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David A. Zinsner – Chief Financial Officer & Vice President, Finance, Analog Devices, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, my name is Rachel, and I will be your conference facilitator. At this time, I would like to welcome everyone to the Analog Devices First Quarter Fiscal Year 2014 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the opening remarks, there will be a question-and-answer period. [Operator Instructions] Thank you.

Mr. Husain, you may begin your conference.

Ali Husain, Director of Investor Relations

Thanks, Rachel, and good afternoon, everyone. This is Ali Husain, Director of Investor Relations. Thank you for joining our first quarter 2014 earnings call. With me today are Vincent Roche, ADI's President and CEO; Dave Zinsner, ADI's Vice President of Finance and CFO; and Maria Tagliaferro, Director of Corporate Communications.

During the first part of today's call, Vince and Dave will present our first quarter results and our outlook for the second quarter, and the rest of the call will be dedicated to Q&A. If you missed our press release, you can find it and all related schedules on ADI's Investor Relations website at investor.analog.com. Today's conference call can also be accessed from our investor page, and a replay of today's call will be available within two hours of the call's completion. During today's call, we may refer to non-GAAP financial measures that have been adjusted for certain non-recurring items in order to provide investors with useful information regarding our results. We've included reconciliations of these non-GAAP measures to their most directly comparable GAAP measures in today's earnings release, which is posted on our Investor Relations website.

Before we begin today's call, I'd like to review the Safe Harbor statement. Please note that the information we are about to discuss includes forward-looking statements intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act. These forward-looking statements include risks and uncertainties, including, but not limited to those described in our Form 10-Q filed earlier today. Our actual results could differ materially from the forward-looking information that's provided on this call. Subsequent events and developments may cause our outlook to change and we do not undertake any obligation to update the forward-looking statements made by us today. Therefore, this conference call will include time-sensitive information that may be accurate only as of the date of the live broadcast which is February 18, 2014.

So now, I'll turn the call over to Vincent Roche, ADI's President and CEO, for his opening remarks.

Vincent T. Roche, President, Chief Executive Officer & Director

Thanks, Ali, and hello, everybody. Thanks for joining our call today. As you've seen from our press release, revenue in the first quarter was $628 million, which was down 7% from the previous quarter, but up 1% from the same period last year and at the midpoint of our guidance that we provided. Excluding the microphone product line, which we divested in the fourth quarter, first quarter revenue actually grew 5% year-over-year. Diluted earnings per share excluding special items was $0.49 and slightly better than the midpoint of the guidance we provided last quarter.

Overall, the first quarter of fiscal 2014 unfolded about as we had expected. We saw some order weakness around the holiday periods when many of our customers tapered their operations, but starting in January, order rates began to improve, led by the industrial, communications, and automotive markets and we ended the quarter with a book-to-bill that was above one.

In addition, the feedback we have been getting from our largest customers suggests that they are more optimistic about their growth prospects for 2014. This feedback, coupled with the strong order momentum we are thus far seeing, gives us some measure of confidence that the improved sales performance we experienced in the second half of fiscal 2013 can sustain through this year, 2014.

Now, turning to our performance by end market during the first quarter, as expected, sales were flat to down sequentially across all our major end markets, but were largely up on a year-over-year basis. Our all-important industrial business performed in line with expectations, declining 7% sequentially, primarily as a result of fewer production days of customers in our first quarter. A number of holidays fell into our first quarter including this year, the beginning of the Lunar New Year in Asia. On a year-over-year basis, our industrial business grew about 3%. Now, while the macroeconomic data points are mixed, lean channel inventories and increased confidence at our largest industrial customers are both very positive signs for this more than $1 billion highly diversified franchise going forward.

In automotive, revenue decreased in line with our expectations and this market made up 20% of our overall sales. Sales in this sector decreased 5% sequentially as manufacturers in North America and Europe took seasonal production breaks. Each of our focus applications within this sector exhibited modest sequential declines. On a year-on-year basis, our automotive business grew 15%, which was the fourth consecutive quarter of year-over-year revenue increases as we continue to grow in content and gain share in this market across all geographies. Also we are collaborating with innovative TAR brands and their Tier 1 suppliers worldwide to develop safer, smarter, more fuel efficient vehicles, and together we are applying signal processing technology to make each generation of design better than the one before.

Revenue from communications infrastructure customers was approximately flat sequentially but was up 11% on a year-on-year basis and represented 22% of our sales in the first quarter. This sequential revenue performance was a very good result in what is typically a seasonally weaker period for our communications business.

During the first quarter, the wireless infrastructure business was up slightly and the wire line business decreased marginally as we had expected. Sales to our wireless infrastructure customers were driven by TD-LTE base station deployments in China and the beginning of U.S. 4G LTE network densification, which together with expected deployments in Europe and emerging regions should benefit our communications infrastructure segment during 2014. With the proliferation of more and more forward 4G-enabled devices hungry for bandwidth and running on strange networks, operators are increasing investments in LTE systems, and they are benefiting from increasing per user revenue and service differentiation. In aggregate, the industrial, automotive and communications markets together made up 88% of our total sales in the first quarter.

And finally, our consumer business, which was 12% of sales in the first quarter decreased sequentially in line with normal seasonal patterns and year-over-year as a result of the sale of the microphone product line. Portables, digital imaging and prosumer audio/video all declined.

So now, I'll turn it over to Dave, who will take you through some of the details of our financial results. And Dave will also provide more color on our recently announced dividend increase and share buyback authorization.

David A. Zinsner, Chief Financial Officer & Vice President, Finance

Thanks, Vince, and good afternoon, everyone. As Vince mentioned, revenue in the first quarter was $628 million, which was down 7% sequentially and up 1% year-over-year. Excluding the microphone business, which we divested, revenue was up 5% compared to the same period last year. Gross margin was 65.1%, which, as you know, was better than our guidance.

Inventory on a dollars basis increased $6.6 million and days of inventory increased to 121 days as distributors managed inventory in advance of the Lunar New Year and as we positioned inventory for strong sequential growth in the second quarter. Inventory levels remain in good control. Compared to the same quarter in the prior year, first quarter 2014 inventory was lower by $17 million, or 6%, and utilization in the mid 60s was higher than the low 50s utilization rate in the prior year. Our plan for the second quarter is to increase our utilization levels to the low to mid 70s, which on higher expected sales, should decrease our days of inventory. Inventory and distribution on a dollars basis was lower than in the prior quarter and on a week's basis was about 7.5 weeks.

During the first quarter, we recorded a $2.7 million restructuring charge as we continued to identify opportunities and redirect resources to the areas we believe have better returns. Excluding this charge, operating expenses were $226.8 million, which was down $2.4 million from the prior quarter.

Excluding special items, operating profits before tax were $182 million, or 29% of sales, which was down 280 basis points from the prior quarter and up over 200 basis points from the same quarter in the prior year. Other expense of approximately $4 million in the first quarter represents the ongoing run rate of our net interest expense at current debt levels.

Our first quarter tax rate was approximately 13%, which we expect will be our tax rate for the remainder of fiscal 2014. Diluted earnings per share, excluding the restructuring charge, was $0.49 and slightly ahead of the midpoint of our earlier guidance. Cash flow in the first quarter continued to be strong. We generated 25% of our revenue or $157 million in operating cash flow. Capital expenditures were $48 million, resulting in free cash flow of $109 million or 17% of sales.

Our 2014 plan is for capital spending to be approximately $170 million of which about two-thirds relates to ongoing capital spend and about a third for new facilities. Our cash and short-term investment balance increased by about $18 million during the first quarter and now stands at approximately $4.7 billion, with approximately $1.2 billion available domestically.

At the end of the first quarter, we had approximately $870 million in debt outstanding, resulting in a net cash position of $3.8 billion.

So now, I want to take a moment to talk about our capital allocation strategy and reiterate our commitment to returning 80% of our free cash flow to shareholders. In line with our capital allocations strategy, during the quarter, we repurchased 1.8 million shares or $89 million of our stock and distributed $106 million in dividends to our shareholders.

In addition, our board of directors approved a 9% increase in the quarterly dividend to $0.37 per share, which is payable March 11, 2014. And they also increased the authorization under our stock repurchase program to $1 billion.

This capital allocation strategy, coupled with strong earnings growth, will continue to drive our returns to shareholders higher.

So now, I'll turn the call back over to Vince, who will discuss ADI's outlook for next quarter.

Vincent T. Roche, President, Chief Executive Officer & Director

Thanks, Dave. While we started the second quarter with solid bookings momentum, we expect industrial, automotive and communications infrastructure to grow and for consumer to be about flat to the first quarter. In the industrial market, we anticipate a seasonal increase in sales and expect all areas within industrial to grow.

After the seasonal lull in the first quarter, automotive sales are expected to increase with growth coming from demand for new vehicles in North America and China, enhanced by a strengthening European market. The accelerated build-out of TD-LTE in China in combination with continuing 4G network densification activities in the U.S., along with anticipated improvement in the CapEx environments in Europe is expected to yield a strong second quarter for our communications infrastructure business. Overall, we are planning for revenue to be in the range of $660 million to $680 million of approximately 5% to 8%. Gross margin should be up between 50 basis points and 100 basis points on higher utilization and a continued favorable mix.

While utilization is expected to increase in the second quarter compared to the first, it will still remain in the low-to-mid 70s, which indicates that we still have significant gross margin leverage as sales improve in future quarters and as utilization expands.

We estimate that operating expenses will grow approximately 2% sequentially, well below the sequential sales growth we expect to achieve in the second quarter. Based on these estimates, and excluding any one-time items, diluted earnings are planned to be in the range of $0.54 to $0.58 in our second quarter.

So the short-term looks good and the long-term looks even brighter for ADI. Over the past several years, we have undergone a successful strategy shift intensifying our focus on industrial, automotive and communications infrastructure while maintaining our commitment to build the world's best signal processing technologies.

Customers tell me time and again that they need ADI to help them solve their signal processing systems challenges. And as cyclical and secular trends continue to improve, we are ready. We have continued to focus investments in line with our strategy. We continue to control inventory and operating expenses and we are using our cash generation capacity to enhance total shareholder returns.

We are very excited about the future and we will continue to invest, innovate and deliver for our customers, our employees and for our shareholders. Thank you.

Ali Husain, Director of Investor Relations

Thank you, Vince. I'd like to remind everyone that during today's Q&A period, please limit yourself to one question so that we can get to everyone on the line. We plan to run today's call until 6:00 p.m. Eastern. So in case, time remains at the end, we'll keep the lines open and give you an opportunity to ask another question.

So with all that, operator, we can now start taking questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question is from Aashish Rao from Bank of America.

<Q – Aashish Rao – Bank of America Merrill Lynch>: Hi, thanks for taking my question. Dave, a question on the capital allocation, you've talked about getting to 80% of free cash flow return. And with the dividend increase, that could account for 60% or so. Do you think the pace of buybacks will be sufficient to offset dilution from stock options and a rising share price? Any color on how we should think about [ph] the thinking that when (16:30) buybacks versus dividends?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. So that clearly is part of a complex goal, is to keep the dilution at a minimum for the option and so I do think roughly 60% plus or minus comes from the dividend and the rest comes from buyback that should be enough to offset the dilution although if the stock were really to ramp, obviously, that might not be the case. But I don't think anybody will complain too much.

<Q – Aashish Rao – Bank of America Merrill Lynch>: Okay, thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah.

<A – Ali Husain – Analog Devices, Inc.>: Thanks. And we'll get to the next question, please.

Operator: Your next question is from Romit Shah from Nomura.

<Q – Romit Shah – Nomura Securities International, Inc.>: Thanks a lot and congratulations on a good quarter. Dave, just on gross margin, the guidance for April to me seems ultraconservative, just given the strong sales growth you're forecasting, better utilization and better mix. Can you just walk us through what maybe some potential offsets?

And then as a follow-up, Vince, I was hoping you could talk about the power management business for a second. It's still hovering around 4% to 5% of sales. I know this question comes up from time-to-time, but I'm just surprised at the size of the business, just given how complementary it is to signal path where you guys dominate. And given that the cash balance is now approaching $5 billion, I'm wondering if you guys are considering potential acquisition to boost your presence here. Thank you.

<A – Dave Zinsner – Analog Devices, Inc.>: So, Romit snuck in two; good job for him. Okay, so anyway – so on the gross margin side, the high-end of the range is clearly where everything kind of works in our favor, the mix is a little bit in our favor. Although we expect most of our businesses to be up next quarter, so there's not a ton of like mixed differential, but definitely we're going to crank up utilization a bit.

Although I would say we are being a little bit conservative around cranking it up just to make sure that we guide ourselves into what potentially could be an improving situation over the rest of the year. There's always a chance we could beat the high-end of the range. I say the conservatism for us is really around whether we take a little bit more in terms of inventory reserves in the quarter and that would kind of mute a little bit of the benefit we get on the factory utilization side to bring it down. But gross margin is going to be up. There's probably almost no question about that. It's probably just a matter of magnitude. We thought that between 50 basis points to 100 basis points was a pretty decent guide and it could potentially be better depending on how things go. And the second part of the question I think is you, Vince.

<A – Vince Roche – Analog Devices, Inc.>: Okay. Romit, on the question of power management, so we are very much signal processing-focused. That's the essence of ADI's business. And over the last number of years, we have been re-steering our R&D into the market and the technology that we think are most important to be able to meet our growth goals and profitability goals over the long-term.

So we actually have two businesses in power management. One is an area that has a lot of penetration in areas like communications infrastructure where we do hot-swapping sequencing and so on, so forth. And we have a classical capability in linear regulation, for example. But we use that technology now primarily as a supplement to our core signal chain activities. And also we're using the capabilities that we have in that space in that power regulation area to enhance many of the new signal processing technologies that we're developing on very, very fine lithography process technologies.

So, it's really – power, for us, is really a core capability that we use to strengthen our signal chains and to attach to our core products.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Romit, and I think we'll go to our next question.

Operator: Your next question is from Christopher Danely from JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. Probably a question for Vince. Hey, Vince, you gave some guidance by end-market for this quarter. Can you just give us your thoughts on how you expect the big three end-markets to trend throughout the year and maybe add in a little commentary just on how you feel right now versus how you felt a year ago at the beginning of the year?

<A – Vince Roche – Analog Devices, Inc.>: Yeah. So I think looking out, it's still – there are still uncertain signs, I think, when you look at many of the economic indicators, but what we know at this point in time is that we've got good bookings momentum. And from my own discussions with several of our customers across the globe in areas like communications infrastructure, automotive, industrial, I'd say the sentiment, generally speaking, is better. For example, industrial customers believe that there's an upgrade cycle coming in manufacturing process control equipment. And so I think the sentiment is certainly better. My own belief is that there is an improved CapEx cycle on its way, even outside of communications infrastructure and that we will see the benefit of that during the year. But still visibility is quite short. Lead times are short. And all we can speak to are the facts that we have at our command. So my own sense is that all three of the big areas that now contribute virtually 90% of the company's revenue will see growth throughout the year here as it unfolds.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Chris. We'll move on to the next question, please.

Operator: Your next question is from Blayne Curtis from Barclays.

<Q – Blayne Curtis – Barclays Capital, Inc.>: Hey, good afternoon, guys. Thanks for taking my question. Maybe just from a high level if you could talk about, it seems like from your commentary maybe comm is the strongest segment for your guide. One, just make sure if that's correct. And if two, do you talk about – a lot of people noted that they saw a pickup in January in orders. I think you alluded to that you saw some tedious strength in January but just can you talk about the magnitude of the order and how you see that unfolding this year? And then is that business up double digits in April? Thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. So I'll start and, Vince, probably you can add some color. I would tell you that this quarter, communications – this is the first quarter, communications did surprise us to the positive. We did see momentum that was stronger than we expected in the month of January. We do expect it to be up next quarter, although I'd say all three of our kind of major focus areas within the business are all going to be up and potentially even industrial could do better because it tends to be seasonally strong.

From an orders perspective, just in general for the company, we had pretty good momentum through the quarter outside of just three different areas where we normally have weakness: the end of November where we have Thanksgiving, the end of December where we have Christmas, and then the Lunar New Year, which we start to see. But absent that, we have pretty good momentum across the business. Certainly, we had it in the communication space really beginning in the month of January and continuing into February. So this is a good sign. We do think that this 4G build-out in China is upon us and we're seeing some good momentum because of that. And hopefully, it's the beginning of a pretty significant increase in capacity and bandwidth across a number of different areas beyond just China.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, just a little bit more color to what Dave has said. The infrastructure business is notoriously lumpy. So my own sense is what we'll see is during the course of the year here, a lot more CapEx being spent to roll out 4G systems on a global basis, not just China. And perhaps China will be – it will be the tail really of the first half of the year and I'm expecting during – as the year unfolds here that we'll see the continued build-out of the densification of the American 4G network as the demand for 4G devices continues to increase, and the appetite for data continues to explode here. And Europe requires an upgrade, I think that's well-known. And again, my sense there is that as the year unfolds, Europe will start to elevate in terms of demand and it will be very much 4G-related as well. So we are in a good position as a company because we've invested heavily over the past four or five years to make sure that we've got the underlying technologies to be the dominant player in the radio system.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Blayne. And we'll move on to our next question, operator.

Operator: Your next question is from Ross Seymore from Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys, kind of a bigger picture question for you. If I look at your revenues in calendar 2013, excluding the consumer space, you guys grew pretty much in line with your peers and that consumer space has been down for, I believe, three years running. I know you sold off part of the sensor business, et cetera, but what are the strategic options for that consumer business and do you think that's going to continue to be a headwind for overall ADI revenue growth going forward?

<A – Vince Roche – Analog Devices, Inc.>: Well, we've made no secret of it, Ross, that we've been re-steering our investments into B2B applications primarily over the last four or five years and just given the development cycles for those particular products and those particular market categories, and the adoption cycles, it just takes time in the B2B space. So my sense is over the next year or two years, we'll start to see some significant tailwinds in terms of the product cycles in automotive, infrastructure, and the industrial market.

Now consumer is an area where we've been picking our spots very, very carefully. We've purposefully decided that there are parts of portable that are of big interest to the company in terms of bringing sensing and signal processing technology to play. And while all that's been happening, we've taken our R&D percentage up five or six years ago from 40% of the entire R&D budget going to consumer, to a much, much smaller number right now. So I think what consumer has given us is very much a headwind over the last couple of years, in fact, over the last five years we've taken about a quarter of a billion dollars of our top-line out of the consumer space.

But my sense is now the investment portfolio targeted the B2B space largely and the spots that we've picked in consumer will stand the company in good stead. So I think the headwind that has been consumer will be behind us in the next year or thereabouts and we will start to see the tailwind that is the B2B space.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Ross. And we'll move on to our next question.

Operator: Your next question is from Steve Smigie from Raymond James.

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Great. Thanks a lot, guys. I was hoping you could talk in some more detail about your MEMS business, specifically what sort of growth opportunity you see in that and could you break out a little bit, is it for that growth is it more likely to show up in, say, industrial versus auto?

<A – Vince Roche – Analog Devices, Inc.>: Yeah. Well, we've rebuilt the franchise of MEMS in the company around the automotive, the airbag, ignition applications, and you know what we're seeing more and more now is opportunity in the industrial area. So we continue to make automotive the primary consumer of R&D, but we've also now begun to diversify into healthcare and industrial applications into things like monitoring, for example, for healthcare and also areas like vibration monitoring and industrial plants and equipment.

So our sense is we've sequentially over the last three or four years increased every year the R&D spend in the MEMS business, given our confidence in that technology and its value to ADI over the long-term.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Steve. We'll go to our next question.

Operator: Your next question is from Craig Hettenbach from Morgan Stanley.

<Q – Craig Hettenbach – Morgan Stanley & Co. LLC>: Yes, thank you. Vince, just following up on the positive customer feedback, I think you had alluded to that last quarter. Can you just talk about from Q1 into Q2, has that kind of changed and has strengthened a bit and any other anecdotes given that you did say macro is still mixed yet seems customers are a little more positive?

<A – Vince Roche – Analog Devices, Inc.>: I think if you take a longer time window, I'd say the second half of 2013 saw a distinctly different positive sentiment, let's say, a level of positive sentiment compared to the first half. And I think that's continued. I think people are on the margins, our customers are more confident and their customers are more confident about the macro situation, and I think what I've seen through the second half of 2013 has continued in terms of order momentum as well as positive sentiment.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Craig. And we'll move on to our next question.

Operator: Your next question is from John Pitzer from Credit Suisse.

<A – Vince Roche – Analog Devices, Inc.>: John, are you there?

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yes. You guys there?

<A – Vince Roche – Analog Devices, Inc.>: Yep, [indiscernible] (30:52) we got you.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Appreciate it, guys. Dave, I want to go back to Romit's question just on gross margins. Given that consumer is flat into April, it sounds like Comms' infrastructure is a little bit stronger than the midpoint and utilization going up. Your drop through is good, but it's still kind of below your average. Is there anything that I'm missing? Is the utilization benefit that you're getting in April really flowing through to July? And how should I think about incremental margins from these levels?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, it could. I mean the reason it gets a little bit hedged is because we may not get the full benefit in that we might take some inventory reserves. And that could drive the margins a little bit lower. It's somewhat an anomalous moment of a little bit of a reset of the inventory levels and so that will happen for one quarter and then not repeat itself after that. That would be the only reason that it wouldn't hedge.

I would tell you that virtually every end market – we don't have the kind of disparity of our gross margins between the different end markets. They are almost all like very high. You think of consumer, and I know a lot of times you have a tendency to look at that as being a really low margin business. But for us, because of the quality of our products and where we target them, the margins are actually very good in that space. So there is not a big mix shift like you get in other companies depending on those end markets. They are all really good and they all generate high gross margins. So mix is not quite as big a driver for us. It's really – the bigger driver would be the utilization levels and things that we're doing to improve gross margins over time.

And the utilization levels, depending on whether we hit them, the low end of our utilization guidance or the high end of our utilization guidance will probably mostly determine whether we are up 50 basis points to 100 basis points.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, John. And we'll move on to our next question.

Operator: Your next question is from Craig Ellis from B. Riley.

<Q – Craig Ellis – B. Riley & Co. LLC>: Thanks for taking the question and it's a follow-up to John's, just on the gross margin remarks that you had, Dave. When I look at the trajectory of gross margin off of the guidance relative to revenues and look back at historic peak levels, it looks like your gross margins are tracking a little bit better than revenues to get back to past peaks. So as we look at that, how much of that is either intra or intersegment mixed dynamics versus any other initiative that the company might have maybe around pricing or other factors? And where are we in those initiatives? How much is left to go?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. Again, mix doesn't really have a tremendous impact, maybe 20 basis points or 30 basis points plus or minus. I think the bigger driver of kind of the incremental benefit we're getting off gross margins this year versus last year has been a lot more disciplined around both pricing and cost and I think I've talked about in the past that we have a group within the company that is identifying opportunity both on price and cost that could incrementally improve gross margins and we've had tremendous success. I report fairly regularly to Vince on it and I have been really impressed with the team's ability to find little nuggets of opportunity and get better pricing and get better costs over time. So I think that has been a big driver. One thing that we talk a lot about the gross margin leverage, but I think the EPS leverage is going to be really good this quarter. So I just do want to highlight the fact that we are going to get really good drop through on the earnings side and we're pretty happy with the performance there.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Craig. And we'll move on to our next question.

Operator: Your next question is from Kulin Patel from BMO Capital Markets.

<Q – Kulin Patel – BMO Capital Markets (United States)>: Hi. This is Kulin Patel filling in for Ambrish. I had a question on your automated test equipment business. I understand that business is relatively large and it would be soft last year. How should we think about that cycle from that business? Is that business picking up in 2014? Thanks.

<A – Vince Roche – Analog Devices, Inc.>: Well, first off, the ATE business for ADI is not that big. It's part of our instrumentation business, which is a significant chunk of the overall industrial business. But ATE for ADI is – it's a very lumpy business. So it modulates in terms of its scale relative to the total. But it's a relatively small amount of business. But it has been – really over the last few years, it's all been driven by mobile products. And as the cycles of mobile products go, so will go the ATE business these days to a large extent.

So very hard to read at this point in time, extremely lumpy, but there will be cycles during the year here in terms of things like, obviously, smartphone platforms, wearable devices, and I believe those dynamics will drive the ATE business. So I think I just want to make it clear that it isn't a very large part of ADI's business. Our instrumentation business is really a very diversified group of customers in the many thousands across the globe who represent the classical long tail of ADI.

<A – Ali Husain – Analog Devices, Inc.>: Thank you. And we'll move on to our next question.

Operator: Your next question is from Stephen Chin from UBS.

<Q – Stephen Chin – UBS Securities LLC>: Hi. Thanks for taking my question. Just given your strong net cash position, I wanted to get some thoughts on the strategy of building versus buying new products. An example would be the investments in the portables market currently at least [ph] practically (36:52) to that end market. I was wondering, any thoughts on other quality IP that might be out there and the asset values out there today relative to time to market because I understand your investments in the those end markets might take some time to generate meaningful revenues?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, I mean I think we – I'll start. I'm sure Vince has an opinion on this as well. But since I'm doing M&A, I probably should start with it. We do have a strategy in place to do acquisitions, and actually it's been around for quite some time actually, although I recently have started to take more responsibility over.

And I think for the most part, we're looking for technologies, IP as you point out, that tucked in within ADI really brings greater value to our customers. Those generally are going to be very small acquisitions as they have been in the past although there could be one that's kind of a little bit larger than small over time. And that is the use of some of the cash. The rest, of course, is for funding the dividend and the buyback as well. So we are not trying to accumulate a ton of cash. We do have a structure in place that does generate a fair amount of cash offshore, which that has to be used for things other than dividends and buybacks for the most part. So in that case, we do look for opportunities to utilize some of that cash to drive growth a little bit further and to enhance our portfolio.

<A – Ali Husain – Analog Devices, Inc.>: Thank you, Stephen. We'll move to our next question.

Operator: Your next question is from Terence Whalen from Citi.

<Q>: Hi, this is [indiscernible] (38:43) for Terence and thanks for taking my question. Within your consumer business, can you talk about what percentage of it is still DSP camera-related and if those deals are still contracting or have stabilized?

<A – Dave Zinsner – Analog Devices, Inc.>: Camera is a relatively small percentage of the total and a relatively small percentage of the consumer business. We think we are at a point where it's not in contraction mode. We have kind of leveled off here. There is still a good opportunity for us, particularly in the high performance part of the market and that's where most of our demand is today.

<A – Ali Husain – Analog Devices, Inc.>: Thanks [indiscernible] (39:18). And we'll move on to the next question.

Operator: Your next question is from Stacy Rasgon from Sanford. Stacy, your line is open.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hello, can you hear me?

<A – Vince Roche – Analog Devices, Inc.>: Yep, hear you fine. Yep.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Great. Thank you, guys. Over the last few quarters, you had complained a little bit that your buyback algorithm was too conservative and that you would fix it and obviously you're buying back a bit more stock now and you raised the authorization. But can you talk a little bit about the kind of changes that you've made to that algorithm in order to fix it and I guess what role your stock price today actually plays in determining the amount of the buyback in that new algorithm?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. Well, we basically – we use pretty much a rolling average. It was a longer term rolling average and we've created, I guess, a little bit more of a, call it, maybe complex would be the way to describe it. But different approach where we use some longer-term and some shorter term rolling averages so that when it weakens kind of like as short-term weakness to it, the buyback initiates as well. And that was the – we tuned that, I think, in October, I believe or sometime around there or November. And this quarter, we did have – it was generally strong, but it did have these moments of weakness in it. And when it had these moments of weakness, the buyback executed.

So it's difficult to predict what will happen. Obviously, we want the stock price to go solidly up and to the right. But to the extent it doesn't do that and it has some volatility to it, I think we'll do a better job or accumulate more in terms of buyback activity over time. And we talked to the board yesterday about that and that we thought that the buyback activity would ramp up a little bit more than it has in the past. And by virtue of that, we felt like we needed to get the authorization back up to a billion dollars as a matter of a housekeeping item and the board was very supportive of that and agreed with our approach.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Stacy. And we'll move on to our next question.

Operator: Your next question is from William Stein from SunTrust.

<Q – Will Stein – SunTrust Robinson Humphrey>: Thanks for taking my question. You've mentioned earlier that you had a book-to-bill above one and that some of your customers had expressed more optimism, it sounded like. And I wondered if that was concentrated in any particular end market to the degree that it is the comms infrastructure end market, which is, I think, how it came off to me. I'm wondering if you can comment on your ability to predict, forecast revenue in that end market relative to the very short lead times that even your customers have on to their customers?

<A – Vince Roche – Analog Devices, Inc.>: Well, I think it's true to say that the book-to-bill has strength across the board across all sectors. Also our distributors, our largest distributors have also expressed the fact that they have seen very, very positive book to bills. Their orders in us are quite strong and the largest part of our industrial business actually moves through the channel. So the strength is across the board at this point in time.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Will. We'll move on to our next question.

Operator: Your next question is from Jim Covello from Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great, guys. Thanks so much. Follow-up to Ross's question from a while back. The question in my mind, how many more quarters understanding the real target is B2B and it takes a little while to get that ramped up? How many more quarters do you think that we'll see the wind-down in consumers? Is there any way to quantify that from a time basis?

<A – Vince Roche – Analog Devices, Inc.>: I believe that during this year – during this fiscal year, we're starting to bottom out in that business now. So, as Dave said, we've got an imaging business which is beginning to find its true level. We've also got a prosumer business which is a combination of many smaller customers buying many, many, many different products, which is a very stable business for the company. So my sense is the worst of the headwinds are behind us and I believe during this year, we'll find our kind of organic level of build of that.

<A – Dave Zinsner – Analog Devices, Inc.>: And one thing we do have, at least from a pipeline perspective, it's somewhat a matter of timing and how good those platforms take off, but we've had some very good design activity in the portable space, which is the area we are primarily focused on with good proprietary technology that we think is sustainable over multiple generations. It's somewhat a matter of when those platforms take off and when they get introduced. Some of that might happen this year. Some of that might happen next year. But I think that the momentum has certainly shifted towards one where we're starting to focus on the growth side of the consumer story and away from the kind of contraction part of the story.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Jim, and move on to our next question.

Operator: Your next question is from Ian Ing from MKM Partners.

<Q – Ian Ing – MKM Partners LLC>: Yeah, thanks for taking my question. For Vincent on industrial, it looks like the April seg – for April, that segment's still going to be more than 20% below the prior peaks in 2011. So how much of the remaining recovery is going to be in this classic inventory cycle and how much is new demand opportunities, things like equipment or manufacturing process control?

<A – Vince Roche – Analog Devices, Inc.>: Well, I must say I can't quantify that for you, but inventory is very lean there. So I think what we're seeing at this point in time is true demand. What we saw in 2011, of course, was a massive supply shortage and an overreaction in the market. So at least we don't have that to deal with this time. I believe what we're seeing is real demand. So I think the basis in which we're making our predictions is much steadier than it was two, three, four years ago.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Ian. We'll move on to our next question.

Operator: Your next question is from Doug Freedman from RBC Capital Markets.

<Q – Doug Freedman – RBC Capital Markets LLC>: Hi, guys, thanks for taking my question. Could you talk to us a little bit about what you're seeing in the pricing environment out there in the marketplace right now?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, I think for us, pricing – we're of course in the high performance side of the market, which is – has a lot more stability to it than the general analog space. And I know, of course, in the lower more general purpose oriented part of the market, they see massive ASP erosions. But I think partly because we have good proprietary technology, it's generally on the advanced side, so we don't see a lot of competitors. It's generally in areas with long lifecycles so there isn't a lot of price competition, generally lower volumes so that also helps. But if I can make one advertisement for my little general gross margin counsel is that I do think that we have made ourselves a lot of improvements in how we approach pricing. We look at it more holistically. We have better analytics around it. We even have a budget around how we approach pricing from year-to-year. And so I think from our standpoint, the pricing has been amazingly stable, but it's because we've done a lot of work around both on the R&D side to develop good products and on the operational side to just execute really well on pricing.

<Q – Doug Freedman – RBC Capital Markets LLC>: Great. Thanks for all the color.

<A – Dave Zinsner – Analog Devices, Inc.>: Thanks.

<A – Ali Husain – Analog Devices, Inc.>: Thanks. And we'll move on to our next question.

Operator: Your next question is from Aashish Rao from Bank of America.

<Q – Aashish Rao – Bank of America Merrill Lynch>: Hi, thanks for taking my question again. Vince, just a question on the competitive landscape in wireless infrastructure. Is TI still your primary competitor in converters for base station radios, or have you seen some other lenders? Any evidence of price cuts spring more design wins because it seems like TI has better sales growth in comms but weaker margins. So any comments would be helpful.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, I think clearly TI is our biggest competitor in the infrastructure space, albeit the approach we both take. Well, there is some overlap, of course, but the approach we both take is quite different. We are very much radio signal processing, microwave and RF focused. And that's the area where we've been investing very heavily over the last number of years in terms of building out our capabilities. We also have, by the way, a very good business with a leadership position in the optical control space, which is a space that uses, again, our precision portfolio.

So there, we have probably 50% of the markets and with a growing share incidentally. I think what's been happening in the wireless part of the business is that share has been concentrating into the two or three big suppliers and I think that's going to continue.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Aashish. Get to our next question.

Operator: Your next question is from Steve Smigie from Raymond James.

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Great. Thanks for the opportunity for a follow-up. I was just wondering on the general DSP business. Could Internet of Things potentially be a driver that gets that going to more significant rates? And if I could just sneak an extra one in, as we look at the gross margin, obviously, had pretty nice guide on revenue for a lot of companies I see that gross margin benefit – common subsequent quarters the utilization benefits inventory. So it would be fair to say maybe the July quarter we could actually get some nice benefit on the gross margin side? Thanks.

<A – Vince Roche – Analog Devices, Inc.>: So, well, the first one is an interesting question. I hadn't actually thought about the connection between IoT and DSP. But I believe that the Internet of Things, whatever it becomes, it's many things to different people. But it's largely going to be about bringing lots of real-world phenomena into the [ph] cloud brain (50:03), so to speak, and defining data patterns and building new business models around those, around the information and intelligence. Now, we're in a good position, I think, as a company to take advantage. We already play in what is emerging as the Internet of Things with industrial customers, healthcare customers, but it's really about the building blocks of sensing very ultra-low power signal processing and communication. And those are all in need of digital signal processing whether the processors we have are relevant to those signal processing tasks or not is a question. But there's a lot of digital signal processing, which leverages the skills and capabilities that we've got in this company on both analog as well as digital signal processing.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Steve, and looks like that was...

<A – Vince Roche – Analog Devices, Inc.>: Gross margins.

<A – Ali Husain – Analog Devices, Inc.>: Steve, did you have another question? Did you have a question on the gross margins, Steve?

Operator: And it seems we have no further questions at this time.

Ali Husain, Director of Investor Relations

Okay. All right. So if we have no further questions, I'd like to thank everyone for joining us here tonight and keeping good time as well. Just a reminder that our second quarter FY 2014 earnings call is scheduled for May 20, 2014, beginning at 5:00 p.m. Eastern Time. So thanks again for tuning in everyone and have a good night.

Operator: Ladies and gentlemen, this concludes today's Analog Devices conference call. You may now disconnect.