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Corporate Participants

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

Other Participants

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James V. Covello – Analyst, Goldman Sachs & Co.
Christopher B. Danely – Analyst, JPMorgan Securities LLC
Romit J. Shah – Analyst, Nomura Securities International, Inc.
Steven Eliscu – Analyst, UBS Securities LLC
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Doug Freedman – Analyst, RBC Capital Markets Equity Research

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 the Analog Devices First Quarter Fiscal Year 2013 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 analysts and investor participants. [Operator Instructions] Thank you. Mr. Husain, you may begin your conference.

Ali Husain, Director of Investor Relations

Thanks, Terry and good afternoon everyone. This is Ali Husain, Director of Investor Relations. Thanks for joining us for today's call. If listeners haven't yet seen our first quarter 2013 press release, form 10-Q or the release announcing an increase in our dividend, you can find them on our IR website at investor.analog.com. You can also access this conference call from the same page. A recording will be available within two hours within this call's completion and 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 from continuing operations as well as for revenue from continuing operations by end market and product type.

Participating with me in today's call is Jerry Fishman, CEO, Vince Roche, President and Dave Zinsner, Vice President of Finance and CFO. During the first part of the call, Jerry, Vince and Dave will present our first quarter FY2013 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.

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

I'd ask you to please note that the information that 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 and these forward-looking statements include risks and uncertainties, and our actual results could differ materially from those that we'll be discussing. Factors that could contribute to such differences include, but are not limited to, those described in our SEC filings including our most recently 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 February 19 2013. And with that I'll turn the call over to ADI's CEO for opening remarks.

Jerald G. Fishman, Chief Executive Officer

Okay Ali you can take a deep breath.

Ali Husain, Director of Investor Relations

I just wanted you to have more time on the call, Jerry.

Jerald G. Fishman, Chief Executive Officer

Okay, good, glad to hear it. Well hi and good afternoon to everybody who's joined the call. As you know from the press release our revenues for Q1 were about $622 million, which was down about 10% from the previous quarter and also down about 4% from the same period last year, which you might remember the first quarter last year was a 14-week quarter. The diluted earnings per share, which exclude a few special items was $0.44, which was at approximately the mid-point of our guidance that we provided last quarter. Overall, the order and sales patterns were very challenging during the first two months of our Q1 as our customers continued to reduce their inventories and industrial and infrastructure capital spending remained very muted going into the end of the calendar year. In January, order rates began to improve and remained strong so far this quarter.

Our belief is that the current order strength is the result of our customers becoming more confident about their prospects as 2013 unfolds and also the end of inventory destocking. Now this has certainly been a pretty tough cycle, particularly in the industrial market, where we believe that customers' ordering has been well below consumption now for several quarters. Based on historically low customer inventory levels and feedback we get from our largest customers and also our largest distributors, we expect that Q1 will likely be the trough quarter for ADI in this cycle.

Over the past few quarters when demand weakened, we very carefully managed our business, keeping production levels low and our inventory under very tight control. Inventory dollars actually went down in Q1, although days increased as a result of the sales decline. We also managed operating costs very tightly, and we moved strategic resources to the most important programs. , And finally, by design, our variable compensation costs were lower as business conditions weakened. So this all in combination produced very respectable margins and very strong cash flow during a very challenging quarter and has also set up significant upside operating leverage as business conditions improve.

Our very strong cash flow and balance sheet support an increase to our dividend, and this afternoon we announced that our Board of Directors voted to increase our quarterly dividend to $0.34, which is up 13% from last quarter. This increase reflects our strategy to continuously enhance our shareholders' returns via increasing dividends and is enabled by ADI's very strong and consistent cash generation capability. Since the first dividend was paid in December of 2003, almost 10 years ago, we have paid a cash dividend to shareholders each and every quarter and we've grown the dividend consistently over that period.

So now I'd like to turn the call over to Vince for some more details and insights into the trends in the end markets. And I'll come back after Vince and Dave finish their comments and make some comments about what we see going forward. So, Vince?

Vincent T. Roche, President

Thanks, Jerry. Good afternoon, everybody. Well, as we expected coming into the quarter, sales were mostly down sequentially across all our major end markets. So I'll talk now about some of the specifics and provide some insight into what we see going on in each of the major markets.

Firstly, Industrial sector revenues, which make up about half of our total decline, 8% sequentially in Q1. The decline was broad based across customer tiers, geographies and channels and across automation, energy instrumentation and defense aerospace applications. As has been the case now for several quarters, order rates from Industrial customers appear to be well below consumption rates. Customer inventory reductions coupled with constrained CapEx dampened order rates from these customers through much of Q1. But since early January, order rates have been improving, which leads us to expect the Industrial end market will be the strongest grower in the second quarter.

Now we have spoken many times about the importance of the Industrial segment to ADI, and we continue to see an excellent match for the full suite of ADI's high performance signal processing technologies. There are many macro level opportunities in such areas as power grid management, machine automation and precision instrumentation, which drive the deployment of more and more sensor and actuation systems, which in turn will drive the need for high-performance signal processing. We've been steering increasing levels of R&D to the segment over the past few years to strengthen our core capabilities in converters, linear and DSPs, and to extend our capabilities in areas such as RFs and MEMS in order to capture the opportunity available to us. This strengthening technology platform, along with ADI's strong reputation for technology, supply chain and quality amongst the tens of thousands of customers we serve, leads us to believe that our Industrial growth can be pushed well above the average in future.

So let me turn to the Communications Infrastructure sector now. In this area, sales declined 12% in the first quarter after three successive quarters of sequential revenue increases. The decline was broad based with the largest sequential decrease coming from the wireless infrastructure sub segment. The CapEx environment worldwide was muted and customers rebalanced their inventories in Q1 as they headed into the calendar year end. Our expectation is for modest growth from the infrastructure sector in 2Q with meaningful tailwind to the business as we progress into the second half of the calendar year.

Now accelerated deployment of 4G LTE and TD-LTE wireless systems globally as the introduction of heterogeneous networks combining macro and small cells offered solid growth opportunities for ADI. Our customers are dealing with significant challenges in the areas of efficient and flexible spectrum utilization, power reduction, system costs and deployment efficiency. Because the radio architecture sets the performance envelope for the system, customers need the advanced radio transceiver technologies in which ADI specializes. In the past three years we've increased R&D to broaden our core technology reach in order to exceed our customers' need and position ADI to deliver the most competitive radio transceiver solutions on the market.

Now in addition, we've sharpened our focus in the Wireline sector to focus on control applications and selective data path with advanced converter, linear and timing and power solutions for the leaders in cable, Ethernet and optical infrastructure. We remain very bullish about ADI's growth prospects in the infrastructure segment, given the growth in equipment installation footprint, the fact that we continue to deepen our engagements with the market leaders and the increasing content available to ADI as we extend our available market from generation to generation.

Let me focus on Automotive now for just a few minutes. Revenue there declined marginally in the first quarter, down 3% sequentially, representing 17% of sales compared to 16% in the prior quarter. During the first two months of the quarter, we experienced inventory reductions of our customers. In January and into February, we have seen indications of an improved demand environment, so in the second quarter we should see modest growth in Automotive. Over the last few years, Automotive has been a consistently strong growth sector for ADI, almost doubling in revenue from 2007 levels.

With the push-pull effect of government mandates and an insatiable appetite from OEMs for high performance signal processing, our long-term expectations remain high in Automotive. Car manufacturers continue to electrify and automate the automobile, predictive, preventative and protective safety systems, precise powertrain control systems and high quality multimedia systems require a proliferation of sensors and actuators which in turn place ever-increasing demands on signal processing technologies. So we believe this is an excellent match for ADI's signal processing.

Also, while we continue to have a strong presence in U.S. and European manufacturers, we've made significant progress in executing our plan to penetrate the Asian market over the past few years. The combination of a growing served available market, strong technology match and deepening customer engagement leads to us believe that the Automotive end market will continue to be a strong growth story for ADI.

And finally, the Consumer business declined 22% sequentially in what was an expected seasonal decline for that business in Q1 after a very strong performance in the fourth quarter. In total Consumer was 17% of sales, which is a more typical Consumer mix for ADI compared to 20% in the prior quarter. We expect this segment will be approximately flat in the second quarter.

Now as we've mentioned before, we have been refocusing R&D on those parts of the Consumer market where we can make a demonstrable and sustainable difference to the user experience particularly in audio and imaging applications. In order to mitigate the inherent sector's volatility, we endeavor to invest in a given application only when we are convinced that we can play over several generations in a leadership position and make adequate returns. Many such subsectors exist in the Consumer market, and we will carefully exploit these opportunities with the market leaders in years ahead.

So at this point, I'll hand it over to Dave who'll take us through the details of the financial result.

David A. Zinsner, Chief Financial Officer & Vice President

Thanks, Vince, and good afternoon, everyone. As Jerry had mentioned earlier, first quarter revenue declined 10% sequentially to $622 million. Revenues declined 4% compared to the first quarter of 2012, which as Jerry mentioned was a 14-week quarter. Our gross margin was 62.7% in the first quarter. This was down from 63.8% that we reported in the fourth quarter primarily as a result of lower factory utilization. Utilization decreased from the high 60%s in the prior quarter to the mid-

50%s in the first quarter, which dropped inventory on our balance sheet by $6.5 million. Inventory and distribution was down in dollars in the first quarter, but in terms of days was up about one week, to eight weeks, based on lower sales. We believe inventory in the channel is increasing in line with improved end customer order rates through the distributors. 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.

We recorded a $14 million restructuring charge in the first quarter and if you'd like further details, you can find more information in the form 10-Q filed with the SEC today. Excluding this charge, operating expenses were $222.7 million, which was down $5 million compared to the prior quarter. The decrease was primarily due to tight control over discretionary items and also due to our variable compensation model which modulates with business performance. Operating profits before tax for the first quarter excluding this restructuring charge was $168 million, or 26.9% of sales, down approximately 400 basis points from the prior quarter. Other expense of $3 million in the first quarter was flat to the fourth quarter and reflects the ongoing run rate of our net interest expense.

Our first quarter tax rate was approximately 17%, excluding an adjustment of our annual tax rate for the reinstatement of the R&D tax credit. We're expecting our tax rate to be approximately 17% for the remainder of FY2013.

Diluted earnings per share of $0.44 excluding special items was at the mid-point of our guidance.

Cash flow in the first quarter continued to be strong. We generated 25% of our revenue or $158 million in operating cash flow. Capital expenditures were $18 million resulting in free cash flow of $140 million, or 22.5% of revenue for the quarter. Our cash and short-term investments balance increased about $87 million during the first quarter and now stands at approximately $4 billion with approximately $1.1 billion available domestically. At the end of the first quarter, we had approximately $760 million in debt outstanding. Net cash on a per outstanding share basis was slightly above $10.

Our accounts receivable balance was down about $10 million versus the last quarter on lower overall shipments in the quarter and our days sales outstanding increased to 48 days from 45 days in the prior quarter, which is typical in a recovering business environment.

During the first quarter, we distributed approximately $91 million or 69% of GAAP net income in dividends to our shareholders. Our Board of Directors declared a cash dividend of $0.34 per outstanding share of common stock, up from $0.30 last quarter, which will be paid on March 12, 2013 to all shareholders of record at the close of business on March 1. At current stock prices, this dividend represents an annual yield of about 3% and represents a 13% dividend increase.

While we repurchased a relatively small amount of stock this quarter, we continue to view repurchases as an important vehicle to improve shareholder return and will continue to be opportunistic buyers of our stock with about $560 million remaining under our Board authorized share repurchase program.

Our results in the first quarter continue to demonstrate the strength of resolve to invest for the future while responsibly dealing with the realities of an uncertain market. Our actions during this cycle have built in significant operating leverage as we continue to focus our investments on profitable, diverse and sustainable markets and begin to increase production levels as orders increase while keeping tight control of our operating expenses. We have a very responsive manufacturing organization capable of responding quickly to the changing demand pattern.

So now I'll turn the call over to Jerry for some closing comments and to discuss ADI's outlook for next quarter.

Jerald G. Fishman, Chief Executive Officer

Well, thanks, Dave. As I mentioned earlier, our sense is that Q1 will turn out to be the trough quarter for ADI in this cycle and we expect revenue growth in Q2. We expect our most significant revenue growth during second quarter will be from Industrial customers where higher order rates, inventory stabilization and somewhat higher capital spending should drive strong, sequential growth in the quarter.

We expect that Communications Infrastructure will grow slightly, mostly as a result of inventory stabilization. But as Vince mentioned earlier, our largest Communications customers are forecasting many new deployments, which should result in higher demand for ADI in the second half of the calendar year.

Automotive should also grow in Q2 given our higher opening backlog and generally stronger demand patterns in many regions. We expect our Automotive motive business to continue to outgrow the market as a result of better overall car sales and a very strong ADI product position.

For our Consumer business, our plan is to be flat in Q2 with the growth of this business very dependent on the product cycles of our customers.

In total, we're planning for revenues to grow between 4% and 8% sequentially in Q2. For the year, we should benefit from higher Industrial and Communications capital spending, which drives a very large portion of our business, and also some more content gains in Automotive. We expect utilization will be slightly better in Q2 relative to Q1 as we continue to manage our inventories.

This, coupled with a stronger product mix, leads to us estimate gross margins will increase to approximately 64% in the second quarter. We're planning for OpEx to remain approximately flat in Q2, and that coupled with the gross margin increase should continue to provide very strong operating leverage in Q2. And as a result, we estimate that our earnings in Q2 to be in the range of 49% to 55%, a rate of growth quite a bit above what our expected sales growth is.

As we look longer term, we have very high confidence in our business strategy, which combines our very high performance signal processing component technology that we sell to tens of thousands of customers with a very unique ability to integrate this core technology into systems level solutions for the largest customers in our served markets.

And our customer base around the world is increasingly convinced that our core technology is the best-in-class and our increasing systems knowledge as applied to more integrated products is becoming a real differentiator in our business. While economic uncertainty certainly remains, we believe that we're making the right tradeoffs between continuing to invest for the future while very carefully managing the short-term operations of the company. And if this cycle follows the patterns of previous cycles, we will emerge from this cycle stronger than when the cycle began and we should continue to provide continuing very solid returns to our shareholders as a result.

Ali Husain, Director of Investor Relations

Great. Thanks, Jerry. We plan to run this call until 6:00 p.m. Eastern Time. During today's Q&A period, please limit yourself to one primary question and no more than one follow-up question. We'll give you another opportunity to ask additional questions if we have time remaining.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Your first 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. First, I wanted to dig in a little bit into the revenue guidance for next quarter. So your typical Q2 seasonality if I look over the last 10 years or so might be somewhere in the ballpark of say, 1% to 4% and you're guiding up, say, 4% to 8%. Is this the snapback that everybody's been hoping for? Is this just an end to customer destocking that's driving that? Are customers moving into a restocking mode, or do you see the potential for customers to move back into a restocking mode? Or would you expect, I guess, a return to seasonal or even potentially sub-seasonal growth as the boost from the end of the destocking process tails off?

<A – Jerry Fishman – Analog Devices, Inc.>: Well, I mean, again, it's all speculation, Stacy. But our sense is that the increases we're seeing in the orders which supports the guidance we've provided is really the combination of all those things. It's that I think customers are at the margin more enthusiastic at some of the uncertainty, particularly in the United States, and Europe has been lessened certainly. And also, as we've been saying, particularly with industrial customers, there's been a huge destocking going on out there, which is why industrial revenues have fallen so fast. So I think there's some inventory replenishment going on consistent with a better outlook, particularly in the Industrial market, going forward. So I think like in most cycles, it's never a simple answer; it's a combination of things going on that are causing us to have a plan for Q2 in the range that Dave and I mentioned.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Are customer inventories really that low? If we're looking at distribution, you're right back to eight weeks, which is sort of dead in the middle of your sweet spot. Disti inventory doesn't look all that low.

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah but Stacy, it's eight weeks based on a very low sales level. So distributors are counting for the fact that sales are going to go up next quarter and they're trying to get their inventory levels in line, particularly with Industrial customers, of what they're expecting going forward rather than what they've seen going backward.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. That's helpful, thank you. For my follow-up, I just want to dig a little bit into the margins for this quarter. So you had a little bit of upside. I think you guided to 62%, you came in at 62.7%. With utilizations in the 50%s and the revenue miss, I was just wondering what drove that margin upside in the quarter?

<A – Dave Zinsner – Analog Devices, Inc.>: The mix was a little bit better than we expected, particularly the mix within our Industrial business. So that made it a little bit better.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: And which end markets in Industrial were driving that?

<A – Dave Zinsner – Analog Devices, Inc.>: It was a combination of instrumentation and automation.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. Thank you guys.

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

<Q – Jim Covello – Goldman Sachs & Co.>: Hi. Great. Thanks so much for taking the question, guys. Just a follow-up to Stacy's first question. Particularly in the Industrial segment, has the pickup in orders gotten the orders to the consumption levels yet? Or are customers still ordering below consumption level?

<A – Jerry Fishman – Analog Devices, Inc.>: I don't really think we know it with that much precision. I wish we did. But in the Industrial market we're serving tens of thousands of customers and a lot of that's coming through distribution. So I think the only thing that we can really communicate is a sense we're getting from the largest customers and the distributors that their outlook is a little bit better and they're starting to order some product. I think beyond that, all we can do is speculate and I'd rather not do that.

<Q – Jim Covello – Goldman Sachs & Co.>: Sure. In the Com Infrastructure segment, you talked about meaningful tailwinds in the second half based on many new deployments. Geographically, can you give us a sense of how that breaks down and the timing of how that breaks down? Is that potentially China first and then maybe the U.S. later, or how might that work?

<A – Vince Roche – Analog Devices, Inc.>: Well, I think if you look at the public announcements in terms of capital spend, you've seen AT&T, T-mobile in the U.S. announce very aggressive buildouts during the course of year 2013 here. And you know, China Mobile and China Telecom have talked about, as well, releasing the, if you like the second part of the 4G TDSCDMA release as well in China, particularly in the second half of the year. So it seems that if you were to characterize the thing you'd say America in particular and then to some extent Japan as well, I know Japan is doing some buildouts in terms of back haul and wireless infrastructure during the course of the year, but I think China is very much second half as we see it at this point.

<Q – Jim Covello – Goldman Sachs & Co.>: That's very helpful. Thank you. Good luck.

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

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

<Q – Chris Danely – JPMorgan Securities LLC>: Hey, thanks, guys. So my first question, I'm probably the only guy on this call that's, you know, wants the upturn more than you guys.

<A – Jerry Fishman – Analog Devices, Inc.>: I don't think so.

<Q – Chris Danely – JPMorgan Securities LLC>: We've heard from a number of other companies that business is picking up. Jerry or Vince or Dave, can you just compare and contrast this year versus last year and why this is – this is or is not a head fake? Is anything different between this year and last year?

<A – Jerry Fishman – Analog Devices, Inc.>: Well you know, that's the same exact question we keep badgering our guys with, by the way. But I think last year, there were so many economic uncertainties that emerged right after the beginning of the year that were historic in nature. Particularly in the U.S. and Europe, but even to some degree in China. So our sense is that those – anything can happen and the world can get very uncertain very quickly and there's, if you want to be pessimistic, there's a lot of reasons to be so about that. But our sense is that the – what happened last year was actually quite unique, and this year, although there's still uncertainty, it's not the catastrophic uncertainty that plagued the market when the world collapsed nine months ago.

So, that's our plan, that's our assumption, that's the best feedback that we get from the large customers. We're going to have to just wait and see what happens, but that's the best we can predict right now and we're just trying to communicate what our plan is through the balance of the year based on the feedback we're getting from the customers.

<Q – Chris Danely – JPMorgan Securities LLC>: Sure. And as a follow-up to that, just on bookings, you commented that they continued to get better. Do you have any sense of what your book-to-bill is so far this quarter? Is it tracking ahead of what it was last quarter?

<A – Jerry Fishman – Analog Devices, Inc.>: We don't really look at that in that way week to week. I think just generally we're seeing stronger order patterns in most regions, and they're noticeably stronger. So, given the breadth of the customer base we have, we view that as a good sign right now.

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

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

<Q – Romit Shah – Nomura Securities International, Inc.>: Thanks a lot. Just on inventory, Dave, I know you guys have been trying to manage it flat on a days basis and it creeped up a little bit this last quarter. Yet at the same time we are seeing pretty decent gross margin leverage in April. So should we expect inventory days to hover around the 120 plus level, or do you think you can bring it down here in April?

<A – Dave Zinsner – Analog Devices, Inc.>: Our goal – if you look back last year and use that as a proxy, our utilization, we actually increased our utilization up into the 60%s last year and let the inventory go up. This time around, we're just tweaking the utilization up a little bit in an effort to get our inventories down a little bit in absolute dollars. And in addition since revenue will be up, that should bring the days of inventory down several days, I would imagine. So our goal is to get days of inventory down this quarter and kind of position us for even more significant operating or gross margin leverage in the back half of the year, assuming the recovery continues.

<Q – Romit Shah – Nomura Securities International, Inc.>: Okay. Thanks. And just as a follow-up, guys, if you step back and look at historical revenues and profits, I think April of 2011 was your revenue peak; it was around $800 million and you were generating operating margins of around 38%. You know, if we were to get back to $800 million is that still sort of a reasonable number to assume for operating margins? Or do you think you can maybe do a little bit better than that?

<A – Dave Zinsner – Analog Devices, Inc.>: I think as a first order we're definitely committed to getting back to those same gross and operating margins at those similar revenue levels. There are things that we're doing internally to even goose that up further, but first we'd like to just get the recovery underway. But we have been investing in the Industrial and Communications markets more significantly than we have in the past, those have a better mix in terms of gross margins, and we do some things on the finance side to help manage and improve the disciplines around cost and pricing to help drive the margins further.

So we think all those things are in the cards for us. So at a minimum we get back to the same gross margins, and hopefully if we can execute to the things that we think we can, we can even do better.

<A – Jerry Fishman – Analog Devices, Inc.>: I think as Dave said earlier, one step at a time.

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

<Q – Steven Eliscu – UBS Securities LLC>: Just kind of following up on the expense question. Specifically on OpEx, if we get some good growth over the next several quarters, four to eight quarters, are we going to see a catch-up in the variable portion of OpEx that potentially makes OpEx grow faster than sales? Or have you instituted some limits there that keep OpEx to grow below sales growth?

<A – Dave Zinsner – Analog Devices, Inc.>: I think you've seen in the past we've done a pretty good job of managing OpEx and not letting one component of it drive the behavior of the operating expenses. Our goal is to grow OpEx at a rate that's slower than the revenue growth. We intend to get leverage from the model. So I think you can expect operating expenses to grow at a rate that's below revenue growth.

<Q – Steven Eliscu – UBS Securities LLC>: Thank you. And as a follow-up question, in the Automotive sector, we've seen historically where that's been among your fastest growing segment. Has something now changed in that segment where perhaps Industrial, especially as we see the restocking there, assume the growth leadership over the next few quarters? Or does the content growth and just overall macro get Automotive back to that fastest growing segment?

<A – Vince Roche – Analog Devices, Inc.>: Well, you know, it has been clearly the fastest-growing segment over the past number of years for ADI. If you look at just the very, very recent short term, the luxury car manufacturers have shown very, very strong output, for example, particularly the German car manufacturers. So I think it's a mixture of, over the last number of years, it's been a case of the market is just craving technology to differentiate automobiles in general for powertrain, for safety and for entertainment. And we have a good position in all three spaces; we're not overly dependent in any one area. All three areas are growing nicely. So given also that we've raised our R&D investment in that area in the past three years and that we're very well positioned with the mid to high end car manufacturers in particular across the globe, and as I mentioned in the script that we're also seeing good penetration at this point in time for our technologies in the Asia region.

So it's become a global business for ADI, we've very good reach across the applications, broad technology from MEMs to converters, linear, RFs and so on. So we're very bullish for the long term and I think it's really a question of what the market deals rather than ADI specifically. I think it'll what the market deals us.

<A – Jerry Fishman – Analog Devices, Inc.>: I think another clarification would be that in the short-term, I think the snapback in Industrial will be a little heavier because it went lower, and the inventory went lower relative to historical levels in the Industrial market. So in the short-term, you might see a faster snapback on the Industrial market, but in the longer term the Automotive market still offers great growth prospects. But in the short-term, it might be more weighted toward Industrial.

<Q – Steven Eliscu – UBS Securities LLC>: That's helpful. Thank you.

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

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Nice work on the gross margins. I had a question on the Communications end market. I think when you came into the quarter, you were expecting it to be flattish and it ended up down 12% sequentially. What were the deviants from your expectations for the January quarter?

<A – Jerry Fishman – Analog Devices, Inc.>: Well we had lower orders. I don't mean to be facetious, but that business is very lumpy and we don't get a lot of very accurate forecasts since it's very customer centric and region centric and deployment centric. So I think one of the reasons that our sales was lower is we mis-forecast that. And there's a million reasons, but basically it was that capital spending in that sector was very weak, particularly into year end, weaker than we had thought, and as a result our sales were lower. Again, it's very hard to predict because of the concentration of customers; but that's what happened.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: So there wasn't any notable trend in terms of geography or wireless versus wired?

<A – Vince Roche – Analog Devices, Inc.>: No. It was spread across both the primary segments there, and--

<A – Jerry Fishman – Analog Devices, Inc.>: As we say our eastern business and our western business.

<A – Vince Roche – Analog Devices, Inc.>: Yeah, and across fixed as well as wireless. So it was very broad-based.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Okay. On the eight weeks of inventory at your channel customers, the – recognizing that as kind of your like – the normal level, when was the last time it was at eight weeks? Because it's been below eight, I think, for the last year or so?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. It's been about a year and a half since we've been at eight weeks.

<A – Jerry Fishman – Analog Devices, Inc.>: I think the important thing is what I pointed out earlier is that the weeks when the revenues are changing quickly is not a great indicator. I mean distributors order parts based on what they're expecting, not what they have seen the last quarter, and when there's a transition in the market the weeks cause you to come to the wrong conclusion. So you have to basically look at the dollars relative to what the expectation that you have for next quarter is. And from that standpoint, that's why distributor orders on us are up.

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah. In absolute dollar terms, it was down about $12 million quarter over quarter and we haven't been at this level in absolute dollars since 2010, as low as this, since 2010. So this is actually a pretty low level of inventory. It just happens to show up as eight weeks because of this quarter's revenue level.

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

Operator: Your next question comes from the line of Aashish Rao with Merrill Lynch.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Hi. Thanks for taking my question. Dave, in prior cycles, ADI has seen trough-to-peak incremental gross margins of 85% to 90%. Should we expect some more fall-through during this recovery? Or do you think the shift towards a more phablet kind of model could result in a lower gross margin fall-through?

<A – Dave Zinsner – Analog Devices, Inc.>: You know, we haven't had much of a shift. It's been running about 50% internal and 50% external basically since I've been here. So it's been pretty stable and every quarter it might move one percentage point to the 49% or 51% in the external side. So I don't think that has any impact on our gross margin leverage going forward. I would say, you know, on a rough order, it probably is in that 80%, 85% fall-through for gross margins. Of course, any quarter can be slightly different based on the mix. Obviously the more internal we have, the better the fall-through is. But I think as a rough order that's probably in the ballpark.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay, cool. And then, Jerry, Consumer sales fell 20% sequentially in January as expected and kind of guided it to be flat in the second quarter. How is your design win momentum on 2013 products and how do you see sales playing out over the course of the year in Consumer?

<A – Vince Roche – Analog Devices, Inc.>: Well, you know, our Consumer market is the composition of many sub-markets and we very, very carefully picked our places there. You may have noticed over the last number of years we reduced R&D in general in the Consumer space, and so we're trying to pick those places where we're playing with the market leaders, we're defining problems that are really meaningful to the user experience. And we're able to convince ourselves that we can solve problems that are really meaningful but also that we can invest and maintain a sustainable position.

So, clearly I think the momentum for ADI at this point in time is in the portable arena in particular. But also the imaging area. We have a broader-based business in broadcast, it's a reasonably significant part of the Consumer space where we've a very, very broad base of products deployed across a lot of customers. So it's a mix, but I would say dominated by more portable applications in the areas of audio and imaging.

<A – Jerry Fishman – Analog Devices, Inc.>: I think one of the questions that we get quite often is, is Consumer going to dominate your business, and is it going to a much larger percentage of your revenues, because that's one of the places you can get very high growth? I think our operating assumption is not that. That we don't expect Consumer to grow as a percentage of our sales from where it is now, which is 15 to 16%. That's by design, because of the volatility, and it's much harder, and as Vince was saying to find places where you can sustainably add value over many, many generations.

So I think our sense is there's tremendous for growth for ADI in the Infrastructure markets and at the same time there are good opportunities for us if we're very selective in the Consumer market. But I think if we had to stand and look into the future, we'd probably say that if you looked out a couple of years, Consumer sales would certainly not increase as a percentage of our sales and that's certainly not the way – or that's certainly the way we're investing our very scarce R&D dollars right now. So if we had to make a of guess of that over the next couple of years, it'll probably be about the same percentage of sales as it is right now. Not more and probably not much less.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Perfect, cool, thank you.

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

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Great, thank you. I wonder, big picture if I can look at your Industrial business, it looks like you're down about 25% or so over the last eight quarters. If you look at that across the sub-segments of Industrial, I remember I had a thesis that stuff like medical equipment or energy might not come down as much as everything else in a macro weakness. Did that prove to be true? Or are there segments of Industrial that held up better, or was it pretty uniform across the sub-segments that you track?

<A – Vince Roche – Analog Devices, Inc.>: Well, I think the part of our business that had the biggest downturn was the instrumentation part. Generally speaking, as you know, the Industrial business is very, very CapEx sensitive, so most parts suffered roughly the same. But I'd say instrumentation was done a little more, particularly large items like big arm ATE, for example, automatic test equipment. But also, factory automation suffered needless to say. There's been a very rapid buildout of plant and equipment in the manufacturing zones in China for example. So they've taken a bit of breather particularly during the past 12, 15 months. But I think overall, we saw a fairly evenly distributed downturn in the sub-segments, but instrumentation this past quarter was a little more affected.

<A – Jerry Fishman – Analog Devices, Inc.>: I mean I think over many, many years Industrial capital spending has been a good trend predictor for our business. And the correlation is very, very tight to that. So typically what you see is when Industrial capital spending goes down across all those segments that Vince mentioned, our sales react at a very – you know, very quickly to that. And they also rebound very quickly from that. So it's basically a question of what's going to happen with Industrial capital spending around the world over the next couple of quarters? If it turns out that we see some growth in that, reflective of less uncertainty out there, I think our Industrial business will do quite well.

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Great. Thank you.

Operator: Your next question comes from Harsh Kumar with Stephens.

<Q – Harsh Kumar – Stephens, Inc.>: Wondering if you can give us an idea if your wireless Infrastructure is more centric around 3G or 4G? And any kind of split that you may be able to give us, or color would be very helpful. And then I had a follow up.

<A – Vince Roche – Analog Devices, Inc.>: Well our business, you know, we've a broad business in 3G, that's the dominant part of ADI's wireless Infrastructure business at this point in time. You know, the fastest growing part of Infrastructure for ADI is obviously 4G given the rapid deployments in the western and eastern hemispheres. I'd say at this point in time, the split, I don't have the absolutely accuracy here, but I believe 4G is somewhere in the region of 10% at this point in time. The 3G is probably in the region of 70%, and 20% in 2G, but the shift is very clearly towards 3G and 4G.

<A – Jerry Fishman – Analog Devices, Inc.>: You know, that shift has very positive content implications for ADI. The amount of content we have in 4G is higher than it was in 3G due to the breadth of the product offerings as Vince talked about it. There's certainly more transceivers, more radio transceivers in future generations than in prior generations. So I think the design-in base we have in 4G or that's equivalent in most locations is very strong, which is why – it's one of the reasons why we're enthusiastic. As those deployments accelerate, we hope, in the second half of the year we should do fine.

<Q – Harsh Kumar – Stephens, Inc.>: Very, very helpful. And then Dave, I'm not sure if you gave a number for the loading of – expected loading on the fab for the 2Q timeframe?

<A – Dave Zinsner – Analog Devices, Inc.>: I said utilization – you mean on a utilization basis, is that what you're asking Harsh?

<Q – Harsh Kumar – Stephens, Inc.>: Yes, yes.

<A – Dave Zinsner – Analog Devices, Inc.>: So I think I said in the prepared remarks that utilization would be in the high 50%s.

<Q – Harsh Kumar – Stephens, Inc.>: Great, thanks guys.

<A – Dave Zinsner – Analog Devices, Inc.>: And it was in the mid-50%s this quarter.

<Q – Harsh Kumar – Stephens, Inc.>: Thank you very much.

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

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

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Great. Thanks a lot. Dave, just a housekeeping question. If we were to get the R&D tax credit back again for fiscal 2014, would you likely run around that same 17% in that year as well?

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

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Okay great. And then just sort of a higher level growth question. Overall if we were to get in a more normalized environment, it seems like – where it seems like maybe we're trending towards, given all the dollar content increases you're getting on multiple devices out there, would you be able to achieve something like a three times GDP growth? So let's say global GDP was 4%, could you hit 12% growth or is 8% to 10% sort of a more reasonable assumption?

<A – Jerry Fishman – Analog Devices, Inc.>: It's very hard to tell because it's speculation, but I'd say more the latter than the former.

<Q – Steve Smigie – Raymond James & Associates, Inc.>: Okay great. Thank you.

Operator: Your next question comes from the line of Amanda Scarnati with Citi. Amanda your line is open.

<A – Ali Husain – Analog Devices, Inc.>: I think we'll have to go to the next call.

Operator: The next question comes from the line of Craig Ellis with B Riley Caris.

<Q – Craig Ellis – B. Riley Caris>: – taking the question and nice job on the gross margin, guys. Dave, just to start off with you. Nice dividend increase here after a substantial dividend increase a year ago. Can you just help us understand what the parameters were that helped you and the Board settle on the $0.04 increase, and how do we think about any potential for further increase from here?

<A – Dave Zinsner – Analog Devices, Inc.>: Yeah, sure. So one thing I think the Board has proven – ADI's proven is that we're pretty committed on the dividend, and maybe more broadly speaking we're pretty committed to returning cash to shareholders. If you go back to 2003 when we started the dividend and I think shortly after that started a pretty meaningful buyback program, we've given back about $6.5 billion to investors over the course of the last what – nine or ten years.

So that's a commitment that they've had in the past, that's a commitment that the Board and senior management have in the future. So I think largely increases in dividend are going to be dependent, obviously, on earnings. And as we grow earnings I think you can expect us to continue to grow the dividend; we think it's a great vehicle to kind of systematically and routinely provide cash back to our investors.

You'll still see us do buybacks. We're committed to that program as well. I think we said we have a little over $500 million in the buyback program that exists, we'll go out and get more if we need to. We're going to be a bit more opportunistic on the buyback side; it's going to depend a little bit on the stock price and its relationship to kind of historical averages and things like that. But I think you'll see us be committed both on the buyback and the dividend. I mean our goal was, historically we had payback, a payout ratio I think of about 40%, our goal was to get the payout ratio up. We didn't have a specific number in mind other than to say we wanted it to be more meaningful as a percent of our earnings and that was the basis around why we increased the dividend this quarter.

The other thing is, I think we felt like we had some confidence around a quarter two that was going to be much better than our first quarter. We felt we were getting our legs under us from the inventory work-downs that we had experienced in the prior few quarters. And so now seems like the appropriate time to ramp the dividend again.

<Q – Craig Ellis – B. Riley Caris>: That's helpful. And then just follow-up question, I know there's been a lot of focus on Industrial, and this is either for Jerry or Vince. As you look at your end markets it seems like they're all coming back pretty strongly, but I'm wondering if you can provide some of the same color on a geographic basis? Are you seeing a fairly uniform recovery geographically or are there certain geographies that are really leading and others that are lagging, and if so which would those be?

<A – Vince Roche – Analog Devices, Inc.>: Let me start with the weakest. I'd say the recovery in Japan, if there is one, is very, very muted. Europe is, you know, is getting back to some kind of strength, but I'd say the better growth is in America, and China somewhere between America and Europe at this point.

<Q – Craig Ellis – B. Riley Caris>: Thanks guys.

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

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great. Thanks for taking my question, guys. Dave, for you, CapEx for 2013, can you offer a number for us?

<A – Dave Zinsner – Analog Devices, Inc.>: Yes, sure. Our goal is to be around $100 million. I think we've put a range in there from, what, $90 million to $120 million or so give or take. I think right now the way the trajectory is working, it looks like we're going to land pretty much on the $100 million.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: All right. And can you highlight for us where you think you might run into some capacity constraints? What I'm really looking for here is some sort of impetus in the market where we might find that lead times are to stretch [ph] systemic (52:27)?

<A – Dave Zinsner – Analog Devices, Inc.>: I don't think we're going to be the great proxy for lead time expansion; we're pretty good at keeping our lead times pretty short. As I mentioned, we're only bringing our utilization up to the high 50%s this quarter. We have 121 days of inventory. We seem to be in pretty good shape on the back end. But that's the nature of our model., we like to be on the side of keeping our lead times short, not have a lot of double bookings and stuff. At some point I would imagine some competitors who manage things much more tightly might run into that situation but that's probably not going to be us, Doug.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: All right. If I could, Jerry, for and you Vince, could you offer some commentary on what you're seeing as far as ASP trends? I know there were some efforts a few years back to try to push some of your ASPs higher. Has that been successful and do you think you could move your ASP mix over time?

<A – Vince Roche – Analog Devices, Inc.>: Well it depends very much on the market. In general, by the way, our ASPs are very, very stable. As Jerry mentioned just a little while ago we are seeing ASP extensions particularly in areas like Communications Infrastructure where for successive generations of technology deployment we're just getting more content, more value and – you know, per application. You know the same is true in the Automotive space. I would say Industrial is very, very stable. But as a corporation, we're always looking for ways to just essentially price the technology that we have to the value we're creating and do our best to hold it, so. But, you know, I think it's true across the board.

<A – Jerry Fishman – Analog Devices, Inc.>: Yeah I mean I think the point that Vince raises is exactly the right one, and it's that there's a lot of ways to get your prices up. One way is you can just go out to your customers and say 'by the way, what you used to buy for X, you're buying for 1.05X' and generally that doesn't have a happy ending. There are other ways to do it in terms of price management, in terms of making sure that your value keeps going up to customers, and I think we're more on the value creation side than just random price increases, which is not our history and not with our customers expect to do.

But when you have 10,000 products to sell to 100,000 customers, very small movements in that make a big difference, and there's a lot of more professional price management that we can do that is quite well anticipated by our customers. So it's really a whole bunch of things, but these things are very long-term programs and we do see beginnings of movement on some of that stuff.

But just to clarify, because somebody asked us this question last time, we're not going out and just raising prices willy-nilly to customers, because we know that doesn't end well.

<A – Vince Roche – Analog Devices, Inc.>: I think you're aware that a large part of our Industrial business, for example, goes through the channel. And a large part of that business again is with smaller customers; a lot of product, smaller customers with very, very long life cycles. And that business tends to run up book cost forever. So large part of our business is essentially transacted once and we never have to re-price that business again. So most of the critical management of pricing is obviously with larger customers in large market sectors.

<A – Jerry Fishman – Analog Devices, Inc.>: One of the other points I think that's worth noting is that one of the very unique services that ADI has offered for many, many years and continues to in the future is we don't discontinue many products. So for these customers that Vince was talking about that have very long life cycles; many of these customers buy our products for 20 years. And then this is true in the small accounts, it's also true in some of the very large accounts, and when we go out and visit those customers, we hear that that's a very, very important aspect of what customers really value. Because when they're not using many parts per application, to go redesign a 20-year-old part out doesn't get them great economic benefit and at the margin causes them great economic pains. So I think we've concluded that that is very valuable to customers and customers are willing to pay us for that, because the design costs of changes is so high. So these are really sophistications of our model as compared to vast changes in corporate philosophy.

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

Ali Husain, Director of Investor Relations

Great. Thank you. Well, that's all our callers for today. As we conclude our Q&A session, I would like to thank you all for your participation and we look forward to talking with all of you again during our Second Quarter 2013 Earnings Call scheduled for May 21 2013 beginning at 5:00 p.m. eastern time. Thank you.

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