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# EDITED TRANSCRIPT

Q3 2018 Texas Instruments Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, thank you for standing by. Welcome to the Texas Instruments Third Quarter 2018 Earnings Release Conference Call. At this time, I'd like to turn the conference over to Mr. Dave Pahl. Please go ahead, sir.

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### Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Good afternoon, and thank you for joining our third quarter 2018 earnings conference call. Rafael Lizardi, TI's Chief Financial Officer, is with me today.

For any of you who missed the release, you can find it on our website at [ti.com/ir](http://ti.com/ir). This call is being broadcast live over the web and can be accessed through our website. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the notice regarding forward-looking statements contained in the earnings release published today as well as TI's most recent SEC filings for a more complete description.

I'll start with a quick summary of our financial results. Revenue for the third quarter increased 4% from a year ago. However, demand for our products slowed across most markets during the quarter. Earnings per share were \$1.58.

In our core businesses, Analog revenue grew 8% and Embedded Processing revenue declined 4% compared with the same quarter a year ago. Analog and Embedded performed about the same directionally within most end markets, with communications equipment as the exception. In communications equipment, Analog products saw double-digit growth, which included early 5G product ramps while Embedded products declined from a year ago as we expected. Without the decline in communications equipment, Embedded would've grown.

With that backdrop, I'll provide details on our performance, which we believe continues to be representative of the ongoing strength of our business model.

In the third quarter, our cash flow from operations was \$2.1 billion. We believe that free cash flow growth, especially on a per-share basis, is most important to maximizing shareholder value in the long term. Free cash flow for the trailing 12-month period was \$5.9 billion, up 40% from a year ago. Free cash flow margin for the same period was 37.5% of revenue. We continue to benefit from the quality of our product portfolio that's long-lived and diverse and the efficiency of our manufacturing strategy, the latter of which includes our growing 300-millimeter Analog output.

We believe that free cash flow will only be valued if it's productively invested in the business or returned to owners. For the trailing 12-month period, we returned \$6.2 billion of cash to owners through a combination of dividends and stock repurchases. In September, we announced we would increase our dividend by 24% and we increased our share repurchase authorizations by \$12 billion. Taken



together, these reflect our commitment to return all of our free cash flow to our owners.

I'll provide some details by segment. From the year-ago quarter, Analog revenue grew 8% due to Power and Signal Chain. High Volume declined. Embedded Processing revenue decreased by 4% from the year-ago quarter due to Processors. Connected Microcontroller was about even.

In our Other segment, revenue declined 6%, primarily due to custom products, as we expected.

Now I'll provide some insight into this quarter's performance by end market versus a year ago.

Industrial demand slowed to upper-single digit growth, with most sectors growing year on year. Automotive grew double digits from a year ago but the growth slowed from previous quarters. We continue to focus our investments across 14 sectors in industrial and 5 sectors in automotive. We believe these investments will continue to deliver broad-based and diverse revenue growth over the long term.

Personal electronics declined mid-single digits as increases at some customers were offset by declines in others.

Communications Equipment increased low-single digits from a year ago as Analog, which included the early 5G product ramps I mentioned earlier, grew and was offset by declines in Embedded.

And lastly, enterprise systems grew.

In summary, we continue to focus our strategy on the industrial and automotive markets where we've been allocating our capital and driving our initiatives to strengthen our position. This is based on a belief that industrial and automotive will be the fastest-growing semiconductor markets. They have increasing semiconductor content and these markets provide diversity and longevity. All of this translates to a high terminal value of our portfolio.

Rafael will now review profitability, capital management and our outlook. Rafael?

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**Rafael R. Lizardi** *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Thanks, Dave, and good afternoon, everyone.

Gross profit in the quarter was \$2.8 billion or 65.8% of revenue. From a year ago, gross profit increased primarily due to higher revenue. Gross profit margin increased 130 basis points.

Operating expenses in the quarter were \$786 million, about even from a year ago and about as expected. On a trailing 12-month basis, operating expenses were 20.4% of revenue, within our range of expectations. Over the last 12 months, we have invested \$1.55 billion in R&D. We are pleased with our disciplined process of allocating capital to R&D that allows us to continue to grow our top line and gain market share.

Acquisition charges, a non-cash expense, were \$80 million. Acquisition charges will be about \$80 million per quarter through the third quarter of 2019, then decline to about \$50 million per quarter for two remaining years.

Operating profit was \$1.94 billion or 45.5% of revenue. Operating profit was up 8% from the year-ago quarter. Operating margin for Analog was 49.8%, up from 47% a year ago. And for Embedded Processing, it was 34.6%, down from 34.9% a year ago. Our focused investments on the best sustainable growth opportunities with differentiated positions will enable both businesses to continue to contribute nicely to free cash flow growth over the long term.

Net income in the third quarter was \$1.57 billion or \$1.58 per share.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was \$2.11 billion



in the quarter. It increased \$384 million from the year-ago quarter, primarily due to a lower tax rate and higher revenue, which includes more 300-millimeter Analog revenue. Capital expenditures were \$370 million in the quarter. Free cash flow was \$5.93 billion on a trailing 12-month basis, up 40% from a year ago.

In the third quarter, we paid \$602 million in dividends and repurchased \$1.2 billion of our stock for a total return of \$1.8 billion in the third quarter. We have returned \$6.23 billion to owners in the past 12 months, consistent with our strategy to return to owners all of our free cash flow. Over the same period, our dividends represented 41% of free cash flow, underscoring their sustainability.

As Dave mentioned already, in September, we announced we would increase our dividend by 24%, and we increased our share repurchase authorizations by \$12 billion. Our quarterly dividend went from \$0.62 to \$0.77 or \$3.08 annualized. This is our 15th consecutive year of dividend increases. And over the past five years, we have increased our quarterly dividend by a compounded average rate of 21%. Our total outstanding repurchase authorization was about \$18.2 billion at the end of third quarter.

Our balance sheet remains strong with \$5.11 billion of cash and short-term investments at the end of the third quarter. Total debt is \$5.1 billion with a weighted average coupon of 2.77%.

Inventory days were 131, up 13 days from a year ago and within our expected range. We continue to believe there is strategic value in owning and controlling our inventory. In the third quarter, we began the next phase of our consignment program with our distributors, and implementation will continue through the end of 2019.

Turning to our outlook for the fourth quarter, we expect TI revenue in the range of \$3.6 billion to \$3.9 billion, and earnings per share to be in the range of \$1.14 to \$1.34. We continue to expect our ongoing annual operating tax rate to be about 20% in 2018 and about 16% starting in 2019. Just as a reminder, the higher tax rate this year is due to non-cash charges.

To help you with your model for 2019, we are providing the quarterly discrete tax benefits and tax rates for the year. We expect a discrete tax benefit of \$20 million in the first quarter, \$10 million in the second and third quarters and \$5 million in the fourth. Therefore, the effective tax rate would be 15% for the first quarter and 16% in the second, third and fourth quarters. These details of our expectations for taxes can also be found on the IR website under Financial Summary Data.

In closing, the strength of our business model has been demonstrated over the past 15 years through up and down markets. We are heading into a softer market and we plan to execute as we have in the past.

First, we will be disciplined with our operating plan. We will reduce wafer starts. However, inventory days will rise above our range as we strategically build low-volume, long-lived products and implement the latest phase of our consignment program.

Second, we will continue our R&D investment levels and plans, which have a long-term focus.

Third, we will be thoughtful with SG&A. There are important areas of investments that increase our competitive advantages like our demand creation initiative, and this will remain unchanged. In other areas of SG&A, we will be prudent as appropriate.

And lastly, we are planning our next phase of 300-millimeter capacity expansion to be available as soon as 2020 or 2021. A slowdown will have little effect on our timing to get the next 300-millimeter factory shell in place.

In conclusion, we are focused on the best products, Analog and Embedded Processing, and the best markets, industrial and automotive, which will enable us to grow free cash flow per share for the long time to come.

With that, let me turn it back to Dave.

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**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Thanks, Rafael. Operator, you can now open the lines up for questions. (Operator Instructions) Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Stacy Rasgon with Bernstein Research.

### Stacy Aaron Rasgon *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

First, I wanted to ask about drivers of gross margin in the next quarter. You mentioned a few things, you're going to reduce wafer starts but inventory days are also going to rise. You mentioned your 300-millimeter next phase coming on, which suggests CapEx continues to be elevated so depreciation goes up. I just wondered if you could give us a little bit more color on the different drivers as we get into Q4 and how we should think about those drivers evolving into 2019 and beyond as some of them are longer term?

### Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes, Stacy, let me take that. The big picture of fall-through on our revenue is the same as it has been before. 70% to 75% is what we have talked about and that applies on going up, it also applies going down. So that's what we would expect. Of course, that is over the long haul. So any one quarter, it could be a little different. The other thing I would tell you, obviously, when we are increasing wafer starts, that is a help for gross margins and when we're decreasing wafer starts, it's a headwind on gross margins. So you will see that and you should expect that. You have a follow-up?

### Stacy Aaron Rasgon *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. So I guess, how do you continue to build inventory going forward if you're reducing wafer starts? How does that work?

### Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes. So it depends on how much you reduce wafer starts depending on the revenue change, right? And also it depends on the timing of that. Wafer cycle times can be anywhere between 12 to 16 weeks. It doesn't change on a dime. But the key point on keeping those, the wafer starts, at a level that even though we are reducing them, but we can still build those long-lived inventory buffers for industrial and automotive. Those are low-risk buffers. Those parts live for a long, long time and they enable us to then support our customers on the other side of this slowdown. So overall, it's just a better way and a smart way to allocate our capital.

### Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes. And I'll just add to that, Stacy, that not only will we build that strategic inventory of low-volume parts but we're also, as we talked about in the prepared remarks, moving a larger proportion of our revenues to consignment. So both of those things will put pressure on inventory. But we believe those are the right things to do long term. So thanks, Stacy.

### Operator

And we'll now hear from John Pitzer with Crédit Suisse.

### John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Dave, just relative to your comments in the prepared remarks about Embedded in the comms space, can you help us sort of quantify the size of that business now? And is that at all influencing the guide for the December quarter?

### Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Okay, yes. So let me take you back to our capital management strategy back in February. And if you look back even over the past few years, we've been talking about how we're allocating R&D just through an end market view. So as you walk through that, no surprise that industrial and automotive, we've been taking our allocation of R&D up there. In personal electronics, no surprise there. It's down, but it's more selective, it's not zero. We still find good opportunities. And then comms equipment really has been a different story on Analog than it has been on Embedded. And we've long talked about in Embedded that we've taken our spend there up. In Analog and Embedded, we've actually taken it down. The reason why is that when you look at 5G, there are what's new and what operators need and the OEMs that are delivering that new standard creates more complexity in the radio. And for us, that translates to more analog content and more opportunity. The new 5G standards really don't change things much from a digital standpoint. So we've got a good position there that's not -- that isn't something that we've needed to invest in. So really, what we are seeing is just the result as that rolls out. So



we're confident in our 5G position as that market begins to grow. And we also have a great 4G business and we're still shipping some 3G stuff. So we're convinced that the majority of our growth is still going to come longer term from industrial and automotive. But we'll -- comms equipment will be a very good market for us for long periods of time. Do you have a follow-up, John?

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**John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head***

Dave, I guess my question specifically is, is there another shortfall in revenue coming in Embedded comms in the calendar fourth quarter? Because it looks like it was at least, on a year-over-year basis, about \$40 million in the calendar third quarter, if your comments about Embedded growing ex comms is correct, if I'm doing the math right. Is that -- is there more to come in the calendar fourth quarter? Or is this now behind us?

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Yes. So last year, comms equipment was 12% of our revenues in total. And I would say that, if you have listened to the commentary, which I'm sure you did, it was the one market that actually grew inside of the quarter, right? So we saw year-on-year growth in communications equipment in total even though that was not contributed by the Embedded business. So yes, those things are in our guidance going forward. I think our guidance is more influenced by the fact that we are seeing most of the markets beginning to slow versus the specifics of what's going on inside of comms equipment. So thank you, John.

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**Operator**

Chris Danely with Citigroup, please go ahead.

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**Christopher Brett Danely *Citigroup Inc, Research Division - MD***

Just a little more color maybe on the slowdown. When you talk to your customers or the distys, does it feel like things could get a little bit worse? And then maybe which -- it sounds like comms looks a little bit better, which of the end markets has fallen off the most?

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Yes, let me start and see if Rafael wants to add anything. So Chris, I think that it's always best when you enter a period like this, we just kind of stick to the facts of what we can see, what we can measure. We just turned in 4% growth year-over-year. If you take the midpoint of our guidance, revenues would be flat. So that's a different number than what we've just delivered inside of this quarter. So where it goes from there and how long it lasts are just things that we don't know. We will be in a position with what we're doing with wafer starts that if it's a more shallow correction, we'll be prepared to support it on the other side. If it's longer lived, we will be moderate -- monitoring our wafer starts on a daily basis, and we know how to react in those situations.

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**Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO***

Yes, let me answer that and I'll just frankly just emphasize what Dave said, he covered it very well already. But most end markets have slowed, that's what we know. And we believe this is mostly driven by a slowdown in semiconductors, meaning we really can't speak to any macro driven event here. As we have said before, the direct effect of the tariffs for us in any of the trade issues is minimal. It's really not there. So all we can judge is by what we see right in front of us, what our customers, the signal they send us, and that's what we are basing this on. In addition to that, as Dave said, the key thing here is what we do with the operating plan so that we put ourselves in a position so that if this is shallow, we can very quickly ramp back up and support growth. If it's not shallow, if it actually goes the other way, we are also in a position where we can make additional adjustments to just continue to do the right thing from a free cash flow standpoint and from an operating plan standpoint. On the investment side, as I said during our prepared remarks, we are not going to change anything on R&D. SG&A will be prudent and then on 300-millimeter, we're going to continue with the plans to continue expanding that, strengthening the competitive advantage.

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Do you have a follow-on, Chris?

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**Christopher Brett Danely *Citigroup Inc, Research Division - MD***

Yes. I guess, not talking about the future, but just given what's happened to you up until now. What would you attribute the cause of the slowdown? Is it just overall demand? Is it tariffs? Is it China? Is it too much inventory? Anything more specific on just a slowdown in semis? What are the customers or distys telling you, I guess?

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Yes, Chris, I think that kind of reiterating what Rafael said and maybe add a little color is that we believe that's mostly driven by a slowdown in the semiconductor market just after several years of strong growth. It doesn't preclude that there aren't other things and other factors and macro things that are going on. Certainly, as the quarters evolve, those things will become more obvious of what role that they'll play. But that's where -- we'll just stick to what we can see and what we know. So thank you, Chris.

**Operator**

Ross Seymore with Deutsche Bank.

**Ross Clark Seymore Deutsche Bank AG, Research Division - MD**

I guess I wanted to hit it from a lead time perspective. David, doesn't seem like you're going to give terribly more color on it. But if it's short lead times and your lead times haven't really changed, it seems like it would be more of a demand than an inventory perspective. So any color you could give on that? And then maybe even geographically, is there any color about one market acting differently than any of the others?

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Yes, Ross. Let me just comment on a few of the things that we can see. And certainly, we watch all those indicators. And to kind of start with where I want to end is the best indicator that we get are orders from customers that we get directly as well as you know we've got 60% of our revenues on consignment where we actually have demand feeds that customers are telling us what they plan to build. And those clearly are the best signals that we can see. Our outlook will be built on that. And certainly, those indicators show that demand slowed across most of the end markets during the quarter. And that's why you see the guidance as it is, the sentiment that kind of as we are working through things here. So when you look at the other indicators that we see, so things like distributor inventory, it's up slightly but it's still running at about 4 weeks. Cancellations are up, but I would still describe them as running at low levels. Our lead times, as you mentioned, they have continued to remain stable. And it doesn't matter what period you're in, you're always going to have places where demand will be tight and we will work with customers on that. But the vast majority of products have continued to be very, very stable from a lead time standpoint. So that's kind of what we see. Regionally, I don't think when we look at our numbers, there's nothing there that we would call out specifically. And also, just as a reminder, I know you know very well that we ship product into a particular region, it may get put into a subsystem or a system and then shipped into another region of the world. So actually, looking at our demand by regional results really doesn't give much color on what's going on from a macro standpoint. So you got a follow-on?

**Ross Clark Seymore Deutsche Bank AG, Research Division - MD**

Yes. Just quickly, you haven't mentioned the automotive market in any short-term fashion. But that's been the market that probably has the biggest laundry list of headwinds from your customers and your customers' customers. Any color of what you're seeing in aggregate or on the 5 sub segments within it?

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Yes. On Automotive, growth did slow there. But as you know, we've been growing very strongly and really for 5 years plus. So demand slowed but it still grew double digits, right? So we saw that growth was broad-based. It was across the sectors. But in aggregate, it did slow as well as the demand inside of industrial. And so, okay? Well, thank you, Ross.

**Operator**

Joe Moore with Morgan Stanley.

**Joseph Lawrence Moore Morgan Stanley, Research Division - Executive Director**

I wonder if you can just -- I think just take one more cut at this demand question. I mean, when you guys are guiding for Q4, is the conservatism entirely just what you're seeing in your order book? And to what degree, when you see these automotive shortfalls at your customers and, to a lesser extent, industrial shortfalls of your customer, are you budgeting for that to maybe soften from where your current level of visibility is? Or is that not the way you're looking at?

**Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO***

I'll just make a quick comment and turn it over to Dave, but I wouldn't categorize or characterize that guidance as conservative. This is the best we know, based on the orders that we are getting from our customers and the best signal that we have. And that range encompasses the best of our knowledge.

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Yes, I think that's well said. Do you have a follow-on, Joe?

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**Joseph Lawrence Moore *Morgan Stanley, Research Division - Executive Director***

Yes, sure. I mean, do you have a sense for, when you look at your third quarter, do you think your customers built inventory? And did you see any people building ahead to get ahead of tariffs, either the 10% or the 25% tariff? Just any indications that your inventories may have built and that some element of this softening is an inventory decline in Q4? Just how are you thinking about those inventory levels?

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Yes. I'll point out or just remind you, Joe, because I know you know, we've got 60% of our revenues on consignment. So for that revenue, there isn't an inventory buffer at our customers that are in front of that. The demand that we're seeing is the actual -- as close to the factory order builds as you're going to get. Our visibility ends there, right? So their demand downstream and downstream into their channels, of course we have no visibility on that front. So we are fairly early in the announcement schedule and line up, and so we will find out where that -- if there is inventory out there as more companies report. Thank you very much.

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**Operator**

We will go to Ambrish Srivastava with BMO.

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**Ambrish Srivastava *BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst***

So just, Dave, on the demand side, I just wanted to -- you guys have been through several cycles. I just wanted to make sure and you're currently calling out that you're telling us what you're seeing on the fact space. But then these metrics like cancellations or debookings or what have you, is there a rate of change that you look at and say that you can give us any perspective on how deep it's going to be or what kind of duration this would turn into?

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**Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO***

I'll take a shot at that. And Dave, you want to add to that. But frankly, no, we -- as Dave said, we have -- the visibility that we have is to the consignment inventory that's in front of us. And by the way, that is inventory that is still in our books. So we haven't recognized revenue for that. So that's one advantage of having that consignment, that inventory like that. And so that's the data point we have, and we use that to forecast the next quarter's revenue. And the other data point is what Dave already mentioned, right, cancellations. They're up slightly but they continue at low levels and our lead times have remained stable.

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**Dave Pahl *Texas Instruments Incorporated - Head of IR & VP***

Yes. And I'll just say, things like distributor inventory, Ambrish, I'll point out, it's still around 4 weeks. That's 1/2 to 1/3 of what many of our peers run with distributor inventory. And as we implement these next phases, that number structurally will continue to come down over time. So now that doesn't mean that we're not going to see cycles and those types of impact. And even with consignment inventory, we have as good a visibility as you can get of what our customers are going to build. But never confuse high visibility with -- that, that number can't change and change quickly. So -- but we know about it as soon the customers plan to do something and something different.

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**Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO***

And let me add a little bit to that. On that next phase of consignment that we talked about, as Dave just mentioned, that's going to take those distribution inventory weeks, from about 4 to maybe about 3 over the next year or so. That did put some headwind on our third quarter revenue of about \$20 million. And it is probably going to put -- it is putting another \$50 million or so to our fourth quarter revenue. That is incorporated of course in our guide. Of course, that is a small part of what's going on here. As we've said, most of our markets have slowed down, and that's the main driver of the guidance that we're giving.



**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Great. Do you have a follow-on, Ambrish?

**Ambrish Srivastava BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst**

Yes, I did, and that was helpful. What was the book-to-bill for the quarter?

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Our book-to-bill, I knew you would ask that question. It is 0.96 in the quarter. And as I always give that number, I have to -- for those who don't follow us and talk about the consignment programs, we don't carry any orders for that demand. And so book-to-bill, just be careful with the number, use it in the safety of your home.

**Operator**

We'll go to Vivek Arya with Bank of America Merrill Lynch.

**Vivek Arya BofA Merrill Lynch, Research Division - Director**

So when I look at the last 2 downturns that you guys went through, and I'm just focusing on the core Analog and Embedded business, and I'm talking about say the first half of 2013 or late 2015, they kind of lasted for 2 quarters, and then you saw your core Analog and Embedded business start to then start to grow year-on-year. I know you don't want to say anything about the future. But if you were to just help us contrast the customer behavior and the signals that you're seeing now versus what you saw in those downturns, is there anything that stands out, positive or negative?

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Yes, I'd start that as we look at those, and we all look at industry data. As we went through those other downturns, the ups weren't very strong and therefore the downs weren't very strong, right? And I think we've just described those as we've moved through them as just operating in a world that really had low economic growth, right? So the last couple of years, certainly, we've had much stronger upturn in the economy overall. The economic growth has been stronger over the last couple of years. So that's certainly different. I think that our business has continued to evolve. We have more industrial, more automotive business. We are continuing to invest and ensure that, that revenue is coming from diverse and long-lived places. I think that we've continued to invest in our 300-millimeter analog footprint and growth. So we've got that going into the numbers. So -- and if you look at the financial performance of the company over those last cycles, and even this quarter, and you look at the amount of free cash flow that we're generating, we just turned in as a percentage of revenue, 37.5%. Those are good, strong numbers. And I think that those are the things that give us confidence to continue to make the investments, to make the business stronger, investing in the competitive advantages. Markets will strengthen and weaken over periods of time. But we continue to stay focused on our opportunity.

**Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO**

Yes, let me comment on that. So yes, to Dave's point, we have demonstrated for a number of years now the strength of the business model. And that's through ups and now, downs. And the right thing to do, what we will continue to have done and what we will continue to do is continue to strengthen our competitive advantages so that we continue to become stronger. One of the things or one of the competitive advantages as you know is our manufacturing technologies, specifically 300-millimeter. And as I mentioned in my prepared remarks, we are looking at the next tranche of capacity. So we are exploring options for our next 300-millimeter factory. And we'll likely make a decision within the next year or so. And this slowdown is not going to stop us from putting that in place. Now we'll do it smartly and the first thing that you have to do if we end up building a factory -- we can still buy a factory -- but if we end up building a factory, it would be to build the shell, the actual building, and then we can decide on equipment more incrementally beyond that. So to give you some things to think about on that front, our CapEx -- as we do that, our CapEx will increase to about 6% of revenue. In fact, it's already there. In the last trailing 12 months, we were at 6.6%. And then that is excluding the factory shell that I just talked about. So if we end up building a factory, it will be about 6% CapEx as a percent of revenue plus the shell and that shell will be \$600 million to \$700 million over a couple of years. So I want you, Vivek, to consider that and think about that. So that will be -- that's how we are looking at it and how we are planning the next tranche of capacity. Do you have another question?



**Vivek Arya BofA Merrill Lynch, Research Division - Director**

Yes, thanks for that information. The next question is on buybacks. You bought back \$1.2 billion. You've been very active in buybacks. So with the trailing 12 months, you still have, I believe you said \$18.2 billion left. The stock is down 25% from its highs. Is it fair to assume that you can be more aggressive on buyback to take advantage of the stock price? Or in general, how do you think about when to be more aggressive with your buybacks?

**Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO**

Yes. First, let me take a step back, what is the objective here? And the objective is to return all free cash flow to the owners of the company. So the last 12 months, we generated \$5.9 billion of free cash flow. And then we returned \$6.2 billion. So we've returned virtually the same thing that we have generated. So that's consistent with what we've done for a number of years. And we will continue to do that. Can we, on the margin, do a little bit more here and there? We could and -- but the big picture is that we would return all free cash flow to the owners of the company.

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

And I think we have time for one more caller.

**Operator**

We'll go to Tore Svanberg with Stifel.

**Tore Egil Svanberg Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

Congratulations on that Analog operating margins, that's pretty impressive. First question, your SG&A was down quite a bit sequentially. It's now below 10%. Is that going to be sort of the rate that we should consider going forward? And does that kind of already incorporate you managing the OpEx a bit more conservatively?

**Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO**

What I would tell you, we think of OpEx in general, not just SG&A, but OpEx and SG&A and R&D as investments. Not everything there, but certainly, all of R&D is an investment and part of SG&A -- the S part of SG&A. And that is to drive growth in revenue and free cash flow over the long term. And that's how we view that. We suggest you also look at it that way and then it's easier to then look at it on a trailing 12-month basis. It gets some of the quarter-to-quarter transitions out of the way that can be a little noisy. So on that basis, OpEx is up about 2% versus the same time period last quarter -- last year, I'm sorry. And that is a good expectation of how that number should trail. The other thing that I would point to is that SG&A in particular in third quarter was down in part because of our CEO transition. Do you have a follow-up?

**Tore Egil Svanberg Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

Yes, Rafael, that's very helpful. My follow-up is on inventory days. So I completely get it and I understand the new consignment plan. But how high are you willing to let the inventory days go given the structural change?

**Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO**

Yes. I don't want to get into specifics. But I'll frame it this way. One, as I said, it will likely go above the range. So right now, the range is 115 to 145. So it will likely go above 145. We think like owners. So to me, to us, that is a use of cash, right? So I feel compelled to use that cash for inventory because I think it's a good return on that investment because it's going to help us on the other side of our recovery. And as I said, it's very low obsolescence type of inventory. But we wouldn't keep it at those levels indefinitely. If it's a long-lasting slowdown, then we would take additional measures to modulate that inventory, bring it back within the range at some point in the future.

**Dave Pahl Texas Instruments Incorporated - Head of IR & VP**

Okay, thank you very much, Tore. We appreciate all of you joining us tonight. A replay of this call is available on our website. Good night.

**Operator**

Thank you. Ladies and gentlemen, again, that does conclude today's conference. Thank you all again for your participation. You may now disconnect.

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