PARTICIPANTS

Corporate Participants

Ali Husain – Director of Investor Relations, Analog Devices, Inc.
Vincent T. Roche – President, Analog Devices, Inc.
David A. Zinsner – Chief Financial Officer & Vice President, Analog Devices, Inc.

Other Participants

James V. Covello – Analyst, Goldman Sachs & Co.
Terence Whalen – Analyst, Citigroup Global Markets Inc. (Broker)
Shawn R. Webster – Analyst, Macquarie Capital (USA), Inc.
Aashish Subba Rao – Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Blayne Curtis – Analyst, Barclays Capital, Inc.
William Stein – Analyst, SunTrust Robinson Humphrey
Vijay R. Rakesh – Analyst, Sterne, Agee & Leach, Inc.
Sumit Dhanda – Analyst, International Strategy & Investment Group, Inc.
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John W. Pitzer – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Stacy Aaron Rasgon – Analyst, Sanford C. Bernstein & Co. LLC
Steven Eliscu – Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Terry and I will be your conference facilitator. At this time I would like to welcome everyone to Analog Devices Second Quarter Fiscal Year 2013 Earnings Conference Call. [Operator Instructions] Thank you.

Mr. Husain, you may begin your conference.

Ali Husain, Director of Investor Relations

Great. Thanks, Terry, and good afternoon, everyone. This is Ali Husain, Director of Investor Relations. If listeners haven't yet seen our second quarter 2013 press release or our Form 10-Q, they can be found on ADI's IR website at investor.analog.com. This conference call can also be accessed from the same page.

A recording of this conference call will be available within two hours of this call's completion. It will remain available via telephone playback for two weeks and it will also be archived on our Investor Relations website. We've also updated the financial schedules on our IR website, which include the historical quarterly and annual summary P&Ls for continuing operations as well as for revenue from continuing operations by end market and product type.

Participating with me in today's call are Vincent Roche, ADI's President and CEO; David Zinsner, Vice President of Finance and CFO; and Maria Tagliaferro, Director of Corporate Communications Director.

During the first part of the call, Vince and Dave will present our second quarter 2013 results, as well as our short-term outlook. The second part of our call will be devoted to answering questions from our analysts and investor participants.

During today's call we may refer to non-GAAP financial measures that have been adjusted for certain nonrecurring items in order to provide investors with useful information regarding our results. We have included reconciliations of these non-GAAP measures to their most directly comparable GAAP measures in today's earnings release, which is posted on the IR website.

I'd ask you to please note that the information we're about to discuss includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include risks and uncertainties and our actual results could differ materially from those we will be discussing. Factors that could contribute to such differences include, but are not limited to, those described in our SEC filings including our most recent quarterly report on Form 10-Q filed earlier today.

The forward-looking information that's provided on this call represents our outlook as of today and we do not undertake any obligation to update the forward-looking statements made by us. Subsequent events and developments may cause our outlook to change. Therefore, this conference call will include time sensitive information that may be accurate only as of the date of the live broadcast, which is May 21, 2013.

And with that, I'll turn the call over to Vincent Roche, ADI'S President and CEO, for opening remarks.

Vincent T. Roche, President

Thanks, Ali, and hello, everyone. Thank you for joining our call today. Before we talk about our operating results and the outlook for the coming quarter, it is true to say that a lot has happened since the last earnings call at the end of February. Many of you sent deep condolences upon learning of Jerry Fishman's sudden passing and we thank you very much for those.

I worked beside Jerry for many years and while, of course, we all miss him greatly on a personal level, Dave and I along with our senior management team and the many talented employees of ADI will continue to do great things together.

Our employees are engaged. Our customers rely on us more and more as a preferred partner and the market opportunities for us are vast. Our business priorities remain the same. Leadership innovation in our core signal processing technologies, continuously assessing where we play, how we win and aligning our resources accordingly and emphasizing strong profitability as a measure of the quality and sustainability of our innovation. We believe that our operating performance supplemented with cash dividends and share repurchases will continue to drive strong returns for shareholders.

As you've seen from our press release, our results for the second quarter were solid. So let's take a look at what actually happened in more detail. Revenue totaled $659 million, up 6% from the previous quarter and down 2% from the same period a year ago. Diluted earnings per share excluding special items, was $0.52, up 18% from the previous quarter. Both results were at the midpoint of the guidance we had provided.

By end market, the revenue growth this quarter was led by industrial and automotive customers. Our industrial end markets, which are typically strong in the second quarter, grew 11% sequentially and made up 47% of our sales. The increase was broad-based across our regions and all major application areas within that segment but was particularly strong in instrumentation and industrial automation applications.

A significant portion of industrial revenue is serviced through our distribution partners and during the second quarter, order momentum through the channel was strong and higher than in the prior quarter. It appears that orders and shipments were in good equilibrium, as inventory in the channel remained low. But while we cannot predict with certainty regarding the short term, these order trends and low inventory levels are positive signs for our industrial business. Longer term, we are driving innovation to higher levels to ensure that ADI increases our share of the industrial markets.

Over the past two years we have been focusing more of our investments toward industrial applications where mechanical and electromechanical systems are increasingly integrating electronics to provide intelligent sensing and control, connectivity and energy efficiency which are all themes that we believe will drive growth for this broad and diverse market over the long-term.

In the automotive sector, revenue increased 14% sequentially and 3% year-over-year reflecting strength in North America and China for the auto sector and growth in worldwide luxury vehicle sales where ADI is especially well represented. This end market was 19% of our total revenue in the second quarter.

Sales increased sequentially across our focused applications in powertrain, infotainment and safety, with particular strength in active safety, advanced driver assistance systems. These systems are seeing accelerating adoption rates not only in premium vehicles but also in main stream vehicles as these new safety features become standard equipment that are due to consumer demand, or indeed government mandates.

We also experienced strong growth from start/stop powertrain applications for internal combustion engines and also battery controls for hybrid electric vehicles. These features improve fuel efficiency and reduce carbon emissions and they're also driven by growing consumer demand and government mandates.

The automotive industry premium brands are the drivers of innovation and these are the brands that have adopted our MEMS Gyroscopes, accelerometers, converters, RF, and other analog and BSP technologies.

We continue to distinguish ADI as an innovation partner and a high quality supplier with industry-leading reliability ratings. As electronic content in vehicles continues to grow, ADI is well positioned as demonstrated by our results over the last five years with our automotive business growing at a 16% CAGR while vehicle unit growth averaged a 3% CAGR over that period.

In communications infrastructure, sales were down 2% after being down 12% in the prior quarter. And this business represented 19% of our total sales in the second quarter. Communications networks both wireless and wired are transitioning to and these transitions present the strong long-term opportunity for ADI's broadband radio, optical and cable infrastructure technology.

In wireless infrastructure, the major transition everyone is watching is from 3G to 4G and TD-LTE. In wired infrastructure, new equipment with higher levels of throughputs such as 40-gigabit and 100-gigabit optical and emerging standards such as Cable DOCSIS 3.1 will form the core metro and edge networks in the future and create growth opportunities for ADI.

As our results in the last two quarters have shown, we are in the early stages of these transitions. For example, the transition to the new wireless standard happens in a couple of phases. Initially, carrier capital spending is focused on coverage more so than capacity and subscribers upgrade their devices and service agreements. But the need for increased capacity soon becomes clear as networks become overloaded and carriers find it difficult to deliver significantly higher data rates and increased capacity with their existing equipment.

Increasing capacity is highly dependent on high bandwidth, spectrum efficiency and network densification, where ADI's configurable wideband radio technology brings significant competitive advantages for our customers and in turn for the carriers.

Now in wired applications our focus is primarily a design challenge around signal integrity as well as the data path transmit and receive. Our interface clock and data recovery and power management solutions are used to control and monitor signal propagation and optical and cable infrastructure, which are being upgraded to support 40 gig plus speeds.

And finally, the consumer business was 15% of sales in the second quarter, which was down from 17% of sales in the prior quarter. We saw sequential growth in line with improving seasonality and the applications for ADI's technology has been well established over many generations, such as digital imaging and prosumer audio/video applications.

Portable devices declined sequentially but were up significantly year-over-year in line with customers' new product cycles. As we've mentioned before, there are many good opportunities ahead in portable devices and consumer audio and imaging for ADI. We continue to be highly selective in our engagements, focusing on applications where customers value our innovation and pursuing engineering challenges where we can leverage our existing core technology and make a demonstrable difference to the user experience.

So with that, I'll turn you over to Dave, who'll now take you through some of the details of our financial results.

David A. Zinsner, Chief Financial Officer & Vice President

Thanks, Vince, and good afternoon, everyone. As Vince mentioned, second quarter revenue increased 6% sequentially and declined 2% year-over-year to $659 million. Our gross margin was 64% in the second quarter. This was up from 62.7% in the first quarter due to higher factory utilization and lower manufacturing costs. As has been the case now for several quarter we again carefully manage production levels in our facilities. Utilization increased from the mid-50s in the first quarter to approximately 60% in the second quarter while our inventory declined on our balance sheet by $8 million. Inventory on our balance sheet on a dollars basis is now at its lowest level in five quarters.

On a day's basis, inventory was down from 121 days in the prior quarter, to 115 days in the second quarter, in good position relative to our model. Our plan is to increase utilization in the third quarter to the low 50s. This should keep our days of inventory approximately flat to second quarter levels. Inventory distribution on a dollars basis was approximately flat in the second quarter compared to the prior quarter, but inventories distribution on a day's basis was lower than the prior quarter by about half a week at 7.5 weeks.

Lead times for our direct OEM customers remain similar to last quarter and are in good control with virtually all of our shipments to OEMs occurring within four weeks. Total end customer orders, which includes both OEM and distribution increased in the second quarter compared to the first quarter, and our book-to-bill was slightly above one. On a regional basis, orders improved across all regions with particular strengths in North America and Europe.

Overall order patterns improved throughout the quarter. Regarding operating expenses, we recorded approximately $6 million of additional expense in the second quarter related to the one time accelerated vesting of stock-based compensation. Excluding this special item, operating expenses were $224.5 million compared to about $223 million in the prior quarter, which as a percent of revenue is 170 basis point improvement. We continue to be very watchful of operating expenses and plan on reducing operating expense ratios by constraining expense growth to rates that are less than our sales growth rates in the coming quarters.

Operating profits before tax for the second quarter excluding this one-time expense were $197.7 million or 30% of sales. This was about 300 basis points higher than the prior quarter's operating profits of 26.9% of sales excluding the special charge in that quarter.

Other expenses of $3.7 million in the second quarter was flat to the first quarter and reflects the ongoing run rate of our net interest expense at current debt levels. Our second quarter tax rate was 16.5% excluding one-time item, and we expect our tax rate to be at that level for the next two quarters. Diluted earnings per share of $0.52 excluding special items, was at the midpoint of our guidance.

Cash flow in the second quarter continued to be very strong. We generated 38% of our revenue or $252 million in operating cash flow. CapEx was $26 million resulting in free cash flow of $226 million or 34% of revenue.

Our cash and short-term investment balance increased about $185 million during the second quarter, and now stands at $4.2 billion with $1.2 billion available domestically. At the end of the second quarter, we had approximately $760 million in debt outstanding. Our accounts receivable balance was up $4 million versus the last quarter on higher overall shipments in the quarter and our days sales outstanding decreased to 46 days from 48 days.

Through the second quarter we returned approximately $109 million or 48% of free cash flow to our shareholders primarily through cash dividends. On May 20, our board of directors declared a cash dividend of $0.34 per outstanding share of common stock, which will be paid on June 11, 2013 to all shareholders of record at the close of business on May 31, 2013. At the current stock price, this dividend represents an annual yield of approximately 3%.

Let me take a moment to talk about our long-term shareholder return strategy. Since 2004, we have paid a quarterly dividend and increased it ten times over that period. In addition, we have repurchased approximately 129 million shares driving shareholder returns even higher. In total, over that period, we have returned over $6 billion to our shareholders in the form of dividends and share repurchases.

So over the last three years we have returned to shareholders an average of approximately 60% of our free cash flow. And what I'd like to say today is that over the next five years, we plan to increase that ratio to average approximately 80% through a program of both increasing dividend and disciplined buybacks. Of course quarter-to-quarter we will be above or below this but over the five years this is our new target.

In summary, the second quarter delivered good results for ADI. Our operating model turned a 6% sequential increase in revenue into an 18% sequential increase in diluted EPS at relatively low levels of utilization. We have plenty of leverage ahead, as sales increase, factory utilization improves from its current low levels and we continue to tightly control operating expenses.

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

Vincent T. Roche, President

Thanks, Dave. Our lead times continue to be short, which limits our visibility somewhat and as you know, the world economy remains uncertain. In addition, the last month of our third fiscal quarter is the July month, which can sometimes be weaker due to summer shutdowns.

Having said that, order momentum is positive and if this positive momentum continues, we are likely to see sequential revenue growth in the third quarter which could be, we believe, as much as 4%.

However, as the macro economy weakens, we could be approximately flat. Therefore, we're planning for revenue to be in the range of $655 million to $685 million. The midpoint of this range will be in line with the average third quarter growth rate we've seen over the last five years. By end market, we expect our communications, automotive and consumer businesses to remain approximately flat to second quarter levels.

We're planning for our industrial business to grow sequentially given low channel inventory and good end customer order rates. We are forecasting gross margins to increase approximately 50 basis points from the 64% we achieved in the second quarter. While factory utilization is planned to be higher in the third quarter, it will still be quite low, yet if we achieve the midpoint of our revenue guidance, we will generate more than 90% gross margin drop through on incremental sales.

Our plan is for operating expenses to be approximately $226 million, a slight increase from the prior quarter, primarily as a result of a full quarter with the annual salary increases that went into effect in April. Based on these estimates and excluding any one-time items, diluted earnings are planned to be in the range of $0.51 to $0.56 in the third quarter.

So in conclusion, we see momentum, order rates are solid and inventories are low. We are well positioned to expand margins as factory loading increases and expenses remain under tight control. And, also, to continue generating strong earnings leverage and strong free cash flow, which as Dave discussed earlier, we will use to further improve shareholder returns.

Ali Husain, Director of Investor Relations

Great. Thanks, Vince. During today's Q&A period please limit yourself to one primary question and one follow-up question. So with that operator we are now ready for questions from tonight's participants.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jim Covello with Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Thanks for taking the question. Guys, anything notable about linearity of orders in the quarter? And is there any difference in segment relative to that linearity?

<A – Dave Zinsner – Analog Devices, Inc.>: Absolutely. I think I even mentioned in the prepared remarks, actually the orders strengthened through the quarter. So that was obviously a positive sign. Clearly, industrial was stronger than the others, which is why, in Vince's outlook, he suggested that that one had the best likelihood of being up in the third quarter.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, we've also seen a little momentum in the latter part of the quarter in the communications infrastructure segment. So coupled with the industrial area, they were the two sectors that produced most momentum through the quarter, particularly in the latter part as Dave said.

<Q – Jim Covello – Goldman Sachs & Co.>: Helpful. And then any turns assumptions differences relative to previous quarters or similar kind of turns being assumed to get to the midpoint of the guidance?

<A – Dave Zinsner – Analog Devices, Inc.>: No. Jim it's – I think I've mentioned probably every quarter since I've been here, it's tough to use the turns calculation in that backlog includes orders from the distributors on us and the revenue isn't necessarily the same as it's shipped through to the end customer. But having said that, we're in a very short lead-time environment. We've been in this lead-time environment for many quarters now. I'd expect that the turns would be pretty similar to what they were in prior quarters.

<Q – Jim Covello – Goldman Sachs & Co.>: Appreciate it. Thanks, guys. Good luck.

Operator: Your next question comes from the line of Terence Whalen with Citi.

<Q – Terence Whalen – Citigroup Global Markets Inc. (Broker)>: Hi. Good afternoon. Thanks for taking the question. I wanted to drill into your capital return market a little bit more. Clearly, I think you said 80% is going to be the rate, which you target going forward. Can you provide us just your sort of qualitative context for deciding between buy back and dividend yield? And in general, what's the appropriate dividend yield or free cash flow pay out for ADI? Thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, so we generally don't look at cash for – yeah. We generally don't drive the dividend based on yield. We drive dividend based on looking at our earnings and giving out a percentage of those earnings in the form of a dividend. It just so happens that it translates into this 3% yield, although we're mindful of it. It's certainly something that we pay attention to, but it isn't the major driver of how we drive the dividend.

Our goal is – dividend is our primary means of returning cash to shareholders. We want it to continue. We want it to grow as earnings grow. And we look at the buy back as more of our opportunistic opportunities to enhance the cash going back to shareholders albeit at different intervals depending on the stock price relative to kind of historical levels. And then what was the second question, Terence? I missed that part.

<Q – Terence Whalen – Citigroup Global Markets Inc. (Broker)>: So I wanted to just understand what the tradeoff was in terms of you thinking about allocating toward dividend, but I think you may have answered that question. If I could actually ask a different follow-up question, Dave. As I look at the second half of the fiscal year and also looking at context of last year, we saw really consumer accelerate quite a bit and really out-grow industrial. I was just wondering for purposes of considering gross margin, as we look at the second half of this year, should we again expect another acceleration in consumer in the second half? Thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Well, generally, and Vince, feel free to chime in, but I think that we would normally expect and we'll just have to kind of wait and see how it goes that consumer generally has a seasonally strong fourth quarter. And so there's, at this point, no reason to expect otherwise, although it's early and we don't have any bookings yet.

What we're hoping is that also industrial continues its momentum. You know, last year, there was a bit of a redirection on the industrial business in the back half of the year as kind of overall economic sentiment started to deteriorate through the back half of the year. So industrial mix kind of came down, but we're hopeful that this is the start of recovery and we don't see that. But again, it's early.

We'll have to kind of be watchful of both. The good news is that the margins, the gross margins, if that's kind of a lead into the question, does mix change? You know, I don't think the mix changes too dramatically because all the margins in all our end markets are actually pretty good and pretty close to the corporate average. So regardless of what happens, I think we'll do a pretty good job of seeing gross margin leverage through the back half of the year, assuming conditions continue to be strong.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, to add a little color to what David said, you know, we're in the transition between 3G and 4G in wireless infrastructure. And as that gains pace, we're very well positioned as a company with good market share, a lot of good design coverage and extra bill of materials value in 4G compared to 3G. So as that starts to gather steam, which we hope is sometime in the second half of the year, albeit so far the carriers have been fairly skittish. But somewhere we believe in the fourth quarter into the early part of the coming year, we do expect to see the carriers start to accelerate the build out of their networks in terms of capacity rather than coverage. So I think that will help the margin structures and the growth overall for the company.

<A – Ali Husain – Analog Devices, Inc.>: Great. We'll get the next caller, please.

Operator: Your next question comes from the line of Shawn Webster with Macquarie.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Yeah, thank you, guys. Hey, Dave, on the new cash flow guidance on the 80% of your free cash flow, can you remind us what your normal domestic operating free cash flow is? And can you help us thread together how you get to an 80% payout over time? Because I think if I remember correctly that your domestic cash flow is something around a third. So just trying to get some clarity on that.

<A – Dave Zinsner – Analog Devices, Inc.>: It certainly can be – it's a little bit lumpy. So some quarters it can be as much as 50%. Some quarters it could be lower than 30%. What we have is we have $1.2 billion or $1.1 billion of U.S. cash. We'll certainly utilize some of that cash to ramp up the cash flow to shareholders. And then on top of that, I would expect we would be able to add leverage if necessary to augment the cash we have and the cash flow we're getting from the U.S. entity to enable us to get to the 80% level. We've stress tested this level to make sure that under different scenarios based on what happens from an economic perspective over the next five years we would still to be able to achieve the 80%. And we feel more than comfortable that we can get there.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: And no change to your longer term tax outlook in terms of percentage?

<A – Dave Zinsner – Analog Devices, Inc.>: Yes. This will not influence the tax story.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Okay. Then just another final one. On the automotive side, you had very good growth in Q2. It's flattening out in Q3. What are some of the signals you're seeing as we get into the back half of the year from the automotive end market as it relates to how you think that's going to evolve for the back half? Thank you.

<A – Vince Roche – Analog Devices, Inc.>: I think there's been brisk building of demand in the first and particularly, the second quarter. We've seen a little tapering in demand from the automotive customers. And also when we get into the summer period, you very often get just the seasonal vacation cool-down. So overall, the long-term growth, we're very, very bullish about, we're very confident about. But in the third quarter, we're just a little cautious based on immediate demand pattern.

Operator: Your next question comes from the line of Aashish Rao with Bank of America.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Thanks. A question on communications. Sales disappointed in the April quarter, and you had a couple of quarters of year-on-year growth earlier. And it seemed to have turned the corner, but now it's down again year-on-year. So first, what caused the miss in April quarter? And second, I would have assumed that the shift in CapEx towards 4G and 3G would've helped offset some of the spending sluggishness. Just wondering why hasn't that been the case in your comps business for the last 2 years to 3 years? Thanks.

<A – Vince Roche – Analog Devices, Inc.>: I think we've had over a five-year period up to our fiscal 2013 here. We had growth in our wireless business of around 9% compounded. And I think what we're seeing is a certain level of caution on the CapEx layout by the carriers, that's for sure. There's been a delay in the rollout of the next generation of the Chinese system, it's been delayed.

Europe, in general, I think has been very slow. Our growth has been largely driven by American – our OEMs who sell to the American carriers. That's been quite strong, and America's been aggressive in building out the 4G network. But largely, again, as I mentioned in the script, really just building a coverage footprint rather than densifying the network or building a lot more capacity, which is going to happen.

So we're still reliant very heavily on 3G, and I think what we expect to see is 3G will start ramping down over the next 12 months. We expect to see 4G ramp up, and at that point, I think we'll be very well positioned to take share, see growth and get back into the high single-digits, low double-digit compounded growth rates.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Got it.

<A – Vince Roche – Analog Devices, Inc.>: I think it's more – it certainly it is how the market is performing rather than our technology – certainly from a technology standpoint. From a competitive advantage standpoint, we're in better shape than we've ever been. As you know, we've been steering a lot of R&D into building the underlying technologies and the products over the last three or four years, and we're starting to see the benefits in terms of design-ins. And our engagements are stronger than they've ever been with the key OEMs. So it really is more about how the market performs than ADI.

<A – Ali Husain – Analog Devices, Inc.>: Aashish, do you have a follow-up question?

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yeah, the only one would be on automotive. I think you highlighted North America and China as being strong this quarter. And I think some of the European data points have been somewhat weaker. So just any color on what your current exposure is and how you see that changing over the next couple of years?

<A – Vince Roche – Analog Devices, Inc.>: Well, we're strong in – with all the major players, when it comes to safety, infotainment and powertrain applications, we have tremendous share in all those applications.

So my sense is our business has been largely based on strength geographically in Europe and America over the last five or seven years. We continue to gain share in these regions. But over the last couple of quarters, we've had some very good breakthroughs as well in Asia, in particular in Japan. So one of the things I think we mentioned, we've talked about it various times is that we've been very heavily focused on expanding our reach into Asia, and that's beginning to really pay dividends for the company. So again, I think it's more about how the market performs than ADI. We're in good position from customer penetration standpoint and the technologies we have are being adopted more and more into the applications that I've outlined here.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, operator. We'll get the next caller, please.

Operator: Your next question comes from the line of Blayne Curtis with Barclays.

<Q – Blayne Curtis – Barclays Capital, Inc.>: Thanks for taking my question. I just wanted to follow up more on the guidance, Vince. It seems like your commentary was – of the order book was relatively okay. You made some comments on the auto order trends falling off. Just more broadly, was it just in autos where you saw a little bit of weakness and kind of where are you adding the conservatism? Thanks.

<A – Vince Roche – Analog Devices, Inc.>: Well, we're expecting the third quarter, we're expecting momentum from the industrial business. As I said, up to now the order patterns have been strong in industrial. That gives us a lot of encouragement, and as long as those order patterns continue, as I said in the script, we believe that our revenues in infrastructure, automotive and consumer will be relatively flat in the third quarter. So I think if the industrial order patterns continue, I would feel bullish about hitting the upper end of the range that we've presented to you today.

<Q – Blayne Curtis – Barclays Capital, Inc.>: Okay. Thanks. And then I just wanted to better understand the comments in consumer. It seemed like you mentioned you were trying to be selective and that's understandable given that segment with the gross margin profile and such. I just wanted to understand, you also said that you expected a ramp in the back half. Can you just talk about how you've approached business selection there? And you had a very strong ramp last year. When you say a ramp this year, are you talking similar magnitude? Thank you.

<A – Dave Zinsner – Analog Devices, Inc.>: I think since I answered it, I guess I should answer this one. I don't want to suggest that we think we have some massive ramp. I mean, what we're just – in the context of mix, normally, consumer has a better fourth quarter. And that's all that I was suggesting. We're not going to get into guidance really for the fourth quarter because that's what we do in the third quarter.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, so when we talk about – we have – I might have explained before. Our consumer business has a few different components to it. We have a very horizontal or a very diverse business in areas like broadcast, and prosumer as we call it, audio, video, imaging applications, with a more kind of catalog type products that are very diversely used across all the major regions of the world, with companies who build broadcast equipment, professional equipment for enterprises and so on. That's a good foundation business for ADI.

When we talk about picking our spot carefully, we're really referring to the portable areas, all types of equipment, be they tablets or smartphones. And we still have a business in the digital camera space. When we talk about being careful, we try to define the end application very carefully from a user standpoint to be able – we try to describe that application over multiple generations so that we can be sure from an application standpoint that we're really delivering value that consumers ultimately will be excited about.

So we also, when you play in the consumer space, obviously the life cycles are very, very short. You've got to be able to play through the multiple generations and for each application that we play in typically, we have to have a couple of concurrent design teams in play to be able to get the generation sequentially syncing so that we exit from one generation, but we have the next generation ready to play straight away. So it's an expensive place to play from an R&D standpoint, but the returns are great when you pick the applications carefully and get with the right customers.

<A – Ali Husain – Analog Devices, Inc.>: Great. Thanks. Operator, we'll get the next caller, please.

Operator: Your next question comes from the line of William Stein with SunTrust.

<Q – William Stein – SunTrust Robinson Humphrey>: Hi. Thanks for taking my question. It relates to gross profit margin and the contribution margin on the gross line going forward. Can you remind us of the manufacturing strategy in terms of which end markets are more heavily outsourced versus made internally so where we could think about getting operating leverage on the gross line?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, I mean there's products manufactured internally that target all end markets, but I would say there's a bias – a slight bias towards the industrial end market. So as the industrial grows, that does utilize the internal facilities a bit more.

<Q – William Stein – SunTrust Robinson Humphrey>: That's great. And then one that I think you've answered at least partly before, but I'd like to just dig into it again, it sounds like you're telling us that while automotive was very strong, the order pattern fell off at the end of the quarter and we've also heard of some less robust end market data points. And notwithstanding the content growth story that we all understand is going on in semis, I think there's some concern that there has been a lot of strength in particular in the most recent quarter that you yourselves and others have demonstrated in this end market. But the OE demand doesn't look as robust. Can you help us understand whether there might be an inventory build going on in that market?

<A – Vince Roche – Analog Devices, Inc.>: Well, I think the way to look at that market, Europe has been very, very muted from a car sales standpoint, although there are indications, as I've seen over the last few weeks, that new car registrations in some of the European countries are starting to pick up again. So I think it's more about how the geographies are playing out rather than anything underlying in the consumption patterns – demand and consumption patterns. So my sense is that the, certainly from our standpoint, I think the inventories are quite lean in that area, the automotive area. And it really is more about how the market is behaving at the geographic level than anything else.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Will. Operator, we'll get the next caller, please.

Operator: Your next question comes from the line of Vijay Rakesh with Sterne Agee.

<Q – Vijay Rakesh – Sterne, Agee & Leach, Inc.>: Yeah, hi, guys. Just on the same order [indiscernible] (40:10), I was wondering Europe is obviously a big portion for you, 40%. It's been a little slow in the first half. Do you see it picking up in the second half? And also in China, there's been some concern about tariffs coming back on Chinese vehicles. Is that how you see? Can you give some more color on both those regions?

<A – Dave Zinsner – Analog Devices, Inc.>: So the first question is whether you see European cars sales coming back. And I think you answered that, which is that is an area where we – at least our early read from external sources is that registrations appear to be growing in that space. So there is some reason to be positive. Having said that, I mean, the European car manufacturers end up selling all over the world. There's some big consumption in other markets for some of the premium brands that are manufactured in Europe. So we're not necessarily at the mercy of the economy over in Europe. So that's, I think, one significant point. The other question was what? What was the question?

<A – Ali Husain – Analog Devices, Inc.>: What was the tariff?

<A – Dave Zinsner – Analog Devices, Inc.>: Oh, the tariff. Yeah, I mean, Vince can answer that if he wants to. But I don't think we have enough clarity. We're not selling cars. So I'm not sure we have enough visibility into what's going on with the Chinese government and how they're going to manage internal versus external manufacturing. Did you have a follow-up question, Vijay?

<Q – Vijay Rakesh – Sterne, Agee & Leach, Inc.>: Yeah, sure. Industrial – what was the key markets there for you? And what signs have you seen that gives you optimism on the second half on industrial?

<A – Vince Roche – Analog Devices, Inc.>: Well, the strongest two sectors, I mean, we grew everywhere. All the sub applications in industrial grew for ADI. The strongest were instrumentation, as well as industrial automation, things like factory automation, process control. They are our two biggest sub sectors in industrial and both of them grew very, very well during the quarter. So typically anyway in the second quarter, we see good seasonality – very good seasonality in the industrial area. But – and as we said, the order patterns that we're seeing in the industrial area at large, big customers, small customers, all regions are performing quite well today. So based on that, based on what we hear from our customers, we believe inventories are very, very lean by the way and that there's a good match between supply and demand in that area.

So turns rates are quite high at the present time as well. Our distributors have also told us the same thing, at least our two major distributors. So there are good macro trends in place as well that we've discussed from time to time around safety, connectivity, efficiency, productivity that make this a very – a more and more attractive space for ADI, given our breadth of technology and given our reach across the globe with large and small customers. So I think at the present time what we're seeing is primarily seasonality effect, but demand continues, at least in the short term briskly in the industrial area.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Vijay. Operator, we'll get the next caller, please.

Operator: Your next question comes from the line of Sumit Dhanda with ISI.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Hi, guys. First question on the wireless infrastructure piece. Vince, you noted it strengthened at the end of the quarter, but you're guiding the quarter flat in that segment into July. I'm just curious as to how we reconcile sort of the momentum at the end of the quarter versus a flat guide and your comment on the delay with respect to the transition in China. Is that a new comment? Or is that still implying that we should start to see some kind of a ramp in TD LTE?

<A – Vince Roche – Analog Devices, Inc.>: First off, the delay – our business is, the largest part of our business in wireless communications infrastructure is still 3G. It's about 70% of our total. So the transition to 4G creates a new opportunity for ADI and that's just taking a bit longer than we all had anticipated. So it's also quite a lumpy business. It's very hard to read. At the end of the day, our customers' customers, the carriers are – I think there's no great momentum, there's no great pattern in their spending at the present time. So it's just very hard to read. So that's why we're being cautious.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Okay. And then I guess as my follow-up question...

<A – Ali Husain – Analog Devices, Inc.>: Go ahead. Sumit, are you there?

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>:Yes, I'm right here, sorry. As a follow-up question, industrial's done well, it was up double digits last quarter. Implied in the outlook is something like 4%, 5% sequential growth given that it's half the business and the other businesses are flat sequentially, which brings you sort of back to the peak run rate you had in the industrial business last year. So I guess my question is do you feel at this point as you exit the July quarter, you'd be caught up with consumption, understanding that this is hard to ascertain with finality? But what's your best sense?

<A – Dave Zinsner – Analog Devices, Inc.>: I'll take this one. I think it's obviously very difficult to read 60,000 customers to know for sure what their inventory levels are. Having said that, we do seem to be, at least as you look at distributors, running at levels that are pretty consistent with their end demand. My best guess is that we are somewhere around where end demand or end consumption is. But I think what really is driving this kind of similar levels to last year is more around just kind of a lot of economic uncertainty that continues to overhang the market. So hopefully as the year progresses, there is more confidence around the economy globally and things continue to improve throughout the year. But at this point, it's hard to say.

I think we're at least hopeful given that the outlook at the moment is that industrial will be up, as you said, reasonably well, that we're on the course of a recovery. But again, we'll just kind of have to wait and see and see how it goes.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Sumit. We'll take the next question, please, operator.

Operator: Your next question comes from the line of Steve Smigie with Raymond James.

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Great. Thank you very much. First of all, Vince, I want to say – or wish you luck in your tenure there as CEO.

<A – Vince Roche – Analog Devices, Inc.>: Thank you.

<Q – Steve Smigie – Raymond James & Associates, Inc.>: With regard to the products, I was wondering if you could talk a little bit about converters from the perspective of the fact that it looks like that's up 1% year-over-year, I think that probably was the best performing category. I think that's – the growth there is better than overall company revenue growth. So obviously you guys continued to do well in that category. Can you talk a little bit about strategy there – how do you go to market versus I won't say specifically TI but obviously they are a big player in that space and the other guys, how do you continue to dominate the market?

<A – Vince Roche – Analog Devices, Inc.>: Yeah, that's a good question. So converters for ADI are pervasive in every application in which we play. Every one of those segments that we've talked about today use converters, either high speed or precision. We – when we think about allocating our R&D, we think first and foremost that the underlying core technologies and products and make – we insist on making sure that we have adequate coverage in terms of R&D to be able to develop the underlying technologies and products.

The converter space is an area where we have the broadest portfolio. If you look at any figure of merit, any particular performance, [indiscernible] (48:43) of converters in precision, in high speed, we cover the entire thing. We have teams working on new generations of technology that we haven't even introduced to the market yet. So we are pushing innovation in the core products that are critical to ADI's prosperity in the short term.

We're also pushing very, very long-term; new architectures, new process technologies, and combining converters also in many new ways in new applications. So the – in the infrastructure space, for example, the communications – the wireless part of communications infrastructure, our converters form the heart of these wideband radio transceivers that we developed that have a lot of RF technology on board, that are more and more linking up with the power management solutions that we have, linking up with the trucking solutions that we have.

So it's a vast portfolio of standard products, products that are more highly integrated with converters at their core. And as I said, we first and foremost make sure that our core technologies are getting adequate investment to ensure that ADI keeps leadership position and keeps – we keep getting share.

We've been gaining by the way over the past number of years just about 1% market share per year versus the competition on a compounded basis. So 1 point per year. So we're in good position. We've lots of new applications. For example, I would like to point out that in the automotive area when you look at – we talk about battery technology and intelligent battery systems. Again, that's a great example of where our converters, our precision converters are being used in new ways, in new applications, in a critical application in the car. So there are many, many new areas where we play. And then if you look at the industrial area, we have – perhaps we've thousands of products that are selling – thousands of converter products with very, very long life cycles. So we've a tremendous mix in terms of the market that we cover, the types of technology that we're developing and the types of customers to whom we sell.

<A – Ali Husain – Analog Devices, Inc.>: I think these are called converters with attitude, right, Vince? Steve, do you have a follow-up question?

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Yeah, sure. Dave, with regard to the 80%, how do you decide 80% is the right number versus some other and if you were to, say, use some cash to pay down debt, is that in that 80% or is that something different?

<A – Dave Zinsner – Analog Devices, Inc.>: So first of all, just to clarify the 80% number, make sure that's crystal clear. That's 80% of total free cash flow, not 80% of domestic cash flow. Hopefully that was clear. But how do we come up with it? We ran, like I said, we ran some scenarios around business conditions, we added in some other potential uses of cash on top of that, which in some cases does include the financing side. And what it told us was, given our capital structure and our rating, we could easily manage 80%.

I think we're very comfortable with the debt level we have and so there's no reason when – as instruments mature that we need to pay them off. We can kind of refinance them, assuming rates are attractive, which they clearly are today. We even feel comfortable going up in debt from where we are today. So we kind of balanced all those things together and kind of given Vince's – one of his stated priorities is to deliver good shareholder return, we thought that this was a pretty reasonable number that we thought investors would appreciate.

<A – Ali Husain – Analog Devices, Inc.>: Thanks, Steve. Operator, we'll get the next caller, please.

Operator: Your next question comes from the line of Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hi. Thanks, guys, for squeezing me in. Just one more question on the increased payout ratio. And by the way I speak for the entire buy-side when I say kudos for upping it from 60% to 80%. Just a question on the buyback, your share count has crept up, I think, over the last four quarters, can you just remind us of what's been allocated for the buyback? Has that increased? And is your methodology for buying back shares going to change at all?

<A – Dave Zinsner – Analog Devices, Inc.>: So we have, I think, roughly $500 million plus, maybe it was $540 million or something like that. Ali, do you know that number offhand?

<A – Ali Husain – Analog Devices, Inc.>: $560 million of authorized – authorization on the current buyback, although it's pretty simple to get that increased to support the 80%. I think it will need to be increased tentatively to get to the 80%. But we'll see how earnings go. The dividend, how that ramps, too, because that's certainly an area that we want to increase over time as well. What was the other part of the question, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yes, Dave, we've talked about this before is one of the – I guess, one of the good problems you have, as your stock has steadily climbed up you haven't really...?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, so that has been the case. I think in my prepared comments, I used the word disciplined repurchases or something of that nature, and that's kind of the way we're going to approach it. So it's not going to be 80% every quarter. Some quarters it's going to be higher than 80%, some quarters it's going to be lower than 80%, but over the five years it will average 80%. We still intend to be pretty disciplined around the buybacks and to hopefully buy back when the stock is at least on a historical basis at relatively low levels. So I wouldn't look for us to come right out of the gate and start turning a buyback, but I think over time you'll see us be pretty good disciplined buyers of the stock with the idea that we don't want to see that share count creep in general.

<Q – Chris Danely – JPMorgan Securities LLC>: Got it. Thanks a lot.

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

<A – Ali Husain – Analog Devices, Inc.>: Thanks Chris. Folks, we just have a few minutes remaining here. So we're going to take our last few questions and once the Q&A is over, Vince is going to come back for his closing remarks. So with that, we'll take our last few questions. Operator, can I get the next caller, please?

Operator: The next question comes from the line Joseph Moore with Morgan Stanley.

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Sure. Thank you. I remember last quarter, you had talked about distribution inventories being extremely low in dollar terms, at a multi-quarter low, and so I was a little surprised that they stayed flat and just, can you talk about that dynamic? And then I feel like the end customer inventories that you've been describing as low, we've all felt that way for several quarters. What do you think it's going to take to change that?

<A – Dave Zinsner – Analog Devices, Inc.>: So I think much more robust demand picture will certainly get distributor and a lead time stretch-out will certainly get distributors to begin to stock. We generally keep our lead times tight so we won't be the driver of it, but some of our peers sometimes allow their lead times to extend. And during those periods, distributors generally across-the-board raise their inventory levels. But it's 7.5 weeks. It's a pretty good – it's certainly at a low level but they've certainly been below that. So it's what I think is a healthy level in a period of recovery.

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Okay. Great. And then just on the industrial customer side, on their inventory, as I said you've described it as low for four or five quarters, and I felt the same way. Do think it has oscillated at all, in retrospect, as you look back? Did it build up in the first part of last year and then come down, or has it been generally lean throughout?

<A – Dave Zinsner – Analog Devices, Inc.>: I think in the second quarter based on hindsight, they probably did start to build inventory, and then over the third and fourth quarter, potentially even the first quarter, started to bring it back down.

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Okay, great. Thank you very much.

Operator: Your next question comes from the line of Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys. Can you hear me okay?

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

<A – Vince Roche – Analog Devices, Inc.>: You're fine.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. Just a question, a follow-up, Vince, to something said earlier about the comms business. With 70% of that being 3G oriented, what sort of substitution effect do you guys see? Because to be frank, we've been waiting for quite some time for you guys and many other companies that have promised a big infrastructure spend increase and it seems to me there's a risk that the 3G comes down as the 4G goes up and the total really doesn't move as fast as people have hoped. Can you walk us through that transition and the puts and takes to ADI please?

<A – Vince Roche – Analog Devices, Inc.>: Yeah, I think what we see between the generations is more sophisticated solutions being required from ADI. We get more content. I believe, in 3G systems, we're seeing an average ASP increase for a radio transceiver of somewhere in the region of 20% to 30% depending on exactly who we're selling to and what the feature set is. So I think that chunk of what we expect is primarily due to the ASP increases. We also have – we've mentioned before that we've greatly increased our R&D in the wireless sector in the past four or five years to make sure that we can extend our reach, our competitive advantage, in each of the critical macro applications.

So I think it's more about – for ADI anyway, we're very well positioned with our customers. We have stronger solutions than we've ever had, so we're just depending, Ross, on the markets more so than anything else at this point. But everything we hear from the carrier discussions we've had, from our customers, somewhere in the region of just to be able to meet the data capacity needs that mobile subscribers are requiring now all across the globe. It's going to require a revamping, an aggressive revamping of the network towards 4G towards the back end of this year and into next year.

<A – Ali Husain – Analog Devices, Inc.>: Ross, did you have a follow up?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Yeah, just really quickly, a couple of housekeeping ones and I apologize if I missed this earlier. Dave, your expectations for utilization and internal inventory as you go into the third quarter? Thank you.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, I think it will be kind of low-60s in utilization next quarter. Inventory levels on an absolute dollar basis maybe kind of flattish but they should come down in days.

<A – Ali Husain – Analog Devices, Inc.>: Great. Thanks. We'll get the next caller, please.

Operator: Your next question comes from the line of Romit Shah with Nomura Securities.

<Q – Romit Shah – Nomura Securities International, Inc.>: Thanks a lot. I think most of us recognize ADI is a high-quality franchise and you guys are tied to some pretty attractive markets but when I look at the growth at least on a year-over-year basis, it's been – this quarter, and the July quarter will be the eighth consecutive quarter that revenue is down year-over-year. And my question is, would you guys just chalk that up to a tough end market environment or, Vince, in your new role are you looking at perhaps some different strategies to improve top-line growth?

<A – Vince Roche – Analog Devices, Inc.>: It's a very good question. I think what we're seeing at the present time is really just no real momentum but it's driven by just the macroeconomy everywhere, I mean, across the globe. Even China has not been immune to the macroeconomic malaise in the past year, a year plus. We, as a company, we're an innovation-centered company with – where engineering excellence really, really matters to us, where we have a lot of very, very – people who care passionately about our customers.

So we're going to do everything we can to extend our – the impact and the speed of our innovation, and just to execute better everywhere to speed everything up in the company and just improve ADI in every dimension of innovation. So I believe that the franchisee we have is one of the very, very best in the semiconductor world. And myself with the 9,000 employees are going to make it an even better franchise in the future. So we're working on a lot of things internally to make everything better.

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

Operator: Your next question comes from the line of John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, good afternoon, guys. Thanks for squeezing me in. Couple questions here, just quick. David I'm a little confused by the opening comments. Utilization going to be up or down in the July quarter? And ditto on OpEx? It just sounds like you guys are still keeping things pretty tight and my question is, if things were to pick up, or does the lack of utilization growth or OpEx growth in July quarter give us a poker tell into how you guys are viewing the October quarter?

<A – Dave Zinsner – Analog Devices, Inc.>: Well, utilization is going to be up next quarter. And I think it was like around 60%, I think it's going to be in the low 60s, consistent with our expectations around the industrial business for the most part. I wouldn't read too much into our OpEx for next quarter as some indication of the next few quarters. What we're trying to do is really lag the revenue side a little bit because leverage is pretty important to us. And quite honestly, we think we're spending enough money to drive revenue growth. So we're going to just be careful about where we add, make sure we're adding it in the right places that we think will drive good ROI.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: And then quickly, David or Vincent, can you guys give us a little bit of insights of what big buckets or sub buckets there are within the consumer? Is this mostly handset or how do I think about the sub buckets within that category?

<A – Dave Zinsner – Analog Devices, Inc.>: Okay. We'll answer this one, but we got to like, we've got to stop the follow-ons because we're going to run out of time here. But there's about four or five subcategories, portable is one of them. It's one of our areas that we think will drive growth but it's by no means a dominant part of that business. We have a digital camera subcategory in there. We have a home entertainment system, which includes, I think, prosumer, which Maria tells me is a real word. There is some computer exposure in that space and then we have a bunch of smaller subcategories that get the all other kind of classification. So it's a pretty – from a consumer perspective, it's a pretty diverse set of end customers and applications.

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

Operator: Your next question comes from the line of Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my questions. I've two quick ones on the cash return again. You talked about over the next five years getting up to 80%. How long does it actually take to ramp to that point? Is this something where we should really expect a step change or is this something that builds in?

Second question, just really quickly to save time, you talked about, it sounds like mostly dividends and opportunistic buybacks, but over the last few years, it's been primarily dividends. It sounds like you're going to focus on that still. So does that increase in the cash return of what you're talking about really imply a very significant increase in dividends? Is that really how we should be thinking about this in terms of what's driving cash return?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, so I wouldn't look at 80% as we're going to try to ramp up to 80%. We're going to try to average 80% over a five-year period. Some quarters that's going to mean, it's going to be plus 80%, some quarters, it might be below 80%. But the average is supposed to be 80%. I don't think next quarter, it will be 80%, although we're going to have to see. We haven't changed the approach we have towards buybacks. The buyback aspect of this thing is that we will buy when the historical price is above the current price by some measure. And that's what will trigger the buyback. It's somewhat – it's to some extent on autopilot, I guess, and we'll just execute when and if those situations occur.

My guess is they will occur and that will be a reasonable amount of the 80% free cash flow return. But it's true that the primary means of returning cash to shareholders is going to be dividends. Having said that, I wouldn't expect the dividend per se to ramp dramatically at a rate that's dramatically faster than earnings growth rate. It will, in all likelihood, be at a faster rate than earnings growth, but I don't think it's going to be too dramatic. And that's because we have an expectation that we will buy back stock. And that will be a part of the cash return and it will be a meaningful part of the cash return.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. But that would...

<A – Dave Zinsner – Analog Devices, Inc.>: We lost him.

<A – Ali Husain – Analog Devices, Inc.>: Hello?

Operator: Your next question comes from the line of Steven Eliscu with UBS.

<Q – Steve Eliscu – UBS Securities LLC>: Yes. Thank you. You referred to the low end of sales guidance being based on the possibility of macro weakening. Are you actually seeing any signs that there could be weakening as we go into the middle of the year or is this caveat just based on what we've seen the last couple years?

<A – Dave Zinsner – Analog Devices, Inc.>: This is strictly just caution around the just kind of macro side of things. And we have seen no evidence to suggest that. Clearly, we are modestly – I guess, slightly influenced by what happened last year.

<Q – Steve Eliscu – UBS Securities LLC>: Great. And then...

<A – Dave Zinsner – Analog Devices, Inc.>: Steve, you wanted to squeeze that one in?

<Q – Steve Eliscu – UBS Securities LLC>: Yeah, and as my follow-up question, if I look at your – there was a prior reference to converters, but if I look at amplifiers, actually if you look at the year-on-year trends, they actually weakened last quarter. Is there anything fundamental that's driving the weakness? Is it tied to a particular segment such as communications? Can you help us understand that? Thank you.

<A – Vince Roche – Analog Devices, Inc.>: Well, let me – it's very, very hard to ascribe the shift in a quarter to any one particular segment or any particular application area. I think overall as a company, we have strong share and we play in the high-performance amplifier area. And I think you have to really look at our share over a long period of time. And just like in converters, these two areas form the core. These are ADI's backbone and we've actually been gaining share in the high-performance amplifier space over the last while. So I think looking at these numbers quarter-on-quarter-on-quarter, don't tell you anything because we have been gaining share.

<Q – Steve Eliscu – UBS Securities LLC>: Yeah.

<A – Dave Zinsner – Analog Devices, Inc.>: The other thing is that in some cases the stuff is all integrating together and then we have to lump it into something called other. It becomes another category.

<A – Vince Roche – Analog Devices, Inc.>: An, identification issue.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, so a lot of times the functionality that with a standalone amplifier is not a standalone product anymore and so we kind of classify it in other.

<A – Ali Husain – Analog Devices, Inc.>: Great. Well, thank you. I think we're running out of time and well past the 6 o'clock hour. But, Vince, do you want to come back and do your closing remarks before we sign off here?

Vincent T. Roche, President

Sure. Well, firstly, I'd like to thank everybody for participating with us today here. So far we've discussed our results and our trends related to the industry, our markets and our shareholders. So in closing, I want to share with you what I've been discussing with our employees since I took over as President several months ago and what I continue to tell our employees as the CEO of the company.

My primary focus is to accelerate ADI's growth. This world will emerge from the economic malaise that has dominated for the past five years or so, and when it does, my job and the job of other employees is to make sure that ADI emerges stronger and better. Our strength will be evidenced in the growth rate of our sales and the expansion of our operating profits, which generates earnings leverage and strong cash flow.

The domain of signal processing, in which we lead, present an excellent growth opportunity in the years ahead as the world drives for more automation, greener energy, affordable health care, more connectivity and mobility. All of these trends face complex technical challenges, and we have a culture here at ADI that thrives on finding innovative ways to solve very complex problems for our customers.

Many competitors also see these opportunities, but none of them have the breadth and depth of our signal processing engineering expertise and our customers also recognize us for this fact. We will focus on solving, not only the complex problems, but also the critical problems. And this means we must continuously assess how we allocate our R&D and actively steer investments toward areas where innovation creates the greatest momentum for ADI. More and more, I feel employees deepening their customer engagements, bringing the outside world into the company and defining and solving the critical problems before our competitors do.

I firmly believe that engineering excellence, coupled with deep customer market insights drive superior innovation and superior innovation drives superior results. So, I, along with our 9,000 employees will settle for nothing less. So with that, I'd like to thank you, and wish you a good evening.

Ali Husain, Director of Investor Relations

Great, thanks a lot, Vince, and thanks, everyone, for joining us tonight. Just a reminder that our Third Quarter 2013 Earnings Call is scheduled for August 20, 2013, beginning at 5 p.m. Eastern Time. So thanks, everyone, for joining us tonight. Good night and have a pleasant evening. Bye.

Operator: This concludes today's Analog Devices Conference Call. You may now disconnect.