new product that we have talked about, but we haven't named, might have applications outside of the consumer space. So when we think about that, what areas should we be thinking about? Should we possibly be thinking about the auto space or what other areas might you have applications for that?

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

Well, auto would be a good example. There are probably areas within the industrial space. Industrial, the user interface of industrial is becoming very consumer like in how it behaves because everybody that is used to dealing with consumer electronics wants to have that same look and feel when they are managing factory or what have you or an industrial control system. And so, my guess is that would be another area of application for that.

Ali Husain - *Analog Devices, Inc. - Treasurer, Head IR*

But, you know, I would just point out, look, these platforms have been developed many years ago, I'd say probably 10 years ago. These platforms have been in use in the industrial space as it is.

So, I think the -- I'd say the beauty or the power of the ADI model is to take this very high level of innovation that gets developed in these platforms and then leverage them across various end markets. And frankly, those platforms have been in the industrial space already and they are being leveraged now in the consumer space.

So, it's these incremental innovations that happen and that's probably to your question about when you make these incremental innovations, how do you cross-purpose or leverage those? And certainly I think over time, those platforms then get leveraged across automotive, healthcare, industrial, what have you, so.

Chris Danely - Citigroup - Analyst

Any other questions from the audience? Going once, going twice. I can't see anything up here. Just to switch gears a little bit, talk about geos. I think we have already talked about China enough. You guys have a very big presence in Europe. Maybe just talk about what you are seeing out of Europe and throw in a little bit of North America commentary as well as far as overall demand trends.

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

I think -- I actually think that Europe is -- it obviously had come down a bit. There's no question about that. But it kind of held in there. It was -- like I said, it generally sees a little bit of a softer, certainly, third quarter. Even a little bit into the second quarter, it sees softer in a softer environment. But I think it was okay.

North America was definitely in good shape. Now I would tell you that, like I said, there were a couple of key verticals that did well for us in the second quarter, one of which was the aerospace and defense business and a lot of that is obviously a North America business. So, it definitely held up.

Chris Danely - Citigroup - Analyst

Great, and then switching gears a little bit, talk about M&A. You guys obviously had very nice success with Hittite. Before we dig into that, are you open to more M&A? Does the Hittite experience make you a little more open?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Yes, it does. It was -- I think the reason that worked so well is, in my opinion -- everyone has a different model in terms of how they do M&A and some companies, the way they do it is more of a consolidation earnings leverage kind of model.

I think for us because we are an innovation company, that's what has to happen on the M&A front. It has to start with technology.

And we went through -- what was that? Maybe 2013, I guess it was. As we were going through our 2013 plans, we went through every business unit and identified the gaps, and just what consistently -- it came up in the industrial comments. It came up in automotive. It came up in the comm infrastructure space. We need microwave capability. And it was so often being told that I thought to myself, boy, that's a lot of microwave engineers we would have to hire and it would probably take a long time for that revenue to start layering in and --

Chris Danely - Citigroup - Analyst

Not to mention all those frozen dinners you have to (multiple speakers)

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Exactly.



Ali Husain - *Analog Devices, Inc. - Treasurer, Head IR*

What Dave is saying is I think you need more cowbell.

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

And actually, I had visited a few customers, a couple of them in the industrial space, and they were talking about, hey, it would be great if you could deliver this capability right off the bat. We're using some other players in the space, one of which was Hittite, but we would prefer you to actually -- to do it for us.

And you hear all that and you go, geez, that's something -- a market we should absolutely be in, and yet the time to get to an expertise in microwave is 20 years from now, basically. So we went out and we identified Hittite as the one we wanted to get, and then we went and negotiated and got it done.

I think that that is the model by which we do acquisitions. We will find gaps, particularly large gaps where the time to revenue is long, where there's a lot of question about whether we even can do it internally. Now it has to hit all the buttons around return on invested capital and earnings accretion and so forth, but it is really around does it meet all these kind of business needs, because ultimately what we are trying to do is provide more and more innovation to the customer and we can't always have all of that invented within the four walls of ADI.

That's why we will do acquisitions. I think we will do more of them. We have been talking about it certainly more often. I thought the Hittite one was successful. It was probably one that had a lot of elements that made it easy for us. It was teed up for us, in a way. It was in Chelmsford, which is --

Chris Danelly - *Citigroup - Analyst*

Down the street.

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

Down the street from Wilmington. It was very synergistic in terms of the culture of the engineers. So there were a lot of things that went perfectly on that one that we probably won't have the next time we do it, but to have one that is a little bit easier, get our toes in the water a little bit, allows us to learn some of the things that we need to know for the next one, I think, was helpful.

And so, I would expect -- like I said, I think I said next 12 months I would be surprised if we didn't do an acquisition because there are some gaps in our portfolio that we want to fill through M&A.

So we will see how it goes. Obviously, there has got to be a willing seller, as well as a willing buyer. But we are absolutely a willing buyer in the space.

Ali Husain - *Analog Devices, Inc. - Treasurer, Head IR*

And you know we have a very amenable balance sheet as well, and if you look at our trailing 12-month EPS numbers, \$2.80, and we have put out this target to grow our EPS to \$4 to \$5, which, even with a reasonable multiple on it, is hopefully a pretty good stock price.



Chris Danely - Citigroup - Analyst

Yes, and in terms of the size of M&A, are you guys -- is there any limit? Would you look to do another Hittite? Could you do -- I think the quote, unquote, transformative acquisition, is that even in the conversation?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Well, we certainly would feel comfortable doing one the size of Hittite.

Chris Danely - Citigroup - Analyst

I was implying a little bit bigger than that.

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

What's that? Yes, I got that. Certainly ones that are less than that.

Now let me get to your question, would we do one bigger? I think as long as it checks the boxes on it meets with customers want us to do, that is similar to us in terms of innovation, is an engineering culture kind of -- engineering centric kind of culture, I think we would absolutely entertain it.

There is fewer of those out there, obviously, so I think all the stars would have to align, but it's possible.

Chris Danely - Citigroup - Analyst

And do your customers ever bring that up, like why don't you buy X company that's big? Do they ever ask for that?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

You know --

Chris Danely - Citigroup - Analyst

(multiple speakers) ran this Company?

Dave Zinsner - Analog Devices, Inc. - SVP Finance, CFO

Rarely do they say it that way. I think really what they do is they frame a problem statement and go this is the problem that we need you to solve. Can you solve it?

And then in some cases, it goes, oh, my God, we're going to need a lot of X, whatever X is, and then that starts to get you thinking about doing M&A.

Chris Danely - Citigroup - Analyst

Will it necessarily have to be a nondigital company?

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

No, not necessarily.

Chris Danely - *Citigroup - Analyst*

Okay, great. And then on the M&A front, Hittite, so just maybe give us an update. Is it pretty much hitting all the goals, ahead of all the goals?

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

It's done great. Obviously, on the revenue side, we didn't expect a lot of revenue just yet.

It is infused into our distribution channel. The distributors are excited about it. We actually are getting good traction there. All the cost synergies have been realized, with the exception of the transfer of the test business that was in Chelmsford, the high volume part of the test business in Chelmsford, and moving that into the Philippines, that is still to be done. That will get completed in November, I believe.

But the real story is around revenue and that is not materializing yet on the revenue side and we didn't expect it. But it is showing up in the design win pipeline, for sure. We have gotten all kinds of design wins where ADI wouldn't have won the business on its own or where Hittite wouldn't have won the business because of the size of that company where, on a combined basis, we have won that business. And some of the wins have been as many as 700 different sockets.

Now these are obviously smaller volume opportunities in the aerospace and defense business, but there is a lot of traction that we have gotten on a combined basis. And I have spent a lot of time with customers and a lot of time with the salespeople and they are super excited about having -- and when you start hearing salespeople talk about, oh, my God, this was fantastic for us. This really helped us out a lot. I think at that point I know this was a success.

So, I would give this one almost an A-plus in terms of acquisition, given how well it has gone.

Chris Danely - *Citigroup - Analyst*

Great. Thanks, guys. I think we're out of time. (multiple speakers) again.

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

Thank you very much.

Ali Husain - *Analog Devices, Inc. - Treasurer, Head IR*

Thanks.



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