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Corporate Participants

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Jerald G. Fishman – Chief Executive Officer
Vincent T. Roche – President
David A. Zinsner – Vice President, Finance and Chief Financial Officer

Other Participants

Terence Whalen – Analyst, Citigroup Global Markets Inc. (Broker)
Ross C. Seymore – Analyst, Deutsche Bank Securities, Inc.
Aashish Subba Rao – Analyst, Bank of America Merrill Lynch
James V. Covello – Analyst, Goldman Sachs & Co.
Christopher B. Danely – Analyst, JPMorgan Securities LLC
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Samantha, and I will be your conference facilitator. At this time, I would like to welcome everyone to Analog Devices Fourth Quarter and Fiscal Year 2012 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 with our analyst participants. [Operator Instructions] Thank you.

Mr. Husain, you may begin your conference

Ali Husain, Director of Investor Relations

Thanks, Samantha. Good afternoon, everyone. This is Ali Husain, Director of Investor Relations. We appreciate you joining us for today's call. If listeners haven't yet seen our fourth quarter and fiscal year 2012 press release or our Form 10-K, both may be accessed through our website at investor.analog.com. This conference call is also accessible from the same page. A recording of this conference call will be available today within about two hours of this call's completion. It will remain available via telephone playback for a period of time and it will also be archived on the IR website. In addition, we've updated the schedules on our IR website, which include the historical quarterly and annual summary P&L for continuing operations as well as historical quarterly and annual information for revenue from continuing operations by end market and product type.

Participating with me in today's call are Jerry Fishman, Chief Executive Officer; Vincent Roche, President; and Dave Zinsner, Vice President of Finance and CFO. Through the first part of the call, Jerry, Vince and Dave will present our fourth quarter and fiscal year 2012 results as well as our short-term outlook. The remainder of the time 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 non-recurring items in order to provide investors with useful information regarding our results of operations and business trends. 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 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 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 Annual Report on Form 10-K 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 November 27th, 2012.

And, with that, I'll turn the call over to ADI's CEO for opening remarks.

Jerald G. Fishman, Chief Executive Officer

Well, good afternoon to everybody and thanks for joining our call. As the press release said, our revenues for Q4 totaled about $695 million, which was up approximately 2% from the previous quarter and down about 3% from the same quarter last year. These results were within the guidance range that we provided last quarter and are a relatively strong result in what has turned out to be a very challenging environment. The diluted earnings per share were $0.58 which was slightly above the midpoint of our earlier guidance. For the full year of 2012, revenues declined just under 10% to about $2.7 billion which is a reflection of the poor economic environment for most of our fiscal year, coupled with unprecedented global uncertainty which severely constrained capital spending in virtually all of our served markets. The only exception was our automotive business, which actually grew 11% year-over-year, but even in automotive, we showed some signs of a slowdown in the second half of 2012. Vince, our new President – our newly appointed President, will describe in much more detail the current trends and the outlooks that we see in each of our end markets.

Despite the lower revenues and the uncertainty throughout the year, ADI still produced a very credible result for the year, with gross margins of approximately 65%, operating margins of approximately 31%, and operating cash flow of over $800 million or about 30% of sales. In addition, we enhanced shareholder returns with dividends and share repurchases that totaled over $500 million during the fiscal year. We also ended the fiscal year with net cash or the gross cash we have, less our debt, at over $3.1 billion.

Today, it's still a very challenging environment in virtually every region of the world. During Q4, the overall orders decreased at ADI as customers became increasingly more cautious and our distributors reduced their inventories. We believe at Analog today that our current order rates are below the consumption rates of our products. Our book-to-bill for the quarter fell below 1, and we're entering Q1 with lower opening backlog than we had when we entered Q4 of 2012.

Given the continuing uncertainty out there, we've taken many actions around the company to protect the downside, while ensuring that we'll be ready for a snapback in order rates, which typically occurs with very little notice in our business. First, we began reducing our production levels in Q4 and we're planning to reduce them further in the first quarter to keep our inventory at appropriate levels. While operating our factories well below capacity, we'll certainly reduce our gross margins in the short term. It will provide significant upside leverage as it has in the past when revenue growth resumes.

During the last down cycle, when our factories were being utilized at about 67%, our trough gross margins were about 63%. During the upturn, when utilization rates approached 80%, we achieved gross margins of over 67%. We're confident in our ability to achieve these gross margin levels as business conditions improve, as factory utilization increases, and as our product mix reverts to more typical and traditional levels through ADI. Just as in the previous cycle, we're keeping our lead times very short, providing very high service levels to our customers, and remaining ready for any changes in market momentum.

Secondly, we've taken actions throughout Analog Devices to reduce our expenses corporate-wide by moving resources to the most strategically relevant programs and away from those programs with less long-term protection. We're also planning to gain efficiencies with our new organization, which more closely aligns our product development programs with our customers' requirements. We're also planning a corporate-wide shutdown over the holiday period to give all our employees around the world a very deserved – well deserved rest after a very challenging year and this will provide temporary expense relief for Analog during the first quarter.

Thirdly, our variable incentive program that is operating for all Analog employees, which is directly tied to our growth rate and our operating margins, will normally modulate expenses in down-cycles as it did in the last down-cycle. In addition, for 2013, we've increased the margin thresholds for incentive payments to levels more consistent with what we believe the business is capable of producing on the average. So, therefore, for the same levels of performance, the bonus or incentive payments will be slightly lower. The effect of this change will likely be to reduce incentive payments in 2013, beyond what would be typical or normal in previous times. We believe that these actions will be responsive to the downside while also preparing us for the upside, which invariably follows in every cycle for ADI over many, many years.

So, now, I would like to turn the call over to Vince for some more detail on our performance and the trends in some of the end markets that we serve.

Vincent T. Roche, President

Well, thanks, Jerry, and good evening, everybody. Well, as expected, our strongest sequential growth was in the consumer end market, which grew by 28% in the fourth quarter. The increase in consumer revenue was broad-based in what was a seasonably stronger consumer quarter, coupled with a strong product cycle for ADI. Our results were particularly good in audio and imaging applications in the portable space. Consumer was about 20% of total sales, up from 16% in the prior quarter.

Communications infrastructure grew by 3% sequentially and was higher than our plan coming into the quarter, which is a very good result, especially after a 10% sequential increase in the prior quarter. Wireless infrastructure drove the growth this past quarter, a combination of consumers who are buying LTE or 4G ready smartphones from companies such as Apple, Samsung, and others and ongoing wireless network build-outs in developed and developing economies as leading service providers upgrade their networks. U.S. providers are advertising, as you know, their LTE networks, announcing increased CapEx spending plans. We also saw activity in the fourth quarter among our base station customers as they began to respond to China's announcement of TD-SCDMA Phase 6 and the 120,000 sites planned, which is twice the 2011 rollout.

While GSM and 3G in particular are the largest portion of our wireless revenue to date, LTE or 4G is growing quickly and will be a very significant growth driver in the coming few years. Communications revenue was 20% of total sales, consistent with the prior quarter. While the first quarter is expected to be steady to the fourth quarter, we expect wireless infrastructure deployments to more meaningfully impact our results towards the end of 2013.

Now industrial revenues, which we expected would be stable in the fourth quarter, actually declined 5% sequentially, in line with lower industrial production worldwide as dictated by the ongoing macro weakness and also as a result of continuing reduction in inventories by our industrial customer base. This market represents myriad small and mid-sized customers primarily served through our distribution channel as well as many of the world's largest industrial equipment makers and none of these customers had immunity from the decline. Most industrial applications declined sequentially including process control, instrumentation and measurement equipment, and medical imaging. Regionally, we saw the most pronounced declines in Europe and Japan. Defense and aerospace and medical instrumentation were relatively flat sequentially. The industrial end market represented 44% of total sales in Q4, down from 47% in the prior quarter.

On the automotive side, revenue declined by 4% sequentially, mostly as a result of lower unit sales of automobiles in Europe and in line with widely reported factory slowdowns at automotive manufacturers. While the declining revenue reflected the general weakness in automotive, we saw continued strength in newer products for advanced driver assistance and power train efficiency systems as our customers continue to deploy our innovative products in these growth sectors. Overall, automotive represented 16% of sales compared to 17% in the prior quarters. Now on an annual basis, automotive was an obvious bright spot, growing 11% during fiscal 2012 compared to FY 2011, the third consecutive year of double-digit growth. All major automotive application areas grew year-over-year.

Our mix of business in the fourth quarter was anomalous compared to the rest of fiscal 2012 as seasonal growth in consumer was further accelerated by new product adoption of key accounts. Beginning in the first quarter, we expect the business to shift to a more typical revenue mix.

So, with that, I'll hand you over to Dave who will take us through the details of our financial results.

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

Thanks, Vince. As Jerry had mentioned, fourth quarter revenue increased approximately 2% sequentially to $695 million and decreased 9.8% for the year to $2.7 billion. Our gross margin was 63.8% in the fourth quarter. This was down 180 basis points from the 65.6% we reported in the third quarter and down very slightly from the same period last year when revenues were higher. While an anomalous mix was the key factor as Vince just described, we also made a decision to further reduce production levels mid-quarter in response to lower investor and distributor orders, which reduced utilization below our original plan. Utilization decreased from 74% in the prior quarter to 67% in the fourth quarter.

Inventory on our balance sheet remained approximately flat to last quarter in dollar terms and was down on a days basis from 121 days in the prior quarter to 114 days in the fourth quarter. Weeks of inventory in distribution was down by a half a week and stood at about 7 weeks exiting the quarter, down from approximately 7.5 weeks in the prior quarter, which is a very significant adjustment in a short period of time. Channel inventories are now well below historical levels. Lead times for our direct OEM customers remained similar to last quarter and are in good control with virtually all of our shipments to OEMs occurring within four weeks.

Operating expenses for the fourth quarter were $228 million compared to $230 million in the prior quarter excluding restructuring expense taken in the prior quarter. The decrease was primarily due to tight control of our expense and also due to our variable compensation model, which is linked to our year-over-year sales change and quarterly operating profit.

Operating profits before tax for the fourth quarter were $215 million or 31% of sales, down 100 basis points from the prior quarter, excluding restructuring charges taken in the prior quarter and a solid result in the current environment. Other expense of $3 million in the fourth quarter was flat to the third quarter and reflects the ongoing run rate of our net interest expense. Our fourth quarter tax rate was approximately 16%, which represents an adjustment of our annual tax rate from 22% to 20%. We continuously look for efficiencies in our tax structure, and based on current assumptions, we expect our tax rate to be approximately 18% for each quarter in fiscal 2013.

Diluted earnings per share of $0.58 in the fourth quarter was above the midpoint of our guidance and up 4% sequentially from the prior quarter on a 2% increase in revenue. For the year, diluted earnings per share was $2.13.

We generated very strong cash flow in the fourth quarter at 34% of revenue or $236 million in operating cash flow. Capital expenditures were $38 million, resulting in free cash flow of approximately $200 million or 29% of revenue for the quarter. Our accounts receivable balance was down about $6 million versus the last quarter on lower shipments, and our days sales outstanding decreased to 45 days from 46 days in the prior quarter.

During the fourth quarter, we purchased $21 million of our stock and distributed approximately $91 million or 51% of our net income in dividends to our shareholders. For the year, we repurchased $161 million of our stock and distributed $345 million in dividends to our shareholders. We plan to continue to be opportunistic buyers of our stock and to enhance returns to our shareholders. Since the start of our repurchase program, the company has repurchased approximately 129 million shares or $4.4 billion of company stock. We have approximately $560 million remaining under our Board authorized share repurchase program.

Our cash and short-term investments balance increased $135 million during the fourth quarter and now stands at $3.9 billion, with approximately $1.1 billion available domestically. At the end of the fourth quarter, we had approximately $822 million in debt outstanding, so net cash on a per outstanding share basis was slightly above $10. On November 26th, our Board of Directors declared a cash dividend of $0.30 per outstanding share of common stock, which will be paid on December 18th, 2012, to all shareholders of record at the close of business on December 7th. At current stock prices, this dividend represents an annual yield of approximately 3%. [indiscernible] (18:17) fourth quarter and fiscal 2012 delivered solid results during what turned out to be a very challenging period.

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

Jerald G. Fishman, Chief Executive Officer

Thanks, Dave. Our current expectations for Q1 revenues is for a decline of between 6% and 12% sequentially, which is certainly a larger decline than we'd normally anticipate in a typical Q1 for ADI. The most significant sequential decline in Q1 is likely to be in our consumer business where our typical Q1 sales decline is exacerbated by inventory draw-downs after our customers' pre-release inventory build in Q4. Based on the current forecasts from our largest communication customers and our largest automotive customers, we expect Q1 sales in those market segments should remain relatively flat to Q4 levels.

So, certainly, the big swing in Q1 will be industrial sales, which span a broad customer base in every geography. While the United States and Europe still comprise the bulk of our industrial sales, China is becoming a more important component of industrial sales over the past few years than it's been historically. Over many, many years of observation in our industrial business, it's very clear to us that industrial capital spending continues to drive our industrial business. And, certainly, those trends have been and are today being negatively impacted by economic and tax uncertainties in the United States and Europe, and government actions in China. In addition, many of our largest customers have announced extended factory shutdowns in late December and early January in the holiday period and are continuing inventory reductions. And lastly, our distributors have predicted less than seasonal forecasts for their fourth calendar quarter, of which two months overlaps our first calendar quarter.

On the other hand, if you want to look at the glass as half full, which some of us do, inventories at our industrial customers and our distributors are at extremely low levels, and our largest customers report that their business levels are stable, and in some cases, improving. And that would suggest that they're going to begin to restock. But on balance, we believe at this juncture with the information we have as of now, it's prudent to be very cautious about what ADI's industrial sales are going to turn out to be in Q1, and we're planning for a sequential decline in this market segment in Q1. I think it's very important to note that we could get surprised in this segment, but it's more likely that any real upturn in our industrial business would occur in Q2 rather than in Q1, although it's still early to predict that.

In response to the weak demand environment that we experienced in Q4 and that we're planning in Q1, we're planning to further reduce factory operating levels in our production facilities, as I mentioned in my opening comments. In Q1, we're planning our factory utilization to drop from 67% in Q4 to the mid to high 50s in Q1, and for inventory dollars to be down, but days of inventory to be about flat, given the significantly lower sales in Q1. As a result, we expect gross margins to be approximately 62% in Q1, which hopefully will be the low point of this cycle.

It's important to note, I think, that while changing inventory levels at our distributors don't affect our revenues since we account for revenues worldwide on a sellout methodology, when our distributors do start to restock to more traditional levels, it does positively impact our factory loadings, and therefore, positively impacts our gross margins.

Given the strength of our position and the high market share that we enjoy in the industrial end markets, we'll be ready when a snapback in industrial does occur, as it always does. This would drive a better product mix, it would drive higher factory utilization, and it'll drive extraordinary operating leverage, as we've demonstrated in previous cycles. We're planning for our operating expenses to be down approximately 2% in Q1 based on the actions that I outlined in my earlier comments, and earnings to be in the range of $0.40 to $0.48 for the quarter.

In the longer term, we have an increasingly unique position at ADI in the analog and signal processing market. We have very strong core technology, particularly in converters, in RF components and other linear functions, in MEMS, in power, and in digital signal processing, and a very broad customer base which provides great stability, but also provides the ability to leverage and bundle this technology into a much more complete and integrated solution for a customer base that more and more depends on ADI to become their partner. We're now engaging with customers at much higher levels than in the past, and we get consulted and involved in their architectural and system needs at a very early level. And this will certainly pay off in terms of sales growth and higher margins as business levels stabilize in the future.

The diversity of our end markets and of our 60,000 customers around the world, where no customer represented more than 5% of our sales in 2012, provides some measure of insulation from economic headwinds and product cycles, and also at the same time, provides the prospect of above industry growth when the external world stabilizes. Now we at Analog – the management team and the employees of Analog – have been through difficult periods many times in our history, and we continue to make the necessary trade-offs to position ourselves to respond when the market turns, as they always do. Structural improvements that we implemented in previous years give us an added advantage in navigating difficult periods and allow us to protect the downside while standing ready to capture the upside when conditions get better. Every time we've gone through one of these cycles, we come back better and we come back stronger, and I expect this time will be no different.

Ali Husain, Director of Investor Relations

Great. Thank you, Jerry. Thanks, Vince and Dave. During today's Q&A period, please limit yourself to one primary question and no more than one follow-on question. We'll give you another opportunity to ask additional questions if we have time remaining.

So with that, operator, we are now ready for questions from our participants.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will pause for just a moment to compile the Q&A roster. And your first question comes from the line of Terence Whalen from Citi.

<Q – Terence Whalen – Citigroup Global Markets Inc. (Broker)>: [indiscernible] (25:54) question, the first question is related to gross margin. It seems like, based on the utilization numbers that you've given of mid 50s for next quarter, it's a fairly pronounced action you're taking in the fabs. I guess my question is, what's the motivation of that, given that inventory isn't too high? Is it more to just set yourself up for a trajectory of expanding gross margin in the April quarter? And if revenue were to grow in April, say, 4% or 5%, would gross margin also bounce back then? Thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Yes. So I'll take a stab at it, and Jerry can add color if necessary. Yeah, we're brining our utilization down to 50 – mid 50s levels. That is different than what we did last year at this time. We had kind of a similar decline in revenue, but we allowed our days of inventory to push up to 121 or 122 days last year. This time around, we're really trying to focus on keeping the days of inventory relatively flat, bring the absolute dollars of inventory both on our balance sheet and the balance sheets of our distributors down. There's a big difference. The idea is to get the inventories well balanced and then be ready to get the leverage when the business returns to growth. And as you point out, we had a big turn-up in revenue in the second quarter. We'd have a pretty quick acceleration in the gross margins quickly back to the levels you saw us operate in back in – a few quarters ago.

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah, I'd say the other comment, Terry, is that we monitor the order input quite frequently. And just like last quarter, as we monitored the orders, we turned the factories down a little harder than we had anticipated. If the order input justifies it, we don't make these decisions once a quarter, we make them more frequently. And if the orders begin to turn up and we see anything that we believe is sustainable, we can ramp very quickly. And with the levels of inventory that we're carrying, we can respond extremely quickly to any upside our customers provide to us. So I think it's all those phenomenon saying we want to manage the inventory responsibly, but we also, at the same time, want to make sure that when business does pick up, that we can respond to whatever our customers ask us for given that on incremental sales, particularly on the stuff that we build internally, the gross margins are extremely high. So we don't want to miss any of those sales and we don't want to hang any of our customers out to dry. So those are our objectives really to keep the inventories under good control, and yet be flexible enough so we can respond very, very quickly to any input order rate increase that we see.

<Q – Terence Whalen – Citigroup Global Markets Inc. (Broker)>: Okay, crystal clear. And as a quick follow-up; really on the OpEx line, you guys did a terrific job in the prior cycle, really reducing OpEx to help improve the operating margin. But when I look over the past eight quarters, on a revenue that's about down 15% from where it was two quarters ago, you're right at the same OpEx bogey. So we've seen OpEx creep back up the past couple of years. What's the message to investors in terms of OpEx discipline here, as we've seen OpEx creep up a little bit relative to sales over the past couple of years? Thanks.

<A – Dave Zinsner – Analog Devices, Inc.>: Well, it did creep up a little bit in the third and fourth quarter on a relative basis, but I think if you go back 8 to 12 quarters, we probably were averaging in the low $220 million in terms of OpEx. That's where we're going to go to, roughly, in the first quarter. So I think what we're doing is prudently reacting to a little bit more difficult environment. I think we've done – at least maybe this may be my perception of this, but we've done a very good job to closely managing OpEx to make sure that it doesn't get away from us while revenue is coming off. So I think in the rest of the year, we'll manage it very closely. And Jerry mentioned a number of actions we're taking in the first quarter; we'll continue to look at it every quarter and not allow it to escalate until we see a big recovery on the revenue side.

<A – Jerry Fishman – Analog Devices, Inc.>: I think the other perspective on that is that if you look at the OpEx over the last two years, so last year – our OpEx is the same now on a running rate basis as it was two years ago. And one of those years had a lot of growth and one had decline. So I think what – the way we're looking at it, it's hard to look at these things quarter to quarter because the revenues fluctuate a great deal. But I think we have very significant operating expense controls in the company and the evidence of that is that the operating expense through a lot of different parts of the cycles have been flat for the last two years, roughly.

<Q – Terence Whalen – Citigroup Global Markets Inc. (Broker)>: Great. Thank you.

<A – Jerry Fishman – Analog Devices, Inc.>: Okay.

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

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Thanks for the first question. You'd mentioned about the variable comp and how that'll be a little bit lower – or the threshold to have it kick in will be a little bit higher. In general, should we think that at a given level of revenues now you're going to have a lower level of OpEx, is the first clarification? And then the second part of the question is with the shutdowns that you're having in the January quarter, what sort of OpEx increase should we look at in the April quarter, assuming the shutdowns don't repeat themselves?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, the shutdown is relatively modest. It's a couple of million dollars. And I think we have pretty good control over the OpEx; that we won't allow it to go up unless the revenues start to grow. And even if it does grow, it'll grow at a fairly modest rate. At a given revenue level, there are some other things that crept in that offset some of the decline we'll see on the variable comp piece. So some of it's a wash, and I think OpEx, we're generally trying to get business to operate in the low-30s, 31% to 32% of revenue. And that's what we're target to get back to as business grows.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. And then as my one follow-up; on the cash flow side of the equation, can you remind us what your expectations are for CapEx in the first quarter and then for the full fiscal year 2013?

<A – Dave Zinsner – Analog Devices, Inc.>: We're targeting to be somewhere in the neighborhood of $25 million for the first quarter. We have a general goal to be in the $100 million to $125 million for the year. It, obviously, depends on how the business operates. If it's – if we see more of a flattish environment, we'll probably be more towards the $100 million. If things start to grow a bit, we'll probably be closer to $125 million.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. Thank you.

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

<Q – Aashish Rao – Bank of America Merrill Lynch>: [indiscernible] (33:07) my question. Dave, typically ADI's gross margins were more a function of utilization rates than product mix, but you noted the – and all of this mix due to the shift towards consumer. Could you help quantify the impact of both these factors on the gross margin softness in both 4Q and fiscal first quarter?

<A – Dave Zinsner – Analog Devices, Inc.>: Relative to the prior quarter or – ?

<Q – Aashish Rao – Bank of America Merrill Lynch>: Yeah.

<A – Dave Zinsner – Analog Devices, Inc.>: I'd say most of the margin shift from the fourth quarter to the first quarter is going be loading related. Very little of it's going to be related to mix. It would be slightly beneficial actually to mix, but given that industrial will be down roughly what the corporate average is down, we're expecting that mix won't be a big factor. So that's fairly – for the most part, mostly loading related. The gross margin shift from the third quarter to the fourth quarter was pretty much a 50/50 split between mix and loading.

<Q – Aashish Rao – Bank of America Merrill Lynch>: Okay, cool. And then one question, Jerry, I wanted to talk about one of the businesses that doesn't get much attention, and that's the DSPs. And your DSP sales have held up fairly well for the last several years and have outperformed your large competitors' embedded division where sales are down 10% to 15% over the last year. What do you think are some of the reasons why your DSPs are holding up better? And any color on that would be helpful.

<A – Jerry Fishman – Analog Devices, Inc.>: Well, I think one reason, I believe, is that we have our – we don't look at DSP as a separate business unto itself. We're a signal processing company. We look to gear our DSPs towards integration of digital and analog signal processing into more integrated solutions for our customers. I think that selling standalone DSPs – and we've talked about that with investors a couple of years ago – is a very, very tough strategy in the market right now. So the real value of DSP for us – we still sell plenty of individual DSPs, but we also – and the thing that's really kept it at the levels we need is we're able, from a market segment and a customer standpoint, to provide more complete solutions of analog and DSP together. And that gives us a great advantage relative to most other players in the market. The DSP business – we've gotten down to the right expense levels, and I think the group that manages that business has done a pretty good job at doing that, commensurate with what we see the opportunity to be. But we've seen many, many applications that have developed and will develop in the future where integrating DSP and analog, very high performance analog, together provides a very compelling solution to our customers. Do you have any other comments on that, Vince?

<A – Vince Roche – Analog Devices, Inc.>: Yeah, just maybe one other piece of color. In terms of the predominance of the segments in that DSP product revenue base is really industrial, which is very steady; it's very, very diverse in terms of the number of customers that we serve. And we've also – in terms of raw growth driver, automotive has been the primary push there. So they are the two primary markets that comprise the sales of DSP and we're pretty well matched I think with both of them in terms of the – as Jerry said, a more standard product approach in the industrial space and a more targeted match between our DSP and analog technologies in more complete solutions in automotive.

<Q – Aashish Rao – Bank of America Merrill Lynch>: Cool. Thanks a lot.

Operator: Your next question comes from the line of Jim Covello from Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: [indiscernible] (37:06) my question; I appreciate it. If I could follow up, Jerry, on your comment about – I think you called the order pattern increasingly more cautious. Was that a function of orders went down a lot in the beginning of the quarter and then stabilized? Or did you see a steady decline in the orders over the course of the quarter and into the month of November?

<A – Jerry Fishman – Analog Devices, Inc.>: Well, I – we saw the orders decrease early in the quarter and they did stabilize at those levels for the rest of the quarter. That's the general trend we saw. And I think I'd make the same comments about November.

<Q – Jim Covello – Goldman Sachs & Co.>: Okay. And then you made the comment that you thought an industrial – a recovery in the industrial segment was more likely in Q2 versus Q1. Is that a function of seasonality or what your customers are telling you? Or was there anything to read into that?

<A – Jerry Fishman – Analog Devices, Inc.>: Well, I think it's all those things. It's that in Q1 for us, particularly with – the industrial business is 16,000 customers or something out there. So there's a lot of customers that shut down. It's really a days of sale business for part of that in the broad base and a key account business with the large accounts. So, typically, what we see in first quarter, and given that there's less sales days, is we see a decline in the first quarter and we see a rebound in the second quarter since it's a quarter that's fully – there's every day and every week are being worked by our customers. Also, I think given the inventory levels that the distributors are carrying and the customers are carrying, and the amount that our industrial business is down relative to where it was, just – it's got to snap back. The only question is when it's going to happen. And if historical is a good representation of the future, which in the absence of any information it is, we could see a snapback in that business in the second quarter. That's what we saw last year when the first quarter was down quite a bit. And in the absence of any other information, at least that's the planning assumption that we have right now in running the business. Now -

<Q – Jim Covello – Goldman Sachs & Co.>: Very helpful. Thank you so much.

<A – Jerry Fishman – Analog Devices, Inc.>: – the planning assumptions are just assumptions, but that's our assumption.

<Q – Jim Covello – Goldman Sachs & Co.>: Thanks, again.

<A – Jerry Fishman – Analog Devices, Inc.>: Okay.

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

<Q – Chris Danely – JPMorgan Securities LLC>: Hi. Thanks, guys. Just a quick follow-up on the bookings question that Jim asked; is there any common theme or common reason why your customers are telling you that the bookings are falling off? Is it pure inventory? Is it demand? Is it a combination? Is anybody mentioning anything about the fiscal cliff or any other economic problems?

<A – Jerry Fishman – Analog Devices, Inc.>: Well, I think it's all those things. You have to see the large customers, and it was interesting this morning; there was – the CEO of Honeywell was on TV yesterday or something. And he's sort of indicative of the kind of things that we're hearing from customers, is that your business levels are not bad. They're relatively stable. Some are even forecasting some growth next year, but there's so much uncertainty out there in Europe and the United States based on the same things about government tax policy, all the stuff that's going on in the economies, that people are just standing still, and that impacts their capital spending budget. In a similar way too, it's impacting the capital spending budget at Analog Devices. At the margin, people just stop spending money until they get some certainty. And that's just not rhetoric; that's what CEOs around the world are doing right now. But the part that's encouraging to us is that when we visit those companies, number one, they are really, really excited about our technology. Number two, they want deeper levels of engagement with Analog as a technology provider and a partner and they're saying that their businesses are not declining. They're either stable or getting just a little bit better. So all those things say, there's nothing fundamentally wrong with that business that a good dose of courage out there in the political environment wouldn't solve.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks. And my follow-up is probably for Dave. Dave, do you remember when your utilization rates were this low? I think you guys said somewhere in the mid 50s. And, what were your gross margins that the last time utilization rates were this low? And, do you have any figure on incremental gross margins as sales start to pick up?

<A – Dave Zinsner – Analog Devices, Inc.>: I think the last time we had utilization at this level was actually in 2009 so gross margins were in the mid 50s. It was a little bit of a different environment because we had a lot more capacity and business had really fallen off. Absent that, this is a historic low for us outside of the period of time where it was really difficult. Usually, for every 10% improvement in utilization, we get about 100 basis points of gross margin improvement. It can vary depending on – based on mix and there's also loading that we get on the back end, which could be incrementally beneficial. So, it has a little bit of a magnifying effect when business conditions improve. But, on a rough order basis, I'd say it's at least 100 basis points.

<Q – Chris Danely – JPMorgan Securities LLC>: Got it. Thanks, guys.

Operator: Your next question comes from the line of T. J. Muse (sic) [C. J. Muse] of Barclays Capital.

<Q – C. J. Muse – Barclays Capital, Inc.>: Yeah, C. J. Muse. Thank you for taking my question. First question, I was hoping to dig a little bit deeper on the operating leverage side. And so, first part, as you think about the higher threshold on incentive pay and some of the other actions that you're taking, what kind of incremental savings should we be thinking about looking into calendar 2013? And, then as a part of that, how should we think about your target in terms of what incremental operating margins should look like in a more normalized recovery period into calendar 2013?

<A – Dave Zinsner – Analog Devices, Inc.>: Well, we're roughly saving probably in the neighborhood of $20 million a year with the new bonus structure -

<A – Jerry Fishman – Analog Devices, Inc.>: At equivalent levels.

<A – Dave Zinsner – Analog Devices, Inc.>: – at equivalent levels too. Of course, there are other things that go in different directions. I would – if I were modeling OpEx, I think what I would model is very carefully managed OpEx growth, assuming business recovers in the second quarter, which is one scenario. And, then if the business continues to improve we'll be fairly modest in our growth on OpEx. So, we should see leverage on the OpEx side during a recovery. Our operating margins, when we were at peak performance on a revenue basis, were up over the 35% level. I think in its peak we were up above 37%. And, assuming we get back to business levels like that, our operating margins will be at similar levels. It's just a matter of – dependent on when the revenue moves in that direction.

<Q – C. J. Muse – Barclays Capital, Inc.>: That's very helpful. And, if I could ask a follow-up; in terms of the 18% tax rate guide for fiscal 2013, what has changed to enable that to be lower? Are you assuming a greater mix outside of the U.S.? Or, is that a tax strategy on your part or reduced expectations for fiscal 2013 top-line?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. We're assuming a similar mix of income domestically versus internationally and internationally within each region. This really has to do with just some tax planning that goes on all the time and some of the benefit of that tax planning is showing up in next year's numbers, at least we expect it to.

<Q – C. J. Muse – Barclays Capital, Inc.>: Good stuff. Thank you.

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

Operator: Your next question comes from the line of Tristan Gerra from Baird.

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Hi, good afternoon. Where do you think LTE could be as a percent of mix a year from now? I understand it's probably still below 10% currently. And, any views on the trends within infrastructure specifically between base station and small cell?

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah, the – I'd say in the second half of 2012 the proposition of our wireless infrastructure business that was 4G was around 15%. Now, I think as we get to the second half of FY 2013 that number will probably move to 25% of total. And, given that we have increased content to the tune of 20%, 30% depending on the customer from 3G to 4G that should bode well in terms of revenue upside for the company. Let me see, your second question was regarding – ?

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Base station and small cell opportunities.

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah, well, I think the thing to remember when you look at macro versus small cell, both are going to exist – coexist in the network. And, our expectation is that macro will continue to grow. That's what our customers tell us. That's what carriers tell us. And, basically to help densify the network to fill the network out, particularly in terms of being able to supply data needs in urban environments, what we'll see is a pretty steep increase in the deployment of small cell. So, what we're looking at is a homogenized network that will have coexistence of macro and small, more point-to-point units. And obviously, more backhaul optical and cable networking as well as to be able to support the movement of data worldwide. So that's pretty much as we see it. So, I think what you'll see is a huge increase in the number of radios that get deployed. And, what we' sell into the small cell area is a trickle down from what we developed for macro cell and have been developing for many, many years now. So, there's tremendous leverage as small cell becomes more prevalent in the network.

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: That's very useful. Thank you.

<A – Jerry Fishman – Analog Devices, Inc.>: Right. I think just one color comment on that is that the ADI content in 4G is quite a bit higher than it is in 3G.

<A – Ali Husain – Analog Devices, Inc.>: So, we have a number of people still waiting to ask questions here. If we're unable to get to your question within the allotted time, you can reach me after the call at 781-461-3282 but we will continue and try to get all the calls we can. So, before we take the last few questions, I'd like to mention that our first quarter 2013 earnings release is scheduled for February 19th, 2013, after market close. And, our conference call will begin at approximately 5:00 P.M. Eastern Time that same day. So, we're ready to take the additional questions now. Operator, may we have the next caller please?

Operator: Your next question comes from the line of Doug Freedman of RBC.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great. Thanks, guys, for taking my questions. When – could you guys give us a look at the real-time business conditions? I imagine lead times are low right now. And, could you give us an idea of what the demand looks like for this – the month of December given we're about to start that month?

<A – Jerry Fishman – Analog Devices, Inc.>: Well that would be predicting the future. We don't know what demand's going to be in December. We're cautious, particularly in the Industrial business because there will be a lot of shutdowns as I mentioned earlier. So, I think it – there is our sense and our internal plan is to just treat Q1 and be very, very cautious about what's going to happen because of the holiday period and all the things I mentioned earlier. So, we'll have to just wait and see what happens in December. We just don't know.

<A – Vince Roche – Analog Devices, Inc.>: On the lead time side of the story, we're shipping within six week lead times. We're shipping virtually 99% of the entire portfolio to on-time customer requests.

<A – Jerry Fishman – Analog Devices, Inc.>: I think the important thing that we're communicating around Analog and I think is worth mentioning tonight is that in the last cycle, when we managed the inventory well, we managed our capacity well. And, we did very, very well on the upside relative to many of our competitors who got stuck and couldn't deliver stuff. So, I think that's the mantra around Analog is that whatever we do, and we know we can't predict demand, particularly in these tumultuous environments. But, the one thing we can do and that we will do is make sure that we have supply when customers need it. And that's what we're going to do. So, we just can't predict in the short term what's going to happen any month or any week or any – it's even hard to predict exactly what's going to happen in the first quarter. And that's why the guidance range is so wide and with so many different factors that would enter into it. And that's very typical in these cycles because customers know they don't have to give you a lot of lead time. So, most of the business you get is turns business just the way it is. It's been like that, as you know, for 100 years. And, it will be like that for the next 100 years.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: All right. Jerry and Vince, I'm sorry I'm a little confused by that answer because if lead times are six weeks, you would have visibility for the month of December. And that's what I was asking for. I wasn't asking for -

<A – Jerry Fishman – Analog Devices, Inc.>: Are you talking about shipments?

<Q – Doug Freedman – RBC Capital Markets Equity Research>: I was asking for what you're seeing.

<A – Jerry Fishman – Analog Devices, Inc.>: Are you asking about shipments in December or orders in December?

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Shipments, what you're seeing from a demand perspective for shipments in the month of December.

<A – Jerry Fishman – Analog Devices, Inc.>: I think what we're seeing is commensurate with the guidance that we've provided for December. We don't see anything anomalous to the guidance we've provided. That's how we calculated the guidance. The only – what I was commenting on was the order rate, not the shipment rate.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Okay, understood.

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah, okay.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: If I could for my follow-up; Jerry, if we look back at the year and we go out to the 30,000-foot level, this cycle was not like any that we've seen in any of the past semiconductor cycles. Can you offer some of your commentaries on what you think changed over the last year or two that has made it – that we really didn't end up with what we would call a normal inventory cycle this year, only really seeing one seasonal quarter this whole year.

<A – Jerry Fishman – Analog Devices, Inc.>: I know it's confusing at best. The – most of the cycles in the semiconductor business are – over many, many years have been based more on supply than demand. And, there's always – the semiconductor industry is always trying to catch up either to the upturn or the downturn and always misses it. So, so many of the cycles are based on just what's loading – or how much capacity is there; shortages, double, triple ordering and then reaction to that and those cycles are pretty straightforward and we've seen those many, many times. I think the big difference in this cycle that we've seen is just staggering uncertainty in the customer base based on partly economic condition but also policy issues and tremendous uncertainty of what people are going do about capital spending which partially is related to their business level but is also related to nobody can figure out what's going to happen in those areas of policy. So, I think that that's the difference in this cycle that I think – which is why it got shortened from what we normally see and why it was very, very hard to predict in the short term what's going to happen. I continue to believe if the uncertainty gets cleared up and people understand the environment, whatever it is, good, bad or indifferent, I think things will get better. That's our sense of what's going on with the market based on what our largest customers and the senior executives at our largest customers are telling us. That's just an internal theory of Analog. We spend a lot of time up here, talking to very senior levels, particularly to our industrial customers. And that's what they're telling us. So that's what I believe.

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

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

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Hi. [indiscernible] (54:16) quantitatively on the turns required for the quarter, is it similar to what you registered in the October quarter, higher, lower?

<A – Jerry Fishman – Analog Devices, Inc.>: You cut off just a little bit, Sumit. But, basically, we don't typically quote turns. We don't even calculate them internally just because a lot of our backlog is associated with orders from distributors which don't translate into revenue until the distributors ship out the product to their end customers. But, I think it – just qualitatively, I think it's safe to say that we're in a high turns environment with limited backlog going into the quarters and that's been relatively consistent over the last few quarters.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Okay. And, then maybe just some more detail on the consumer outlook for the January quarter. Is the big hit that you're taking in called the audio business or the imaging business or is it not distinguishable in terms of the impact from one versus the other in the January quarter?

<A – Vince Roche – Analog Devices, Inc.>: Well, we have multiple segments or sub-segments under the consumer banner. And, we typically see a seasonality decline in the 15% to 20% area. So, what you're going see this particular quarter is something similar. It's going be all the segments and there's nothing really anomalous there.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Okay. That's all I had. Thank you.

Operator: Your next question comes from the line of Steve Shimming (sic) [Steve Smigie] (56:15) from Raymond James.

<Q – Steve Smigie – Raymond James & Associates>: Great, thanks. Steve Smigie. Just with regard to your comments about your wireless infrastructure business, you said you expect them to be more meaningful towards the end of 2013. And, I'm just wondering is that suggesting there's going be some softness in the middle of the year? Or, is there – are there some specific programs you expect to ramp in 2013 that makes it specifically stronger? And, this is your -

<A – Vince Roche – Analog Devices, Inc.>: Yeah. No -

<Q – Steve Smigie – Raymond James & Associates>: Yeah, sorry.

<A – Vince Roche – Analog Devices, Inc.>: Yeah. My comments on the infrastructure and comparing the second half of 2012 to second half of 2013 is really in relation to the proportion of our business that is 4G which I expect to increase and ramp during FY 2013. So that was really the comment there, more so than the particular order or demand patterns across the infrastructure market in general.

<Q – Steve Smigie – Raymond James & Associates>: Okay, great. That's all I had. Thank you.

Operator: Your next question comes from the line of Craig Ellis of Caris & Company.

<Q – Craig Ellis – Caris & Co., Inc.>: Hi, thanks for sneaking me in. Jerry, I just wanted to take a step back and look a little bit longer term. As you look out over the course of 2013 calendar and you think about the underlying dynamics in ADI's different businesses, industrial, communications, auto, et cetera, and the products that you have and the programs that you're involved in, where do you feel most confident that ADI can drive year-on-year growth in the coming year?

<A – Jerry Fishman – Analog Devices, Inc.>: Well, that's a real challenging question, given where we are and where we're coming from. So, I think in each of the areas, in each of the market segments that are now strategically important to us, industrial and automotive and communications and even parts of the consumer market where we could add real value, we're expecting that each of those is going to get better through the year. We'll see how it goes. We started off at a very low level. But, I think in the long term, there were certain market segments, as I mentioned that we're committed to strategically that we think we can change the user experience, get paid for what we do. Customers value us. I think those are the segments we're investing in. Ones that we've come to a conclusion don't meet those criteria, we don't invest in. And, I think we've shown that over the years – I think each year we go back and reassess what's the good, what's the bad, what's the ugly, and we make changes in the portfolio mix each year and sometimes more frequently. So, it's very hard sitting where we're sitting today to say which of the segments are going drive growth. Each of the segments has great opportunities. The real question is how does the market unfold during the year, mostly on the economic side rather than on what-product-we-have side. I think we're very confident about the product portfolio we have in the relations – we have with our customers. So that part, we're consistently and increasingly confident about. You just can't predict what's going to happen with aggregate business levels and sentiments out there and that's the confusing thing out there. In the absence of that, we'll be aggressive about what we can achieve in 2013.

<Q – Craig Ellis – Caris & Co., Inc.>: Okay. And, then the follow-up for Dave; Dave, channel inventories are below normal levels. As you think about where you'd like to manage them in a more normalized environment, how should we think about where inventories would likely normalize as we move through the year next year?

<A – Dave Zinsner – Analog Devices, Inc.>: Well, the inventories as I mentioned are down to close to 7 weeks which is definitely below our target levels. I think we'd like to see them be more in the range of 7.5 to 8 weeks. And, I think probably we'll be at the lower end of that certainly in the early part of the year but, as we push forward through the year, I would expect us to normalize back to that level.

<Q – Craig Ellis – Caris & Co., Inc.>: Thanks, guys. Good luck.

<A – Jerry Fishman – Analog Devices, Inc.>: Thank you.

<A – Ali Husain – Analog Devices, Inc.>: So we are – we still have a few callers here.

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

<A – Ali Husain – Analog Devices, Inc.>: But I think we're just going to keep going. Operator, can we have the next caller, please?

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

<Q – Steven Eliscu – UBS Securities LLC>: Yeah, that's Eliscu. Thank you. First of all on automotive, you – if we look back at calendar 2011, you were growing in excess of 20% year-on-year. That's settled down and now it looks to go negative. Should we think of a rebound as we go through the coming fiscal year back to the 20%-plus type growth rate? Or, was there something unique in terms of an inventory build or a set of end products that aren't necessarily selling as well going forward?

<A – Vince Roche – Analog Devices, Inc.>: Well, the automotive business has grown very fast in the company over the past five years. In the last three years, the compounded growth rate is somewhere in the region of 14% or 15%. And, automotive is now a much bigger portion of ADI's revenue. It's a bigger number. But, I would say the way to look at this thing is that the growth impact is more about the markets and declining – or muted car sales more so than the adoption of technology. If anything, I would say the rate of designing of our products across the three areas of safety, power train, and infotainment is stronger than ever. We're penetrating in regions – or customers in Asia now that we have not been so successful as in the past in a completely different way now, which bodes very well for the future. So, my sense is it's more really about the market demand at the consumer level rather than demand for ADI products.

<Q – Steven Eliscu – UBS Securities LLC>: Okay. That's helpful. And, as a follow-up; in the base station market, you talked about a 20% to 30% content increase as we go to LTE. I'm trying to understand is that a one-time increase in content because it is showing in your growth rate. Or, is there something more a long-term secular increase in content as we go to LTE advanced and small cells as we look out to the middle of the decade?

<A – Vince Roche – Analog Devices, Inc.>: Yeah, between all of the evolution from generation to generation, from 2G to 3G to 4G, we've typically seen 20% to 40% increase in the value of the products we sell as well as applications, partly because the complexity or sophistication of the products we're providing is greater. The performance increases from generation to generation. And, also we've been expanding our footprints in the – in all these radio applications. So, for example, we are providing a lot more radiofrequency technology than we did, say, five or six years ago. We are beginning to meaningfully deploy clocking technology as well for timing generation and control. In areas like cable and optical infrastructure, we have a tremendous market share and growing in observation and control circuits. So, I think it's really – it's a function of the complexity of the products commanding a better ASP and also ADI expanding our bond footprint in each of the applications.

<Q – Steven Eliscu – UBS Securities LLC>: Great. Thank you.

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

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Hi. Yeah, thanks a lot. Hey, Dave, on the change in the tax structure, does that have any impact on your operating cash flow that's generated domestically? And, can you remind us what that is?

<A – Dave Zinsner – Analog Devices, Inc.>: It does not have any impact on our cash flow for domestic cash flow. It runs – it can vary depend on a quarter but it's probably – on a rough order, it's probably about a third of the total cash flows generated in the U.S.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Okay. Thanks. And, then on the military part of the business, can you remind us how much of that is – it is as a percent of sales and what your outlook is for there?

<A – Dave Zinsner – Analog Devices, Inc.>: It's marginal. It's in the mid-single digits.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, it's about – it's roughly about 6% to 7% of the company's revenue depending on when you measure it and it's been relatively steady over the past year.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Okay. Thank you very much.

Ali Husain, Director of Investor Relations

Great. So that concludes our Q&A session. There's a couple of folks that we will get to after the call. We appreciate your participation and look forward to talking with all of you again during our first quarter 2013 earnings call scheduled for February 19th, 2013, beginning at 5 P.M. Eastern Time. Thank you very much.

Operator: This concludes today's Analog Devices conference call. You may now disconnect.