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# EDITED TRANSCRIPT

ADI.OQ - Analog Devices Inc at Raymond James Institutional Investors Conference (Virtual)

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## PRESENTATION

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

All right. Good afternoon, everyone. Welcome to Raymond James Institutional Investors Conference. I'm Chris Caso, Raymond James semiconductor analyst. This afternoon, our next presentation will be Analog Devices. With us from ADI is Prashanth Mahendra-Rajah, CFO of Analog Devices; and also Mike Lucarelli, of Investor Relations. Good afternoon, gentlemen.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Good afternoon, Chris. Pleasure to be here.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Well, so the where we're going to start is Prashanth is going to run through a couple of slides for about 5 or 10 minutes and -- to give some opening remarks, and then I'll go into some Q&A myself. (Operator Instructions)

But Prashanth, why don't I hand it over to you to start some opening remarks.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Great. Thank you, Chris, and for the folks joining us, thank you for making the time to hear the Analog Devices story. We have posted a full set of slides as we do every year at this time through our website. I'm only going to cover a small number of them here, and I'll just echo what Chris said. We'd like to hear your questions. So I hope you'll take advantage of that opportunity.

So I'm going to skip through the safe harbor statement. And for some of the new investors who may be less familiar with the story, I'll just start at the top as a reminder that Analog Devices is a semiconductor company. We are about 55 years old. This year, we will likely be north of \$6 billion in revenue. R&D and technology innovation is very core to what we do. And hence, a little bit under 20% of our spend is on R&D. But the beauty of that spend is we drive highly innovative products, which we are well rewarded for by our customers with industry-leading margins and are able to convert those margins into a very strong cash flow.

I'll talk a little bit about the diversity of the business and the strength in that diversity, but maybe just on this slide, I'll highlight that our customer base really is quite broad at over 125,000 customers. And it is that breadth of customers along with the breadth of products that really create quite a sustainable differentiation for ADI and a real barrier to entry in this competitive space.

The end markets that we participate in are very attractive end markets. And maybe just to break this chart down, about half of our business is in the industrial, that is that teal blue color that you see there. The industrial market is characterized by a long diversity, a long tail of customers. It tends to be the stickiest products we have that have very long product life cycles to them and where the differentiation in sort of the broad

components that we offer really stand out. That turns -- that tends to be a very profitable -- probably the most profitable segment of our business and also the most durable.

On the other side of this pie chart are the vertical businesses, and this is really what drives the growth opportunities because they tend to be tied more to strong secular growth drivers, the hearable, wearable device that everyone is now getting access to, noise canceling headphones. In automotive, the drive to electric vehicles and self-driving cars. And then, of course, in communications with the build-out in 5G networks as well as in data centers to support this growing work-from-home environment.

Key to the business model really is the diversity of that product. So I'm going to start actually on the left-hand side and highlight that we have over 45,000 individual product SKUs and an important metric is the text at the bottom there. Over 80% of that revenue is derived from products that individually contribute less than 0.1% of our revenue. So it is a highly diversified product base. And again, that -- the diversity of that product base presents a significant barrier to entry and is really the reflection of the investments that we've made over the 55-year history of the customer.

If you look to the right, you see that the life cycle of our products tends to be quite long. And each of the colors represent a different vintage or a set of years when those products were initially introduced. And what you can see is that even products that were introduced over 20 years ago, still maintain a significant portion of today's revenue base.

So the way to think about that model is that every year, as we innovate and bring new products to the market, that adds another layer of revenue that we will then enjoy for the decade to come while still enjoying revenue off the products that were released 10, 20 years ago.

Maybe just 2 slides before handing it over to Chris to drive the Q&A. In the summer of 2020, we announced a major acquisition. We -- we're in the process now of going through the close process for Maxim integration. Now Maxim is a semiconductor company that complements ADI's portfolio, and it really helps us add scale to our business.

The dark blue that you'd see in each of the pie chart represents ADI and that teal blue is Maxim's. So maybe what I'll just highlight here is the strategic rationale for that acquisition of Maxim, first and foremost, was about getting access to a core set of engineers in the analog space that we believe are critical to continue, the innovation that we're doing in ADI and really take that R&D investment to can now be closer to \$1.5 billion.

And from a product portfolio, it fits in nicely to expand our product portfolio in a number of areas. And I think if we get some chance during the Q&A, I'll highlight that a bit more. But the key takeaway here is it's a way for us to take the incredible franchise we have and add some more muscle to it by giving more scale to it and bringing that benefit through to Maxim, both through some near-term cost synergies and then longer term, from revenue synergies.

And let me just close here with just a comment on EST. This is an area that -- but I think all companies have been spending more time communicating with shareholders about. It's something that has been very core to ADI for many years, and it really is sort of fundamental to our product portfolio. we think about -- and maybe I'll start with the E. We think about that more than just the 4 walls of ADI and the factory that we operate and the emissions that we generate. It is really about the products that we create and the role that they play in making the world a better place.

So just a couple of highlights in there would be significant technology that we've introduced in electric vehicles that allow those vehicles to be considerably more energy efficient, getting you as much as 20% further range on a charge compared to our competitors. It can be in the space of our communications and data center, where we help manage the power that's used in the thermal loss, which allows data centers to be meaningfully more energy-efficient and folks who are familiar with the space know that the data centers are a very meaningful consumer of today's energy growth.

On the sustainability side or -- excuse me, on the societal side, I think the commitment that we have to talent and the role that our global engineering community plays, whether it be in developed or in emerging markets really comes to play here.

It's exhibited in everything from the focus we had last year on making sure that we are prioritizing products going into the health care space, but it's also reflected in the commitment we have making investment in the communities where we have our operations and bringing in more engineering talent in areas like the Philippines, like India, Eastern Europe as examples.

And then maybe just closing on governance, I would point to anyone who was particularly interested to see ADI's progress in this to our engineering good, which is our sustainability report that comes out in May, May of this year. And most recently, our commitment to some of the new disclosure frameworks such as TCFD and FASB, which will start being reported on as we go forward and to enhance transparency in this important space.

So with those very brief comments, let me pass back to you, Chris, now to get into a robust Q&A.

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## QUESTIONS AND ANSWERS

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

All right. Well, Prashanth, thanks very much for that. Very helpful. To start the Q&A, maybe a good place to start is on the recently reported results. As with most semiconductor companies right now, you're seeing some pretty robust demand conditions and pretty lean inventory. So maybe talk a little about what you're seeing, what you saw in the last quarter and set us up for -- as we go into April.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Sure. Yes. So it is a very good demand market for semiconductors. I think that's been well reported now in the press. And ADI, like many of our competitors and peers are enjoying the same tech environment.

Demand, it's very broad-based. I think that's probably the most important takeaway for the audience is this is not peakish in any individual end market or any individual geography. It is very broad-based. But really, given the diversity of our products that I mentioned in the prepared remarks, talked about the strength of the global economy, such that we're experiencing that demand really in all end market applications.

All our geographies are doing strong and all of our markets are up. It's been a while since we've been able to say all end markets were growing. Particular strength, obviously, in automotive and in part of our industrial, but really across the board, including our consumer business, which we haven't reported year-on-year growth in over 3 years due to some onetime issues of some large revenue targets that have been winding down. But now that, that's behind us, the underlying growth of our consumer business is also starting to shine through.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And with that, maybe we've heard from a number of companies this week and throughout about the supply constraints that the industry is facing. And ADI produces some products internally, some products externally. Perhaps you could talk about the supply constraints and how you're dealing with them?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. Yes. Thank you. So we operate a hybrid manufacturing model, where we have, as you mentioned, we've got -- we have some parts of our manufacturing that are done internally in some parts of our manufacturing process which are done externally, we like that flexibility that, that hybrid model gives us in an environment like we have now, where demand is so strong.

The constraints that we're facing really are on both sides, but we have the ability to influence that by investing CapEx in the areas that we need to help our internal capabilities and working with our supply partners to access more wafer for that external demand.

I would say it's important for investors to understand that the guide we issued just a few weeks ago, we feel very good about the capacity we have to meet that guide. In terms of upside to that guide, I think that, that really will depend on how the supply chains evolve over the balance of the quarter. So I feel good about the midpoint, but in terms of generating upside, it will really be over the course of the quarter as more capacity becomes available.

If my sense, that not just for ADI, but I think for the broader industry that we will likely be chasing demand for probably the balance of the calendar year. The semiconductor manufacturing process is quite long from silicon to finish products, and therefore, the ability to kind of turn that ship quickly with the investment of capital is not something that ADI or our peers have immediate access to. It will get better, and we're putting capital in to make that improvement.

And eventually, you'll start seeing the benefit of that, but I think that's more likely to be in the second half of this year.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And you're obviously, not the only one to say that. And so suffice to say, over the next quarter or 2, it's really a question of capacity constraints, how quickly you can address those constraints, and that's what drives revenue growth and upside?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. But I would certainly highlight that the second quarter will be a record revenue quarter for ADI. So even with the capacity constraints, we're going to print an all-time high for ADI.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And as you address those constraints, both internally, externally, know that there are some products which are solely dependent on external foundries, some products that are dependent on in-sourcing. Maybe talk about the difference between each because foundry capacity, it's a different process for getting capacity there as opposed to making your own investment.

We've heard from others is that delivery times on semiconductor tools has extended out. So if you didn't make the decision to add capacity until now or you're going to wait a little longer than someone may wait until September. In September, we were -- well, certainly, I wasn't predicting this in September.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. Yes. Well, we are -- maybe I'll start with the level setting that our supply constraints are fairly broad. Certainly, automotive and communications are probably -- sorry, automotive and consumer are probably more constrained than other end market applications, but it is a broad-based constraint.

We began ramping investments in capacity late summer. I would think probably on the August time frame, we started beginning to make those investments in securing additional capacity and additional tools. And most of our investment is actually going into back end and test where we are feeling more tightness.

So I do think that we are ahead of this situation in terms of making those investments. But the time they come -- the time it takes for them to come online and then to kind of relieve some of the pressure, I do think will take a couple more quarters for us.

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And last one on this vein is on the inventory levels, and what we've heard from most others is just because of everything that's going on. Inventory is low. And I mean, typically, we get to sort of cycle peaks, it's usually associated with, we finally got the capacity in place and then we built the inventory, but most of the industry seem to feel that we're quite a ways from there. Is that your view as well?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. So maybe a couple of points. First, about half of ADI's revenue is direct to end customers, and the other half goes through distribution. The revenue that goes through distribution, our distribution partners are required to provide us full insight into where our products are going. So we -- while we report revenue on a sell-in basis, we operate the company on a sell-through basis. And why that's important is it gives us good visibility to how our products are doing at the end customer levels where is inventory stocking happening or not happening.

And the insight we have on that suggests that when products are hitting our end customers, they're going right into factory production. So I feel pretty good that there isn't stocking happening at our end customers. And clearly, we have good visibility into inventory stocking and our distributions.

So I do believe that inventory remains lean, and we're really sort of feeding end market demand. That's reassuring because it does support our view that this is real underlying macroeconomic-driven demand versus supply chain rejiggering or safety stock building that might be going on sort of post pandemic. It really -- our intelligence is that this is feeding underlying demand.

And if you look at some of the end market applications where we're seeing that demand, it does very much make sense. Certainly, in automotive, we are seeing very strong growth supporting our BMS products, and we know the demand for EVs is really making a significant inflection.

This year, in the 5G space, we know where those deployments are going in consumer. I mentioned hearables and wearables. That is a growing market where everyone is now needing headphones and noise canceling, so you can all have work and school happening in the same house and the complexities that, that's bringing.

So I think that, that is really supporting sort of the underlying demand. And we do feel very good that this is not this cyclical building that the industry has seen. And frankly, it's been a while, I think, since ADI has seen for that cyclical activity. The industry and our supply chains are a lot more disciplined than they have been in many, many years.

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**Michael C. Lucarelli** - *Analog Devices, Inc. - Senior Director of IR*

It's out there. One thing that Prashanth said, you gave a great overview. I get this question all the time. I mean, investors think it's over for charts in a way. If you look at our business, yes, the year-over-year compares are getting high, but look at what happened last year, right? So you have a very low base on that.

If you look back to 2018, and the last time we had this upswing, were only about \$10 million, \$15 million above '18 levels. And to me, that says, there a lot more upside than we had. Why we have better share. We have more content across our portfolio. And we have a bigger portfolio. We have ADI Linear, Hittite, too.

So I think there's a lot of room for this to run. And I think looking over just a year-over-year compare, isn't really going to do it. Look over kind of a full cycle. And I think you'll see a lot more room for this business to grow.

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Yes. And to your point, when the pandemic started, we were just coming off of the last down cycle, which, in my view, that's the reason we're in the situation we're in because we never really fully recovered. And then as recently as September, October, there just wasn't confidence that things were going to come back.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Right. If you go back pre-pandemic, the second half of 2019, many of our industrial customers were destocking as they expected 2020 to be a lighter year for them. It turned out that supply chain has got shocked with the pandemic. So their inventory levels dropped even further. And so now we're in this phase of we are feeding the demand that's off of that sort of 2019 industrial low and no one has capacity to build inventory.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Maybe we could dive into some of the end markets. And I think that's one of the unique things about ADI because you're very broadly based, a lot of different end markets. But yet, there are some, what I should say, idiosyncratic drivers for you that are big enough to really move the needle and comm and 5G is one of them.

Comm is one of the markets that you're projecting to be down in the second quarter, and we've heard that from some others. I guess, one, maybe you could talk about what's unique to ADI within the comm space. And then secondly, what's your view of the market as some of those deployments start to come back?

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**Michael C. Lucarelli** - *Analog Devices, Inc. - Senior Director of IR*

Yes. Okay. So our communications business encompasses both the wireless and wireline end market applications. And the wireless -- or actually, both end markets, one of our larger customers, Huawei, at an ADI global level, used to represent sort of mid-single digits of revenue, has now dropped to 0. So we're looking at some pretty significant tough compares when you have such a large customer now at a 0 level.

Despite that sort of zeroing out of Huawei, we are still well above where you would expect us to be, if you just took a -- I think that represented like mid-teens of comm revenue. Our communicating revenue is not going to be down anywhere near that extent.

When we look forward to the balance of this calendar year, we remain optimistic that we will see 5G deployment in the U.S. and certainly, the conversations with customers and the order activity suggests that, that remains on track. And we're feeling more optimistic about 5G deployments into Europe starting at the end of the calendar year.

I don't think we were that optimistic last year. I think if you had asked us sort of late last year, we would have said, Europe really isn't going to happen until 2022. And we're still seeing the bulk of that in 2022, but more activity that suggests we may begin to see some of that at the very tail end of 2021.

The other end would be in the wireline area and where we really see the continued opportunity is in the data center. And in the product portfolio that ADI has in areas like the hot swap and 48-volt decor, where we know that we provide a real differentiated product technology that in the growth of data centers as the movement of more and more activity to cloud environment is, it's consuming more electricity, the ability for our products to really help with the operating cost of those data centers.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. Well, that's interesting. It's particularly interesting on the commentary on Europe 5G. That's not something we've heard from many others. One of the things you also mentioned on the call was that the density of the radios is important for ADI as well. And maybe that's an area the

expectations over the year have changed in terms of the density of China. We had another company on earlier who the way they characterize that is, perhaps China went and address dense urban areas first. The next phase of the build-out is more rural areas where radio density isn't as important.

But certainly, when the U.S. deployment happens, well, of course, the first place you're going to put 5G C band is in the dense urban areas. Is that something you agree with?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes, partly. I would say that where we do agree is that in China specifically, the 64/64 is not at the levels we thought it was going to be in. Now we do believe that part of the driver there is the limited access to U.S. technology.

So as the -- as Chinese equipment providers are solving for what is available to them, it is -- they're able to find solutions where they do need to rely more on some domestic capabilities such that the 64/64 is not the right solution for them. But outside of China, we still expect, and I believe we're still forecasting to see high channel count deployed certainly in the U.S. and Europe.

Anything you would add to my comment?

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**Michael C. Lucarelli** - *Analog Devices, Inc. - Senior Director of IR*

No, Prashanth, sir, is right. It does go by what area you're trying to play in to. The denser areas, you need the higher channel count. You need the high channel everywhere, but there's an ROI that the carrier needs to hit. And I think they're trying to figure out, too, what's the right mix and match between 64 and 32.

I think one also important thing is, even in 32, we have higher content, it is higher in 54 because there's more channels and our transceiver scaled the channels. They usually do a 32 channel base station versus a 4G base station, it's still more content for ADI, and we also have a high share, as we always do.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Pivot to auto, and it's an area you've spoken a lot about over the past couple of years as well. We know is the design cycles in auto are longer. So we know anything you talk about now or talked about 2 years ago, we have to be a little patient on. But there's a lot -- you talked about BMS as one of the areas for electric vehicles, and that's kind of in the news quite a bit these days. Maybe you could talk about your opportunities there.

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. I think the way to think about auto is, it's very much in line with what you're saying is that over the last few years, we have been winning with our A2B portfolio and infotainment. We've been winning with BMS. And now how that -- those wins are moving to production. And when you -- I feel good that as we look forward from today, auto is going to be a going to be a growth story for us versus peers and versus expectations because of the significant underlying sockets that we have won in multiple areas, but in particular, those 2 areas. Our BMS product continues to be the market leader.

So if you look at electric vehicles, based on number of vehicles produced, full EVs, we have over 50% share in the top 10 vehicles. You look at the wireless BMS technology, which is our newest generation. We've been public on our win with General Motors, and they've been very public about how their whole platform is going to be built off that Altium battery line and potentially providing that same Altium battery line for other OEs.

And then beyond General Motors, Vince said in the prepared remarks during the last earnings call that we have another very large automotive company that we've won as well. So again, continuing to see wireless BMS deploy. I remain optimistic that there's probably another win that will be bagged probably in the second half of this year, maybe 2.

So wireless BMS provides a very, very compelling business case for our customers in the brackets it provides, and that is doing very well. And the A2B platform I think we have won everyone except for 1 OE, is really shifting their design of how they wire their vehicles for audio to be built off of the A2B platform. And now we're bringing more technologies onto that same platform.

I think we announced -- we have a press release for one customer that we've added noise canceling to the ATB platform. So there's a Korean car manufacturer that will be introducing the same concept of your noise canceling headphones for the in-car experience.

And then we also have -- we have now the ability to drive, I think, up to 50 watts of power through that same A2B architecture, which now gives you the ability to really drive significant power for your speakers and your microphones, which, again, just -- it takes the burden of the design for the vehicles down considerably.

So this builds a case that is going to be continuing to drive our automotive business, I think, for several quarters, if not years.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And with that in mind, those long design cycles in mind, the good pipeline that you have, but then there's also some legacy businesses in safety and radar that are tailing off.

How would you characterize the slope of the growth in auto as we go over the next couple of years? Is it a situation where we get to sort of an inflection point at some point as some of the old stuff stops rolling off and the new stuff kind of kicks in?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

The inflection point for when there is enough growth from the -- from our high growers to offset the headwind from some of our legacy business, I believe, is this year. So from an inflection point in being able to actually record growth on a go-forward basis, we believe that's this year.

Now how long will we have some of the headwind from the legacy businesses, I think that the headwind will be with us for a while, but obviously, it's a lot of small numbers. It's going to continue to be less and less meaningful in terms of the overall segment size and therefore, less impactful and be less relevant to our conversation.

But there are still our customers that buy some of our some of our quite old safety technologies when there are better cost solutions available to them, but they prefer to pay ADI prices because it avoids them having to design us out.

So we'll suffer along, but it's not like those aren't good margin businesses.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And that's the benefits of the analog business model, I suppose. I want to move over to Maxim to make sure that we have enough time because that's obviously very important. I guess, for one, any changes with regard to the timetable for foreclosure.

**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

I'll go ahead. So let me get that one very quick. So we had U.S. approval in late last year. I think last week, the European Union posted that they have started the review clock for Phase 1. So we will know in the next 2, 3 weeks, whether we've cleared Phase I without any additional work required. And if nothing else is required, then that would be essentially approval for the European Union, we expect by mid-April that we will have a number of the, I'll call it, the medium-sized geographies also coming through. So if everything stays on plan, I think we'll be somewhere around Easter with really China in front of us.

Okay. And there's no indication from all of our dialogue with Samur that there's anything that's flagging their concern. But of course, it is China, so I don't want to be overly optimistic.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Sure. And what about the rationale for the deal? And a lot of semis, we've seen -- in the consolidation we've seen, it's been borrow money at cheap rates, cut costs, drive EPS growth. That wasn't exactly the case with ADI, and you guys have had a bit of a different philosophy with buying best-in-class and growing the topline further? So I suppose Maxim fits into that category for you. Maybe you can explain that.

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**Michael C. Lucarelli** - *Analog Devices, Inc. - Senior Director of IR*

It does. It does. And I would say, Chris, when we announced the deal as an all equity deal last summer, we had a lot of investors question us. After that model was followed by a number of other semiconductor companies to do all equity deals, we've gotten less questions as to whether that is the structure we should have used.

I'll remind people that we think about the value that we're going to create for shareholders in several stages. In that first stage, and when we close this summer, we're going to be meaningfully under-levered and have a significant cash balance.

So we'll be immediately able to put some cash to work on share repo and synthetically begin to shift the model of how we did the deal to be -- to include more debt because we will have the opportunity to increase our leverage.

We then have the next kind of 24-month window, where we're going to take out just under \$300 million of cost synergies. We've got the next 12-month window after that, where we believe we have additional cost synergies related to manufacturing. We have not sized those yet, but as we did with Linear, we'll share that number of post close. That gets us 3 years post close, and that's when we should be able to start delivering on revenue upside from the cross selling synergies, which are really the underlying rationale for the deal. And not to mention, we've now -- will have really an army of over 10,000 engineers in a world where analog engineering is becoming a very scarce commodity.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Right. And to follow-on something you said, your ability to take on a bit more debt on the deal closed. Where do you view the optimal capital structure for ADI. What's the ideal long term?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. What we've said is ideally, kind of 1.5x levered, but I wouldn't want anyone to get too hung up on a particular number. Let's see where the rate environment is and where the kind of the robustness of the economy and our business is. But clearly, at deal close will be sub one, and that is for a business that generates as much healthy cash flow as we do, that's definitely underleveraged.

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And then in terms of what Maxim brings to you and in Analog, well, it's a function of the engineers, right? We've got groups of engineers that have different levels of expertise. ADI, as long as I've known for amplifiers and data converters. LTC, you bought was known for power. I think Maxim was a little broader, maybe a little more concentrated in power, but what do you guys feel that Maxim brings to the party?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

So Maxim really is scale. And the benefit of that scale is the relationships we have with customers and the anchor products, where our customer will always come to ADI and engage with us over a particular area by having more in the toolbox allows us to sell more of the board.

In addition, Maxim gives us a good power franchise really in the vertical space. LTC brought us a standard product portfolio. And if you think back to that second or third chart I showed with the different end markets, the industrial versus the verticals, LTC fits in really well on that light blue broad market industrial business and Maxim fits in very well on those verticals. And on a combined basis, where we're \$2 billion of power that is still meaningfully below the market leader in size of the power franchise. So we believe that there's still going to be plenty of room for us to grow share and use that combination to drive high performance.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And what about in terms of distribution strategy and the ability to drive some synergy there? I mean there's different strategies within Analog. TI for example, has really kind of gone all on their own. Maxim was probably more to the other side, a little more in distribution, and you guys are maybe a bit more in the middle, maybe leaning towards doing more on your own of late. Could you describe that? And is there opportunity within what you're doing forth with Maxim?

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**Vincent T. Roche** - *Analog Devices, Inc. - President, CEO & Director*

Sure. Sure. I would say there's still work to be done in that area. But certainly, today, distributors are very important part of ADI's go-to-market model. And certainly, for the foreseeable future, we don't see that changing. There's obviously going to be some rationalization because there were -- we do some customers direct. And as those customers get bigger because we've added Maxim's revenue into the base, there may be more customers that we can take direct. But certainly, the long chain of -- the long tail of customers also gets longer when you add in Maxim's business as well.

So this -- these will still be a very important part of ADI, but certainly, there will be some level of rejiggering that I think we're going to work through.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And we're almost at a time. I'll ask one more. Unfortunately, our Q&A pool was a little light today, but hopefully, I took up the load. But it's about the margin structure, the margin structure post Maxim and where are you seeing long term the company going?

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**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Yes. The -- our model remains. With the Maxim combination, we're still committed to industry-leading margins. So it's 70% plus for gross margins being able to drive north of 40% or operating margins was a goal of driving that free cash flow margin up to that 40% over time and really where that comes from is revenue leverage. By driving that a top line being able to capture more opportunity, more share of wallet from our customers and leveraging that R&D spend. So that great 70% gross margin drop-through falls through to a creed on cash flow.

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**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Fantastic. All right. Well, I think we're out of time, but it was really a great discussion. Always good to see you guys. And we look forward to seeing you in a sunnier climate next year.

**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Look forward to seeing in Orlando next year.

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

All right. Prashanth, Mike, thanks for your time.

**Prashanth Mahendra-Rajah** - *Analog Devices, Inc. - Senior VP of Finance & CFO*

Thanks, guys.

**Michael C. Lucarelli** - *Analog Devices, Inc. - Senior Director of IR*

Thanks, guys.

**Christopher Caso** - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Thanks, everyone.

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