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

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PRESENTATION

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

Very pleased to have with us today ADI CEO, Vincent Roche. Welcome Vin.

Vincent Roche - *Analog Devices, Inc. - President and CEO*

Good afternoon.

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

We have Ali Husain in Investor Relations is with us today as well. So much to talk about lot of focus on M&A, so I think we'll get that out of the way. Clearly, you guys coming of the Hittite deals, you can talk about in the context of an industry that is starting to consolidate like why was Hittite the right deal for us and what are the implications.

Vincent Roche - *Analog Devices, Inc. - President and CEO*

That's a good question, Craig. So Hittite for ADI was in many ways, it checked all the boxes that we carried above. Number one; they develop technology with high barriers entry. The kinds of places, the kinds of markets they address are highly sustainable and the return seemed to be pretty good. So, I think as well you know something that's probably underestimated in all these M&A deals is the complexity of integration. How do you integrate? The soft stuff is very, very hard to do, but we had spent a lot of time as a Company really trying to understand the culture of Hittite. The leadership team, the engineering teams, they thought about the world and it was something the biggest deal we've ever done in the Company's history, but it checked I think all the key boxes very, very well for ADI. And we're now about eight months, nine months into the acquisition and I'd say we're ahead of where we thought we would be in terms of all the methods of integration.

And I think for ADI when we think about M&A, it's really a case of how much of what we're doing is about increasing the demand of the combined entities versus just looking for short-term operating synergies. So the former is much more important to me and to ADI. So, we're looking for five years old, our customers are saying this, well, that was a really smart deal, I'm glad you did it. It made everything better. Our innovation team is better and you are more valuable to us as a supplier. So that they are thesis for M&A and that's kind of the -- those are the portals through which we will look for any activities in future.

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

Got it. And then second with Hittite. Can you give any early stage anecdotes or examples in terms of customer engagements or ways starting to see that kind of come together and granted these long designed cycle, so revenues are little further out, which is how the customer activity and the appetite has been for the combined entity?



Vincent Roche - Analog Devices, Inc. - President and CEO

Well, Hittite has been valuable to ADI on two fronts from a market perspective. The technology was very complementary. We as a Company had been extending from our mixed signal heritage moving from bits if you like into the very, very high frequency RF and microwave varies. So we knew something about that space, but that Hittite's demand and they were trying to actually move more into the mixed-signal area.

So I would say the combination was very complementary and their technology was very much targeted at market that we care about communications infrastructure for example, which is an important market for ADI, both in terms of the base station and the point-to-point activities, little backhaul activities. And also in the industrial area, their business was 55% to 60% in communications and the remainder in applications like instrumentation, aerospace and defense.

So I think what we've been able to do is very quickly extend Hittite's reach into the large communications infrastructure cost. Because to be a player there for the long term, you've got to have the scale of technology, you've got to have scale of investments, you've got to have all the facets of supply chain and quality systems, all the things that the customers care very, very deeply about it.

So we've been able to bring that rather quickly to Hittite. And one of our large customers was telling me a couple of weeks ago back in Massachusetts from the communications infrastructure area that they are thrilled that the combination has taken place because in many ways Hittite's elective scale had told them to reach their potential, where as the combination of the two pieces gives us the opportunity to attack bigger problems in a more meaningful way in that communications infrastructure area.

On the flip side I'd say in the aerospace and defense space in particular, that was a focus area for Hittite, and in many ways they've been able to deepen ADI's level of engagement in that area in a reasonably short period of time. I think the synergies as well on the channel side, one of the attractive parts that we felt self in terms of getting some immediate gain from the Hittite portfolio. They have 1200 products used something less than more than a 1000 being able to take that product catalog into the distribution channel and really find Hittite out to the many 10 of thousands of customers that we call it a long tale. That's working very, very well at this point in time as well. So, I think it's captured the imagination of biggest distributors.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. Maybe just to close out the M&A kind of team and to your strategy again as you mentioned revenue growth and longer reaching goals you have, there are some other deals in the space that have been more consolidation and cost cutting, so I know that kind of not your angle?

Vincent Roche - Analog Devices, Inc. - President and CEO

Yes.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

With that said, there's a lot of talk about scale as the industry is matured and what should view of that in terms of how important on the industry going forward?

Vincent Roche - Analog Devices, Inc. - President and CEO

Well, scale at some level is always important. When I look at ADI and what we do, I mean what is this Company out of this. We got the broadest range of technologies and the most expertise that we've built up over the last 50 years. We are in business for about 50 years. We essentially sense and interpret the physical world. And to be able to do that, we have sensor technologies, we did have conversion technologies, linear technologies, we have DSPs, we've microcontrollers, we've algorithm technology, we've system expertise.

So I think at least in that area, which I think is a very, very rich days for growth in the future. We're well positioned. We have plenty of scales in that area. And I think when you start stepping out into the world of digital, start moving into microcontrollers, where you know software is a bigger and bigger piece of the game. The cost of scale in that space is very, very different from the cost of scale in the unlocked space as an example. So I think at some level of scale, it is always important, but I think you got to be scaled beyond what you evaluate the critical mass in whatever business you're trying to affect. So I think in the mixed-signal business, we've got a very enviable position in many, many ways compared to our close list competitors.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. Spend some time in the industrial market, your biggest market, and really the angle I'm looking for is when I think about auto, which is theme that's also an important market. That's really resonated with investors in terms of dollar content. There are similar things happening in the industrial place, so is hope you can share with investors any example from content or technology at a really driving growth in industrial, what would be above and beyond (inaudible) type?

Vincent Roche - Analog Devices, Inc. - President and CEO

Yes. Perhaps, I mean the biggest change in our industrial business in the last five -- maybe seven years is that we've become much more market focused as a Company, and what that's meant is that we've been engaging with the market leaders in areas like plant automation, instrumentation, and developing systems type approaches to solving critical applications problems in these basis, and I think dividends for us. We've been able to connect the pieces of ADI into more complete solutions for these industrial customers. Sometimes, we get the attention or we get the traction through ASSP developments, developing applications specific products and pulling in the portfolio around the ASSPs.

So, I'd say in instrumentation we talked on our earnings call a couple of weeks ago about the emergence of software defined instrumentation, software defined radio. So, we were ahead of that team as a Company enabling our customers to build complete very high frequency instrumentation platform using our mixed-signal technology and the microwave and RF technologies that we have to be able to build rapidly and get to market fast and do to the configuration of all these different systems very rapidly using software defined instrumentation based on our transceiver technologies. We're working with one of the big commercial aircraft companies at the moment. We are helping them retool the entire communication system by bringing new ways of using our software defined radio architectures as an example into that space.

When I talk with customers in the area of robotics for example, our plant automation, the problem they're trying to (inaudible) with an increasing need for precision in controlling robots taking power down, but also being able to instrument, being able to sense the machines and do predictive safety analysis. For example, our predictive service analysis on machine. So those are opportunities that we're starting to play in using our MEMS technologies and using our great heritage and data conversion linear technology. Somebody was asking the earlier what has happened in terms of real life applications where automation is taking place in the industrial area. We have used our MEMS sensing technologies in terms of gyro inertial sensing to enable one of the big agricultural machinery from it the balm so to speak. So there are many, many applications where that the rest of our technology is allowing us to bring automation to new levels to help our customers solve the energy problems they are dealing with, the precision problems and also not just providing big streams to our customers, but also using algorithmic technology to extract information, which is something that makes our solutions even more sticky and more attractive to our customers.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. And we can switch gears to the medical space, which is a signal within industrial, any specular changes on the way there that would highlight in terms some of your growth drivers in medical?



Vincent Roche - Analog Devices, Inc. - President and CEO

Yes, medical, I was talking with the Chief Medical Officer, one of the big hospitals in Boston recently. I asked them of all the technologies we developed, what would be most relevant in the hospital environment is the work. If you could solve the whole problem of untethered reliable vital signs monitoring, that would be huge once they turns out. We are working with probably the biggest health care machine provider in the world today to redefine the ways vital signs monitoring is delivered in the clinical environment.

So in mission-critical applications where you're measuring wellness as well as health, so I think that's an area where our photon expensing technology. For example, our MEMS sensing technology is allowing us to create these new measurement systems that allow the measurement of blood pressure -- noninvasive blood pressure, noninvasive pulse oximetry and so on support. That's an area of where our technology is making a difference today, but I think is still in the infancy. I think the whole automation and the wireless automation of health care and vital signs monitoring. It's really today a little bit better than the toy, but tomorrow is going to be a clinical grade level (inaudible) that can measure a huge number of conditions in the human book. That's a particular example.

We've also been leveraging our precision conversion technologies to partner with our photonics capability. To allow ADI to bring very, very sensitive devices that can measure photons essentially and allow the makers of CAT scanners and MRI's to use lower dosage, x-rays example to get good images of the human body. So that's another area where the precision of our technology and our ability produce a sensing is making a difference in health care. So one is big iron, the other is human body.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. Thank you. On the automotive side, I had quite a five-year run in terms of growth, more recently it slowed a bit. Can you just talk about maybe just the Evenflo of automotive and almost importantly the opportunity you still see in front of you?

Vincent Roche - Analog Devices, Inc. - President and CEO

Yes. Well, what our customers in automotive tell us they want more and more, they want more safety, they want higher quality entertainment systems, they want more connectivity, they want more automation, more electrification of the car. So, we really have three businesses in the automotive, one is obviously safety, passive, active and predictive and one of the fastest growing parts of that entire space is in the radar application. It's in the advance global systems, application using radar technology.

We're very, very pleased with the progress that we've made there. So I think that's going to be an ongoing consent gain for ADI in that system, because we're one of the only supplier that can produce the MEMS sensors for active and passive safety as well as this predictive safety. So at some point in time, I think a command of the entire safety system architecture is going to matter.

Another area that we've been investing to win in over the last number of years is in the powertrain. So battery sensing, for example, lead acid battery monitoring, sensing, monitoring control. Electric cars helping to manage the batteries there as well, but also extending the use of our technology into measuring the quality of fuel and oil for example. So those are new applications. Several weeks ago, we announced the introduction of what we call A to B burn system internally generated Media Management Books Technology. That allows the car manufacturer to take out very, very heavy ways of wiring and be able to move media in a very, very noisy environment using our single processing system.

So I think in general, car companies are making the transition from being mechanically oriented for being good at the mechanics, but really good at the IT as well. So I think that's -- it's a terrific growth opportunity in the future and I was explained to somebody earlier that. We've been quite pleased. Our business really was centered around the car companies in Europe, but we've been very aggressively expanding our reach into Asia, and we've got a good position in America too. So I think on a geographic basis, I'm quite pleased with the growth we've been getting, and this is a business that has been growing more than 20% compounded for five years. We mentioned on the earnings call a couple of weeks ago, just given some of the puts and takes, the ebbs and flows in some platforms. We think this year won't be as strong. I do believe it will be a growth year, but that 2016 and 2017 we will resume what I consider to be strong growth and what I consider to be strong, is growth at a level that's maybe two to



three times the rate of vehicle unit growth. So I think it's a great placement innovation to the future and there's more and more sensors being used. And every time as a sensor used, there is spot for ADI.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. We shipped over to communications particularly whilst infrastructure can touch on just the importance of content from one generation to the next from 3G to 4G and then also maybe give investors a sense of just by geography, how you see this year shaping up from a growth perspective and whilst infrastructure.

Vincent Roche - Analog Devices, Inc. - President and CEO

Yes. You got to be a bit of soother to figure out the -- how the balance is going to shift geographically this year, but I think China is going to be strong. TV was really the big growth story last year I think for a lot of us in the wireless infrastructure market, and that will continue this year if probably one of the same kind of lumpiness to it, but it will be a steady build.

As you know, the licenses for STD have just been granted. So somewhere in the second half of this year, I think was fair to see fairly aggressive deployment of STD systems. So that's new to ADI due to resolve. So that will give us more footprints basically. And in general, in systems like TDD, in systems like 4G, every time we moved from one generation to the next between 2G and 3G, 3G and 4G. We've tended to get maybe 20% or 30% more content for radio channel as that migration is taking place. So that's been the case in 4G across the globe. And so China will be strong this year, I think it will have a good year. If the Europeans can really think ahead and get beyond 2.5G. My sense is Vodafone will continue to build out the infrastructure and try to get some lead in Europe this year, which will benefit us. And America continues to densify, but I think America will be -- it will be solid in terms of macro base station build out. And of course every time you put more capacity in place on the radio interface, you've got to put more capacity on the backhaul as well. So the point-to-point system -- we'll benefit from the point-to-point build outs as well.

Something else that doesn't get talked about the loss in our communication business is the fact that we have a good business in building control systems for optical base of change as well. So we've good content there to precession mixed-signal opportunity for ADI. So as the need for capacity and the need for (inaudible) increases across the year, it will help our base station business and it will also help our backhaul business.

Something else that is expected to hit this year is the small cell that it is supposed to in earnest begin to move this year. I hope it's soon because we've great content across the globe in China, America and Europe. So the sooner it happens the better.

Craig Hettenbach - Morgan Stanley & Co. LLC - Analyst

Got it. May be last one before we open it up to investors for questions. The consumer piece has come down as a percent, you guys have really repositioned that portfolio, but it feels like it's kind of leveled of now. So can you talk about now that is at that level, where the growth prospects going forward in other particular niche as you can still play in that phase?

Vincent Roche - Analog Devices, Inc. - President and CEO

Yes, it's a good question. So as you probably know, we've taken down six years or seven years ago, ADI spend of total R&D in the consumer area was about 40% of total, balance was 10% of our total spend. It's a bigger budget, but it's on a ratio business much smaller.

And so our consumer business is really a tail of two different pieces we have, one piece roughly half the business, which looks a lot like a B-to-B sector. It's what we call prosumer audio video, lots of customers, lots of products and the life cycles going to be pretty long. So you know customers who supply multimedia systems to enterprises, use a lot of our technology for moving audio and video and interface products. The other part of the business is really portable centered. So, we have tried to use precision signal processing portfolio to work with the most innovative portable divide companies on the planet to help them really figure out problems some tough problems to solve in things like measurements of position

and space and time. Time looks at right side of application. Optical and its stabilization systems, for example, in some of these little devices here, where the problems difficult and the results are really, really impacted. So we scaled -- I think we're well scaled in terms of R&D. I'm pleased with the position that we have in the sense that the headwinds that we've had for so many years. As we had divested our business, the headwind is largely abated. We've got some good confidence and good wins in some of these portal applications in particular and you've seen the results of that last quarter, and I think that will continue to be a good business for ADI.

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

Got it. Okay. We got it. Are there are any questions in the audience?

Unidentified Audience Member

What's your exposure (inaudible) Chinese way all is infrastructure dimiss from next year?

Vincent Roche - *Analog Devices, Inc. - President and CEO*

For next year.

Unidentified Audience Member

Yes.

Vincent Roche - *Analog Devices, Inc. - President and CEO*

I have the clue. I think it will be good. Actually when you think about what's going on at a macro level in the business. It's the lease. All our big customers tell us roughly the same thing, that the data capacity requirement leads to increase 1000 times over the next five years to seven years. And if you look example at 4G technology, today, they consume the Lion's share 4G subscribers consume the Lion's share abundant.

Yes. It's only penetrated to less than 200 million subscribers. So there's a long, long, long way to go. I think what you'll see is, it's very, very hard to predict quarter by quarter, six months by six months, what's going to happen, what carriers you're going to layout the CapEx. But I think over the next seven to seven years, that's going to be a great business, for the simple reason that modern economies operates on the good internet and wireless connectivity. So I think that's the way you got to view it. And from our stand point, we've picked one part of wireless infrastructure. We've said we are doing, our mission is still the best radio systems on the planet in conjunction with the market leaders and communication infrastructure. That's our business very well in the past and I think it's going to be even better in the future. Let me go to take a long-term view.

Unidentified Audience Member

(inaudible).

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

In terms of the wireless infrastructure market, both in terms of the LTE base station business as well as the small sales, how should we think about what the lead times -- normal lead times would be for those businesses. So when you talk about an improvement in China, how much visibility do you have at this current point in time?



Vincent Roche - *Analog Devices, Inc. - President and CEO*

It's a great question. Those business is not a supply chains. Supply chains are so short. The visibility in terms of actual demand is very, very short. One of our big communications infrastructure customers is going to be big at sometimes two lead days lead time. So you're going to be very smart, very agile in terms of how you manage the supply chain.

I think what we operate more on is again taking a long-term view that we believe over a period of a year or two years that the business will be such in such a size and we work very, very closely with our customers to train lay in demand and get the balance in supplying demand is accurately configured as we can, but we don't well, I mean as a Company we are running better than 95% on time within a six-week lead time for our customers. So across everything and it's even better in communications infrastructure -- visibility center.

Unidentified Audience Member

Okay, last question here.

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

Hi guys. Thanks for taking the question. Just curious, I mean, as part of the merger that was announced (multiple speakers) business, it's on the block and it's PI. Just kind of curious if that could potentially be a strategic asset that might be of interest in ADI, how that might fit in a portfolio that you have?

Vincent Roche - *Analog Devices, Inc. - President and CEO*

Yes. I saw that question. Overall you know probably as much as I do about that business right now. I've read the same and heard the same that you have. I don't know, on the surface, it looks like it's complementary what we do, it's a analog technology, but I don't know. I mean, somebody tells me that it's really important maybe we take a look at book, I don't know. It's certainly not (inaudible) looking at this point.

Craig Hettenbach - *Morgan Stanley & Co. LLC - Analyst*

Okay. With that, we'll wrap up. Thanks so much and see you.

Vincent Roche - *Analog Devices, Inc. - President and CEO*

Okay. Thank you -- thanks Craig

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