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EDITED TRANSCRIPT

ADI - Analog Devices Inc at Citi Global Technology Conference

EVENT DATE/TIME: SEPTEMBER 03, 2014 / 6:45PM GMT



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PRESENTATION

Amanda Scarnati - *Citigroup - Analyst*

Good afternoon. And welcome to our ADI roundtable discussion. My name is Amanda Scarnati. I'm the senior associate on the specialty semiconductor and semi-cap equipment team here at Citi. I'm joined today by Dave Zinsner, the CFO of Analog Devices; Rick Hess, the former CEO of Hittite, who's now part of ADI; and Ali Husain, in IR over at Analog Devices.

Ali's going to give you a brief introduction, kind of bring us up to date on their earnings that they just had last week. And then we'll take into Q&A after that.

Ali Husain - *Analog Devices, Inc. - Director of IR*

Great. Well, thanks for the introduction, Amanda.

We released earnings last week, so figured this is a good opportunity just to update those folks that haven't had a chance yet to listen in.

But our third quarter was a very good quarter for ADI. We grew our sales 4% sequentially and 7% year over year. Diluted earnings came in near the high end of the range, as did our revenue on an organic basis.

During the quarter, our sales growth was led by the industrial and communications infrastructure markets. On the industrial side, we saw strength across the broad base of our diversified customer base. In industrial, that kind of tracks with PMI and GDP and things like that.

In addition to that, we actually saw some very good performance out of some of the more programmatic areas of industrial, particularly in the areas of aerospace and defense and energy.

And on the communications infrastructure side, sales were up about 5% sequentially. And that was really driven by wireless base station activity deployments in North America and China and in emerging regions as well virtually across all of the communications standards.

So a good quarter for ADI. Gross margins were up about 40 basis points to kind of 66.5% range. Inventories continued to be in good shape. Our inventory in the distribution channel coming out of the quarter was seven and a half weeks, very similar to previous quarters. So I think it was a good quarter for ADI. We executed well.

In addition, we completed the acquisition of Hittite Microwave, and that's a great acquisition for ADI. And what that does is really essentially allow us to integrate more and more solutions on the RF, microwave and millimeter wave side, where we can cobble those technologies around what we're currently doing on the signal path. So great quarter for us.

And then, looking forward to the fourth quarter -- our guidance was on an organic basis for ADI to be up about 1% at the midpoint. And really, we expect most of our markets to be up in the fourth quarter. So that would include communications infrastructure, automotive and consumer.



On the industrial side, we guided it down slightly. And the reason for that was really some seasonal weakness we expect to see in the fourth quarter in the ATE space. And also, we have particularly good strength in third quarter from the more programmatic areas -- in industrial for example, the aerospace defense and energy spaces.

So I think when you look at the fourth quarter and the guidance on the industrial side, we're looking at a pretty seasonal kind of guide in a pretty stable environment with inventories in good position. So that's my introduction.

Amanda Scarnati - *Citigroup - Analyst*

All right. So we'll just start diving into some questions. We're going to start with some general -- [the amount of] questions that we've been asking all of our specialty semiconductor companies, and then we'll dive into some more specific questions on the different ADI business [sides].

So starting with geographic demand, what is your view on US, China, Europe? Is any demand accelerating or decelerating heading into two-half 2015? Are we looking at traditional seasonal patterns?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

I'd say it's more or less seasonal. Obviously, just from an overall kind of GDP basis, the Asian markets have been growing faster. And of course, last quarter, we did see the Asia region grow at a faster rate than either the US or Europe. Europe actually has been recovering. And so for us, that actually did pretty well last quarter. Not quite as good as Asia, but certainly an improving situation there.

And US was generally flattish. But that's kind of typical for our July quarter, given that there are a lot of kind of production shutdowns that occur over the summer months. And so we generally see the US market be a little bit flattish for us.

Amanda Scarnati - *Citigroup - Analyst*

Great.

Moving on to distributors and booking the distributors -- are you seeing any signs that bookings are getting better or worse thus far of your quarter just ended? So how are bookings kind of trending at distributors? Is there any sign that restocking is occurring, or lead time stretching out?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

We actually look at the distribution channels two ways -- one, how the bookings are going for our end customers on the distributors; and then how the distributors' order flows look like to us. In general, distributors are managing their inventory levels to be generally in the seven-and-a-half week range, plus or minus a couple of days. In fact, actually, at the end of the quarter, that's where they ended up -- at seven and a half weeks.

So I think they're taking very prudent steps in managing their inventories and allowing their order flow to generally equalize to what the demand is that they're seeing. We have seen, over the course of the last couple of quarters, demand pick up in the channel. And so I think actually next quarter is going to be generally kind of flat to up again for distribution. And that's kind of reflective of, I think, an overall just generally healthy situation going on worldwide in the industrial segments.

Amanda Scarnati - *Citigroup - Analyst*

Great.

Moving on to kind of the hot topic in the semi space, consolidation -- we've seen quite a bit of consolidation in 2014 with 11 or so in the semi space, including the ADI Hittite acquisition. How do you perceive the M&A landscape shaping out in two-half 2014 and 2015? I know Vince has mentioned in the past that ADI is looking towards acquisitions when they're strategically viable. But now that Hittite is underway, there's still the appetite for mergers kind of going forward.

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

Yes. Well, I think, for us in general, the way we look at M&A is we go through a process of looking at what we think are the best opportunities for ADI to exploit the portfolio that we have into the markets that we serve, and with a bias that we're going to develop that internally. Occasionally, we just see some gaps within the portfolio that we think are better served by finding assets outside of what we're doing internally.

And that was the case with Hittite. We saw a real need for microwave and millimeter wave capability. We didn't think we could ramp it a reasonable timeframe to be able to take advantage of what the market opportunities were for those products. And so Hittite just made a lot of sense for us.

So that's kind of the way we're going to go forward with M&A. So it's not really for consolidation's sake, or trying to add earnings for the sake of just adding earnings. It really begins with kind of a strategic understanding of what customers want, and then identifying things that are kind of outside of what we would do organically to bolt onto the Company.

I think there are still those opportunities for ADI. We have a very high bar, obviously. Hittite managed to hit that bar, exceed that bar. And so that's why we acquired them. I think there are still opportunities to do that within the Company framework. And so I think you'll see us sporadically do it when it makes sense.

On a broader basis, there does appear to be consolidation going on. I think in the last couple weeks, we've seen a couple of announcements. And so that does seem to be accelerating.

I do think that customers, larger customers in general, are looking for their suppliers to provide more and more of the solution, as they kind of migrate away from doing hardware development into software development.

And so there is, I think, generally a need, I think, for the smaller companies to start to find homes in places where they can bolt onto a larger product offering and be able to be part of that solution. So I think that is what's causing a little -- or is a catalyst, I guess, for the consolidation that is going on. And I would -- I'm going to guess that the relative pace of acquisition activity is probably going to continue over the next two years.

Amanda Scarnati - *Citigroup - Analyst*

Excellent, thank you.

And while we're on the topic of acquisitions, just move on to Hittite. That closed this quarter. And how will this newly acquired company help ADI's growth in the near term? And what sort of revenue and OpEx synergy should we expect in the coming six months to a year?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

Okay. Well, since I have the guy that's going to do all that, I might as well turn it over to him and let him answer that.

Rick Hess - *Hittite Microwave Corporation - Former CEO*

We really see the synergies in several different areas. The first one, obviously, is, I believe, putting the engineering teams together between the two companies. And we're seeing great cultural, great-fit synergies between the technologies [that are] being developed by ADI and the technologies



[that are being] developed by the former Hittite, and the marriage of those two to really -- as Dave talked about, how to put those together and provide a better solution for the customer. So we really see that as a big synergy.

The next piece is on the manufactured side. Clearly, ADI has a lot more volume than us and drives -- we have a lot of common wafer fabs that we could drive that volume through. And that'll help in the Hittite cost side in the long term.

And from a test side, and a manufacturing test and assembly side, ADI's [again] volumes drive that business. We will move some of our tests that we did in the United States -- we'll move some of that to the Philippines, where ADI has a very large manufacturing test facility. (Inaudible) that will help with the cost. So we think there's some cost synergies that we can get out of the long term in the manufacturing side of things.

And the last and significant piece is in the channel. (Inaudible) 600. So that'll really help our penetration in customers. (Inaudible) redistribution about [30%] being (inaudible) channel (inaudible) over 50% of that business in distribution. So we think that'll expand our customer reach [there].

So we see all those things adding in that will give us an overall benefit as we move forward with the acquisition. So we see a lot of benefit (inaudible).

Amanda Scarnati - Citigroup - Analyst

Great.

Moving on to growth drivers -- looking towards 2015, what segments of your business do you expect to be the largest growth drivers? And what is ADI's current growth objective?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Yes. First of all, the addition of Hittite is certainly going to help us drive growth. Hittite was growing in the double digits. We think over time we will get [rendered] synergies from Hittite. So we would expect that to be accretive to our growth.

In addition, one of the things that's perhaps dragged us a little bit overall in terms of growth has been our consumer business, which has been declining as we've kind of pulled away from investments around consumer and pushed those investments into some of the other markets. That's been declining at a rate of about 8% a year, give or take.

And so we think that we've kind of turned the corner on consumer. We have some opportunities in the pipeline. We tend to be very selective in consumer. But I do think that that is at least neutral to growth rates of the overall Company. And so that no longer is the headwind.

Clearly, as Rick talked about, a stiffer business for us is going to be a very attractive market for a long time to come, particularly now that we have pretty much the complete frequency spectrum of products that we need to offer into that space on the wireless side.

So we think as data rates go up, as you all buy more and more electronics that want to interconnect with 4G and ultimately 5G, that just requires more and more bandwidth and more and more throughput. And so, we think we'll have an opportunity to really take advantage of that and really drive outsized growth in that space over time.

And then, in the industrial business, which has largely been, more or less, a GDP kind of market, we do think that there will be opportunities over time as machines get -- I'm going to avoid saying Internet of Things as much as possible. But as we move into interconnected machines that fence and control and communicate back to central control systems, that activity will all require more and more high-performance signal processing. And we think we're in a great position to take advantage of that, exploit that, and potentially see industrial grow at a rate that's faster than its traditional growth rates.

Amanda Scarnati - Citigroup - Analyst

Great.

And kind of picking up on that industrial segment, I know all of you touched on just a little bit -- but industrial was up 7% in July, which is considerably strong, especially given that it was at 13% in April. What sort of macro factors are playing into this drive in growth in industrial?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Well, I think some of it was there was a bit of a rebound in the test side of our business, which have been for a number of quarters a laggard. And it's kind of driven industrial to be a little less than kind of the average of the peer groups. And so I think we saw recovery in the last couple of quarters in that segment, and so that helped out quite a bit.

In general, GDP has been okay. And we're broadly attached to virtually every kind of mainline industrial segment you can think of. And those generally have good second quarters and generally decent third quarters. And so we were somewhat the beneficiary of that as well.

So it's fairly broad-based. We have 60,000 different customers in that space. Any one application, any one customer, generally doesn't drive the performance. It's an overall kind of improving health of that market that's driven the growth rate.

Amanda Scarnati - Citigroup - Analyst

Are you seeing any pockets of weakness within that industrial business?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Not at this point. I would say that the military business for us has been a little bit sideways. It's actually better in the ADI [jumps for] business than it has been in our organic business. There were a couple of programs that kind of rolled off, and that can sometimes be lumpy. We'll experience that, I think, again in the fourth quarter a little bit. But I think long term, that military aerospace business looks quite strong. And so I think we'll do fine there.

In addition, in the fourth quarter, the test equipment bit market business will be down a bit, as most of, I think, the test equipment people or customers have talked about in their own conference calls. So we're going to expect that to be a little weaker. And that's, I think, the only reason why we were going to have industrial being down in the fourth quarter is because of the test equipment business kind of falling off a little bit. Outside of that, the rest of the business continues to do quite well.

Amanda Scarnati - Citigroup - Analyst

Great.

Moving into automotive -- ADI's automotive business grew about 11% in 2013 and is projected to grow close to 10% again in 2014. What's driving this recent growth in auto? And how has the mix in dollar content changed in auto in the past couple of years?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Well, I wouldn't call it recent. I mean, I think when I started, the automotive business was \$225 million in revenue in 2009 or 2008 or something like that. And now it's up to close to \$500 million, if not exceeds \$500 million this year. So it's been a long path of execution.



A lot of it is driven, obviously, by dollar content, which a lot of suppliers into this automotive space have experienced. We've targeted a couple of key areas.

I think one in particular that's done really well, which is safety -- we are uniquely positioned in that space because we have MEMS sensors. They're a specific part of the solution around safety systems. Many of those safety systems are being mandated in cars. And so as those become mandated, as it becomes more mainstream, we've just seen great dollar content growth within the automotive space.

In addition to that, we developed technology around start-stop batteries, which became relatively universally deployed in Europe and will soon be making its way to the US; in some cases, it already has. And so that makes your traditional engines more energy-efficient and helps them reach fuel efficiency requirements that many countries have.

And so that's been another dollar content win for us. We have a lot of capability around infotainment, and that has continued to expand.

We've also been traditionally, earlier on in -- the automotive business has been largely focused in Europe and the US. And we haven't had as much exposure in Asia. But we've taken steps to improve that. And so our Asian exposure has consistently increased over time. And so that's helped drive the growth as well.

I think automotive, the next five years -- there'll be periods where it's a little under this and a little over this. But I think in general, the growth rates will be relatively consistent with what we've seen in the past. Because I think the dollar content story continues to play out in the automotive space. And very few companies can meet the quality requirements in automotive. Because I think you're almost down to zero parts per million requirement in the automotive space in order to meet their quality standards. And very few companies can meet that standard and provide kind of the high-performance sensing and signal processing conditioning that we can do.

Amanda Scarnati - Citigroup - Analyst

Great.

Moving now into the communications segment, which is another large portion of the business -- what percentage of the communications sales are 4G LTE versus 3G versus TD-SCDMA driven? And how should we think about the split between base stations and datacoms?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

4G is basically about 35% to 40% of probably our business. And I don't know, in the China exposure, I'm not even sure what China exposure is. Because we sell to OEMs, and then they sell sometimes into China, and sometimes they sell to their Chinese-based OEMs that sell outside of China. So it's hard to quantify. But I'd say probably 20% or 30% of our revenue comes directly from the China markets.

Did you want to add anything?

Rick Hess - Hittite Microwave Corporation - Former CEO

No, I think that was [pretty good].

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Okay.



Rick Hess - Hittite Microwave Corporation - Former CEO

And I think from the wired to the wireless, it's 60 [or so] percent that's in --

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Oh, yes.

Rick Hess - Hittite Microwave Corporation - Former CEO

-- wireless, and the rest of it's in wireline.

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

I mean, the great thing about this business is we're not beholden to any OEM, any standard, any specific provider. We deploy just high-performance radios that are agnostic, really, to any sort of network or solution, basically. So we tailor it, obviously, to the specific standards. But it allows us to pretty much be agnostic to which OEM is successful and which markets are successful.

Rick Hess - Hittite Microwave Corporation - Former CEO

And I think you see that between the Hittite portfolio and [our] portfolio. It matches up very well. Hittite is very strong in [back-home], and ADI is very strong in macro base station and the small cell base stations. So the portfolios fit very well together. And again, we have different customer strengths across the segments. And I think that matches up well (inaudible).

Amanda Scarnati - Citigroup - Analyst

Great. And I know Ali mentioned in his earlier remarks that wireless base stations were strong in the July quarter. How do you see base stations in the US and China developing throughout the rest of the year?

Unidentified Company Representative

The deployment plan is lumpy, especially in China. But we see continued growth. The US has been much more stable. But we think there's still an awful lot of demand in China. And as we switch from TDD to FDD and from operator to operator, we will see lumps in the process. But we still see a lot of growth there and a lot of opportunity.

Amanda Scarnati - Citigroup - Analyst

Okay.

I'm going to pause now and open it up for questions from the audience. If you have any questions, just please make sure you press the silver button on your microphone. Any questions at this point?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Think we have one here.



Unidentified Audience Member

Do you guys have any handset exposure at this point, or not?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

We have a little bit. It's been low single digits as a percent.

Unidentified Audience Member

Okay. Probably not much to be meaningful. But there are some signs out of Asia that the reduction in subsidies has shrunk the net adds, and that unit volumes may actually be down. Do you see any like pockets of (multiple speakers) --

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

Well, probably not the best answer, because we have so little exposure. It's mainly concentrated in smartphones, and it's relatively small [bum].

Unidentified Audience Member

And on the infrastructure side in Asia, is your expectation that 2015 is a growth year? Because there are some questions about whether or not China's peaking out --

Unidentified Company Representative

Yes, I don't really think it's peaking out. Whether it's more of a flat [year] -- but I think from our content point of view, we're going to grow. So (inaudible) in that area.

Amanda Scarnati - *Citigroup - Analyst*

All right.

Moving on to uses of cash -- it's been about a year and a half or so since [you announced an] 80% return of free cash flow target. What is the current priority of use of cash between dividends, buybacks, acquisitions? And how has this changed, if at all, since announcing the target?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

No change in how we think about it. We still want to return 80% of our cash either in the form of a dividend or in the form of a buyback. We're a little bit more biased to the dividend, because we think that at least our investor base values kind of consistency that they get out of the dividend. But we're not opposed to the buybacks. We tend to look at the buyback approach as one in which we kind of take advantage of kind of technical weakness, I guess you'd call it.

So we look at rolling day averages. And as it kind of falls below those technical levels, we tend to buy more and more back on a daily basis. And that is kind of the situation we are in at this point. And that was the situation that we were in in the latter part of last quarter.

So you saw, I think, a relatively healthy buyback last quarter. I think we're almost to the same level in the first four weeks or so of this quarter, as we did for all of last quarter. So at least at this point, given what the stock is doing, the buyback has been ramping up. So that will perhaps provide more than 80% in certain quarters. And this quarter may be one of those quarters where that does happen.

We do have plenty of cash on the balance sheet still. I think it's \$3 billion or so. And we have certainly more capacity if we ever wanted to -- if we need more cash to add some leverage as well. Given our A rating, we get debt financing at a pretty attractive rate. So we're not in any way handcuffed in terms of what we can do in terms of M&A on a go-forward basis. So we utilize some of that cash for that purpose over time as well.

Amanda Scarnati - Citigroup - Analyst

And what percentage of that cash is onshore versus offshore?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Two-thirds of the cash is offshore, and a third of the cash is onshore.

Amanda Scarnati - Citigroup - Analyst

Moving into products integration -- ADI, you previously mentioned integrated solutions for wireless products. Can you elaborate on what's driving this, and what are the most promising areas for integration within wireless, and also maybe perhaps within wireline?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

So basically it's the integrated transceiver. Do you want to kind of --

Rick Hess - Hittite Microwave Corporation - Former CEO

Yes. I think from the wireless standpoint, ADI has been very advanced [in] integrating the complete transceiver from antenna all the way back to the bits, and really including all the RF receive-transmit functions as well as the A-to-Ds and the D-to-A converters.

So we've been very aggressive in that. And that penetration in that market has really picked up, and we're clearly leading that effort. And it's really consuming a lot of the small cell opportunities and starting to work its way into the macro cells.

So I think that's a great opportunity. We will continue with that path, continue to increase the development in that area, and expand that reach in the wireless area.

The integration on the wireline side is not as high today. But we will continue to look at that moving forward in the future as to what we do to get a better share in the wireline opportunity.

Amanda Scarnati - Citigroup - Analyst

Any questions from the audience at this time?

Moving into the consumer segment -- the smallest portion of the business -- it's been down double digits over the last three years; projected to again decline in 2014. Outside of the microphones (inaudible) beyond, can you talk about the reasons for the decline in that business? And where do you see that business trending in the near term?



Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Yes. Well, the microphone business, and the fact that it was sold off and contributed to the negative growth rates of consumer, it was part of a larger strategy, which is to really refocus consumer only in the areas where we thought we could have high differentiation, or in markets that, more or less, had characteristics that were similar to the industrial business, more or less.

And so that's really what we've shifted the investment towards. And the rest of that R&D that does not need to be dedicated to those initiatives basically was redeployed into industrial and auto and communications infrastructure.

And so as you move R&D away from consumer, it's one of those markets where you get almost an instantaneous negative reaction. And so we saw kind of a decline happen relatively immediately.

The challenge is that the R&D that we reinvest takes some time to -- there's a gestation period, given the long design cycles, before the fruits of that R&D materialize in outsized revenue in those markets.

And so that's taken some time, although I think we're starting to see that this year. I mean, I think that's one of the main reasons why we saw the communications infrastructure business do what it did. And a lot of that was the development of transceivers. And a lot of that R&D was R&D that we shifted over from the consumer space.

Now we're at a point where the business is relatively stable. All of the headwinds of kind of moving R&D away from consumer are behind us. And we are kind of opportunistically investing small amounts of R&D in areas that we think have an opportunity for products that will be differentiated over several lifecycles.

I think it's going to be very selective. We won't have a lot of homeruns in consumer, but I think we'll do quite well and consistent with the rest of the business. And I think from our standpoint, we won't have this kind of sword hanging over our heads that at any moment we could be designed out of some fancy smartphone device, and suddenly have negative growth again.

So that's kind of our approach. I think it just meets with the way we think about markets where we think we can get a good return. I think at the end of the day, we think of ourselves as a business-to-business type of company, a company that deals with customers that deal with other businesses, as opposed to that deal directly into the consumer space, where it's just very hard to differentiate yourself over the course of a couple of generations. And it's very difficult to get paid for the value of the R&D that you bring.

Amanda Scarnati - Citigroup - Analyst

At the Analyst Day, you updated the target model. Can you just remind us again about the new operating margin targets, and what has to be done in order to kind of reach those targets, and give and take within that?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Yes. Well, the high end of the operating margin model is to get to 36%. And today, we're operating in the low 30s. And so part of that has to be the gross margins. I mean, we're doing well in the gross margins. I think we have the gross margins that are probably the envy of most of the S&P 500, but we're not satisfied with that. We think we can improve it.

Hittite will add -- immediately help us in terms of gross margins. But over time, we think some of the synergies we'll get will come out of cost of manufacturing. And so, we think that there's some opportunity to get further gross margin improvement there.

We're also doing a number of things internally, just little singles that we can do to slowly improve the gross margins over time. So ultimately, we'd like to see those gross margins get closer to 68%. That will help out, obviously, getting our operating margins up into the 36%.

And then, we think that we can get further leverage off of both our R&D and our SG&A -- probably more our SG&A than R&D. But we do think there's leverage in both areas relative to where we are today as a percentage of sales. And we'd like to slowly get ourselves down into the low 30s as a percent of revenue for OpEx, together with getting our gross margins up closer to the high end of the 60s. We think, obviously, that drives kind of mid- to high 30% operating margins, which is kind of the ultimate model.

Amanda Scarnati - Citigroup - Analyst

And will there be continued focus on kind of increasing R&D in these industrial and automotive areas? Or is that going to kind of trail down a little bit to get that high (multiple speakers)?

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Well, I think we will -- ideally, I think our goal is to grow. And so if we grow the R&D rates at a slower rate than revenue but still grow it, that's a pretty good result for us. So I don't think we have to necessarily cut back on R&D. But we certainly will arrest it a little bit, so that it doesn't grow at a rate that's at revenue or, God forbid, higher than revenue. And that's been our approach.

QUESTIONS AND ANSWERS

Unidentified Company Representative

Think we have a question here now.

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

[Think we have a] question.

Unidentified Audience Member

I was wondering if you could go over some of the macro drivers -- connected car, healthcare, whatever the --

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Yes.

Unidentified Audience Member

-- large macro drivers are that would influence your business either positively or negatively -- what the outlooks are for some of those things.

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Yes.

Obviously, one of them, which we talked about, is this kind of thesis around data rates in wireless network, and that those continually have to go up. And bandwidth continually has to be increased. And so capital deployment needs to be released by the carriers to the OEMs. And the OEMs, of course, order the radio capability from us. So that's a key macro driver is that that continues to go as it has been going this year.



We're tied at a high level to PMI, or kind of industrial manufacturing. And so as that improves, that generally is a driver of our performance. I think to [get] outpace revenue beyond where we've been growing in terms of industrial, we do need to see this kind of macro trend of interconnectivity, machine-to-machine communication, the sensing of machines and monitoring it, controlling it, communicating it back to central systems --

Unidentified Audience Member

(Inaudible) healthcare, home healthcare --

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

I kind of lump that all in one bucket, because we throw the healthcare in there. But we do have a healthcare business. It is largely an investment in vital signs monitoring, home healthcare -- vital signs monitoring, both in the hospitals and in the home, at a high-performance level, to be able to monitor patients.

Unidentified Audience Member

And that's a big growth area for you?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

It is, yes. And we've put -- in some of the investments that we pulled away from consumer went into that space. And we deal with all the large OEMs that service that market -- the GEs, the Phillips, and so forth. And they have big aspirations as to where they think healthcare monitoring is going. And to do that, they do need some very, very high-performance sensing and signal processing, which we've been in heavy discussions with them about what we can do to bring out those products.

Unidentified Audience Member

Any other -- it's really those end markets I'm interested in.

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

Right. The automotive is another key area. We certainly need -- we certainly want to see safety and energy efficiency and infotainment, those trends, continue into more and more of the mainstream part of the market. And so that's obviously a big trend for us as well.

I say energy efficiency, just in aggregate, is an important investment that we've made. Our signal --

Unidentified Audience Member

Smart Grid?

Dave Zinsner - *Analog Devices, Inc. - VP of Finance and CFO*

Smart Grid, intelligent power meters, intelligent building controls, smart cities, intelligent -- or higher efficiency within industrial motors. Industrial motors actually use, I think, 40% of all the world's power. You can make those more energy efficient. That requires very, very high-end, high-performance signal processing. That also is a big driver of our performance as well.



Unidentified Audience Member

[Thanks].

Amanda Scarnati - Citigroup - Analyst

Any other questions?

I want to thank Dave and Rick and Ali for joining us today. And ADI will be at our Industrials Conference in about two weeks. And we'll dive a little bit more into the industrial and automotive segments there. We look forward to hosting you in two weeks.

Thank you.

Dave Zinsner - Analog Devices, Inc. - VP of Finance and CFO

Thanks.

Ali Husain - Analog Devices, Inc. - Director of IR

Thanks, Amanda.

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