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TXN.OQ - Q3 2026 Texas Instruments Inc Earnings Call

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OVERVIEW:

Company Summary

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Stacy Rasgon *Sanford C Bernstein & Co LLC - Analyst*

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PRESENTATION

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Welcome to the Texas Instruments third quarter 2026 earnings conference call. I'm Mike Beckman, head of Investor Relations, and I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Julie Knecht.

For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through our website. In addition, today's call is being recorded and will be available via replay on our website.

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.

Today we'll provide the following updates. First, Haviv will start with a quick overview of the quarter. Next, he will provide insight into third quarter revenue results, with some details on what we are seeing with respect to our end markets. And lastly, Julie will cover the financial results and give an update on capital management, as well as share the guidance for fourth quarter 2026.

With that, let me turn it over to Haviv.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Thanks, Mike.

Let me start with a quick overview of the third quarter. Revenue was \$6.1 billion, an increase of 11% sequentially and an increase of 28% year over year. Analog and Embedded Processing both grew sequentially and year on year. Analog revenue grew 32% year on year, and Embedded Processing grew 21%. Our "Other" segment declined 6% from the year-ago quarter.

During the quarter, we saw broad demand, with revenue growth across all end markets and regions. Secular growth of semiconductor content is continuing, alongside a strong cyclical recovery. We are working closely with our customers to support them during this time of increased demand. We are executing to our long-term manufacturing plan, and our investments have positioned us to ramp our factories to support revenue growth.

Now, I'll share some additional insights into third quarter revenue by end market.

First, industrial increased more than 40% year on year and was up about 10% sequentially.

Automotive increased mid-teens year on year and increased about 10% sequentially.

Data center was up about 95% year on year and grew about 20% sequentially.

Personal electronics was about flat year on year and grew upper-single digits sequentially.

And lastly, communications equipment grew both year on year and sequentially.

With that, let me turn it over to Julie to review profitability and capital management.

Julie Knecht - *Texas Instruments Incorporated - Senior Vice President, Chief Financial Officer*

Thanks, Haviv, and good afternoon everyone.

As Haviv mentioned, third quarter revenue was \$6.1 billion. Gross profit in the quarter was \$3.9 billion, or 64% of revenue. Sequentially, gross profit margin increased 280 basis points.

Operating expenses in the quarter were \$1 billion. On a trailing 12-month basis, operating expenses were \$4 billion, or 19% of revenue.

Operating profit was \$2.9 billion in the quarter, or 47% of revenue, and it was up 73% from the year-ago quarter.

Net income in the quarter was \$2.4 billion, or \$2.62 per share. Earnings per share included a 1-cent reduction not in our original guidance, due to discrete tax items.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was \$3.4 billion in the quarter and \$9.9 billion on a trailing 12-month basis. Capital expenditures were \$463 million in the quarter and \$2.6 billion over the last 12 months. Free cash flow on a trailing 12-month basis was \$8.4 billion, up from \$2.4 billion in the third quarter of 2025. Free cash flow in the trailing 12 months includes \$1.6 billion of CHIPS Act incentives, which includes both the investment tax credit and direct funding.

In the quarter, we paid \$1.3 billion in dividends. In September, we announced we would increase our dividend by 7% to \$1.52 per share, marking our 23rd consecutive year of dividend increases. This reflects our continued commitment to return all free cash flow to owners over time. In total, we returned \$5.8 billion to our owners in the past 12 months.

Our balance sheet remains strong with \$8.1 billion of cash and short-term investments at the end of the third quarter. In the quarter, we repaid \$500 million of debt. Total debt outstanding is \$13.65 billion with a weighted average coupon of 4.11%.

Inventory at the end of the quarter was \$4.7 billion, up \$67 million from the prior quarter, and days were 194, down 2 days sequentially.

Turning to our outlook for the fourth quarter, we expect TI's revenue in the range of \$5.8 billion to \$6.3 billion and earnings per share to be in the range of \$2.45 to \$2.79. We expect our effective tax rate to be about 13% in the fourth quarter. And for 2027, we expect it to be about 13% to 14%.

In closing, we will stay focused in the areas that add value in the long term. We continue to invest in our competitive advantages, which are manufacturing and technology, a broad product portfolio, reach of our channels, and diverse and long-lived positions. We will continue to strengthen these advantages through disciplined capital allocation and by focusing on the best opportunities, which we believe will enable us to continue to deliver free cash flow per share growth over the long term.

With that, let me turn it back to Mike.

QUESTIONS AND ANSWERS

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Thanks, Julie. Operator, you can now open the line for questions. (Event Instructions)

Operator

(Operator Instructions) Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley & Co. LLC - Analyst*

Yes. Hi, thank you. I was a little surprised that the gross margins -- kind of incremental gross margins of about 90% on incremental revenue, I know the long-term target's lower than that. Can you just give us a sense for what went right there and how sustainable that may be? Thank you.

Julie Knecht - *Texas Instruments Incorporated - Senior Vice President, Chief Financial Officer*

Sure. Thanks, Joe. Yes, our margin in third quarter were really driven by higher revenue. That's the largest reason for that increase. But we also did have some benefit from pricing, loadings, and some product and end market mix.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Do you have a follow-up, Joe?

Joseph Moore - *Morgan Stanley & Co. LLC - Analyst*

No, I'm good. So that looks like about comparable gross margins embedded in the guidance? Is that kind of the right way to think of it?

Julie Knecht - *Texas Instruments Incorporated - Senior Vice President, Chief Financial Officer*

I think over the long term, the way to model continues to be looking at 75% to 85% ex-depreciation fall-through. It's easier to look at that more over a longer time horizon, so year over year. But of course, there are puts and takes in this.

For modeling, I would also share that OpEx for the fourth quarter, we're expecting to be flat to slightly up. Acquisition charges should look about similar to what we saw in third quarter. Same with net OI&E.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Thanks, Joe. Moving on to our next caller, please.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co. - Analyst*

Good afternoon. Thank you for taking my question, and great job on the quarterly execution. Both short lead time orders and longer-term duration orders have been positive for the TI team over the past few quarters. Lead times, I assume, are probably expanding a bit, so you're getting a bit more orders placed further out in time as well. Did the TI team drive another quarter of positive book-to-bill in Q3? And was the order activity pretty broad-based?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Harlan, this is Haviv. Let me say a few words, and I'll let Mike offer some more comments.

So look, we are seeing, as I said, the broadening of the demand coming across the three main markets that we focus on for the long term: industrial, automotive and data center. But in general, demand was strong across the board, across markets, sectors and regions. That put pressure on lead times, but I think they maybe ticked a little bit higher, I'll let Mike comment. But I still believe that TI is best positioned to support that growing demand. I think we are still the most competitive supplier in terms of lead time.

Mike, I mean, if you can offer anything else here?

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Yeah, I think you characterized it right, and I'd just also add, the investments that we've made in inventory and capacity do position us to support growing demand. And we'll continue to ramp our factories to support revenue growth moving forward.

Do you have a follow-up?

Harlan Sur - *JPMorgan Chase & Co. - Analyst*

Yeah, and I appreciate the answer. Last quarter, Haviv, you talked about the potential for broader positive pricing initiatives as you hold your annual pricing negotiations for next year. That would overlay not just on your analog and power products, but also on your embedded products as well. Can you give us an update here? I mean, industry supply dynamics feel like they're getting worse, not better. TI is in a great position to support customers' supply requirements. And I think they do value the team's supply capability. And I assume they're willing to pay a premium for the assurance and predictability you offer, but wanted to get an update from you there on annual pricing negotiations.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah, first, a high-level picture, Harlan. As you mentioned, there is a stronger demand environment right now. And if you look at the area of foundational chips as I call it, but specifically analog, there hasn't been a lot of addition into capacity in the last four years since the previous peak of the market during the COVID days. So especially if you do care about geopolitically dependable capacity, meaning usually factories outside of China and Taiwan. So in this case, TI has a good position. We are seeing our customers value our investment and also capacity to continue to grow, not only in the next quarter, but also in the foreseeable future. So that's a good characterization of the situation we are in.

Regarding pricing specifically, look, most of our pricing discussions are done once a year with our customers, but we did see some areas in the middle of the year where we had the opportunity to talk with customers that wanted more supply more urgently. And in this case, and Julie indicated in her answer, we did see some price movement, I would say mainly on the analog side in the second half. I would just characterize it as second half of 2026 after a flat pricing environment year over year in the first half of '26. So we are seeing a little bit of an uptick, not very significant for this year.

For '27, yes, we are now engaged in the discussions you just mentioned. We are looking at the customers' demand and what type of supply they want to guarantee, if you will, or to get supported from TI, and that has a pricing element to it. So I think we will report more of it when we provide our results, mainly our guidance during the January call.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. Thank you, Harlan. We'll move on to our next caller, please.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Sanford C Bernstein & Co LLC - Analyst*

Hi, guys. Thanks for taking my questions. I wanted to ask about the end market outlook that's embedded in guidance. Usually Q4 just seasonally is down, I don't know, mid-single to high-single, maybe even more sometimes. And I get it -- it's calculators and personal electronics typically. You're guiding flattish, which is well above. It would be one of your stronger Q4s in quite a while, probably since the COVID cycle. What is embedded there, the puts and takes on end markets, given those sort of typical seasonal patterns? What are you seeing across the markets now that's driving things stronger?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Stacy, I'll take a stab at it. I'm not going to guide by market, as you know we don't, but I will just give a little bit of color.

The data center market, it's a market that we see strong secular growth. I don't think it's influenced by seasonality. The demand continues to be strong and growing. And it's just a bigger part of our business now. I think it was about 13% of revenue in Q3 or so. So I think that you see that coming in and just helping, if you will, the transition from Q3 to Q4.

But on top of it, I'm very excited about what we're seeing on the industrial market. We are seeing a very strong momentum in industrial across the sectors, but specifically in areas like aerospace and defense, energy infrastructure, test and measurement, the robotics sector. So this is where we see a combination of secular growth but also sequential or cyclical recovery, I would say. So this is why we are seeing an above-seasonal forecast from TI. We also saw the automotive customers waking up, if you will, with higher demand in Q3, and I think that may continue into Q4.

So again, the top three markets -- industrial, automotive, and data center -- are the ones that are driving our guide into Q4.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Follow up, Stacy?

Stacy Rasgon - *Sanford C Bernstein & Co LLC - Analyst*

I do, thanks. I wanted to ask about CapEx. So you've been talking about you'll be near the higher end of the \$2 to \$3 billion range for the year, and are you still going to be tracking there in the one quarter that we have left?

And I guess in addition to that, you talked about continuing to invest in manufacturing to support demand. So like, how do we think about CapEx in '27 relative to '26, given that statement?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah. Let me start with '26 right now, Stacy, and of course, we'll give some more color during our February call for capital management about what we're seeing.

But high level, you're right, we are aiming to continue to invest right now in '26 somewhere between \$2 and \$3 billion. And yes, we want to aim higher, but also, we are seeing lead times extending on tools and everything, especially on the back-end side. So that is a very, very tactical situation, but we do want to expand capacity.

As you know, we have plenty of cleanroom, and we are seeing strong demand. Leaving this quarter, we grew in the high 20s, so you do want to make sure you continue to fill that cleanroom with tools, both on the back end, but also later on the front-end side. So we are leaning in.

And again, now when you talk about CapEx, it's when tools are coming in, delivered by our suppliers, and that's what influences more or less the result, but you should expect somewhere between \$2 to \$3 billion this year, and maybe on the higher end if we get that execution as planned.

Now regarding '27, I won't say anything right now about the numbers, but I do think it's a function of demand and what our aspiration of growth is, Stacy. I think we've given a framework at the time of what CapEx will do as a function of the expected longer-term revenue growth. Of course, you are investing ahead of demand, right? So there is a certain CapEx level to support the 10% growth versus a higher CapEx plan to support mid-teens growth, for example. And this is where we want to provide some more color in our February call.

I will say that we have the -- we are in a position to control our destiny. We have taken care of the long lead time investments on cleanrooms, including all the subfab and all the, to be fair, the equipment that takes right now a very long time to get and build and get qualified. So I'm very excited about that. We do have the slots reserved for '27 and beyond, and we are going to modulate the incoming rate based on the revenue growth we would like to support, okay?

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. Thank you for the question, Stacy. Moving on to our next caller, please.

Operator

Chris Caso, Wolfe Research.

Chris Caso - Wolfe Research LLC - Analyst

Yes, thanks, good evening. First question was to dig in a little more on the industrial market. And that market has been in recovery for some time now. You're seeing it up 40% year on year in the quarter.

I guess the question is, what's your level of conviction that when this recovers, how much of that recovery do you think has been driven by cyclical factors as opposed to secular factors such as the growth in some of those individual segments?

Haviv Ilan - Texas Instruments Incorporated - President, Chief Executive Officer, Chairman

Yes, so let me start, and then Mike, maybe you can offer some more color on the sectors inside industrial. But high level, the excitement I have about industrial is growing very fast, but only now in Q3 2026, it reached the same level of revenue we had in Q3 2022. So this is the first time we created a new peak in industrial after four years.

I do believe that systems that are being designed by our customers four years later than the COVID peak are much more rich with content. We are seeing, end equipment by end equipment, sector by sector, that there is just more content per system as customers want to achieve higher precision, higher speed, higher quality, more throughput, whatever they want to drive, right. So that is there.

I also believe our portfolio has done very well in terms of we've built more and more parts in the last several years, invested in R&D, and I think we won a larger share per system based on our portfolio, so I'm excited about that as well.

Now there is also some secular areas of growth like aerospace and defense and also data center-induced sectors. I'll let Mike comment there about the different sectors. Some of them, by the way, have not reached their previous peak yet. So we are in early innings.

Mike Beckman - Texas Instruments Incorporated - Head of Investor Relations, Vice President

Right. So some of the sectors, as you probably know, that have had industry-level unit demand, like aerospace and defense or the ones that are more closely adjacent to data center like energy infrastructure or test and measurement, make all new highs over time. But even areas like industrial automation that are going through recovery have also had, as Haviv described, four years of content increase, gen-to-gen secular content growth. So as we look at the industrial end market, we see opportunity ahead there. And as Haviv mentioned, it's just now reached a little bit above its previous peak, but again, that's four years of content expansion. So we look forward to serving that market well in the quarters ahead.

So do you have a follow-up?

Chris Caso - Wolfe Research LLC - Analyst

I do, thanks. The follow-up question is on Embedded. And now that I guess the second Lehi shell will be ready by the end of the year, maybe you can talk about how you intend to deploy that as you go into next year. And as you said, it does seem like industry capacity is getting tighter. So what benefit does that bring to you? What are your plans for next year? And does that have any margin impact?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yes, so on the embedded side, I am -- we are seeing that our investment in Lehi -- Lehi 1 and Lehi 2 -- is extremely beneficial.

On Lehi 1, as you remember, we have transferred a lot of our foundry-based business into Lehi 1, but we still have plenty of cleanroom in Lehi 1, so we are going to grow into that. That will carry us at least in the coming quarters.

But we do have Lehi 2, as you mentioned there, to continue to grow embedded at the rate which demand will indicate. So we are right now looking at the numbers. I think that the embedded business in general -- I think this is not only a TI comment, but in terms of the cyclical recovery, I would call it maybe a year beyond, later than analog. We saw that the Embedded business peaked in 2023, while Analog for TI, while Analog peaked in 2022.

I also believe that the supply demand mismatch is higher in analog because some of the analog supply, to be fair, went offline in the last few years, and more is coming out, and some of the foundries are transitioning their supply base to support non-analog portfolio parts. So with that stance, I think the pressure is now higher, and this is why you're seeing higher growth on analog.

Having said that, Embedded is well positioned. Our portfolio is growing. We have a cleanroom in LFAB1. We have the shell in LFAB2 that is in the last stages of completion. So we can modulate now tool installations according to what demand says.

Last but not least, I want to mention our plan with the Silicon Labs acquisition. That's another cleanroom that will serve the transitioning of the portfolio that right now is running in foundries into, again, into Lehi.

From a gross margin perspective, we are seeing strong progress. I think we've seen it in the last several quarters, Julie, right? Is it a couple of points per quarter that we have seen lately?

Julie Knecht - *Texas Instruments Incorporated - Senior Vice President, Chief Financial Officer*

Yes.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yes? And I think about 10 points year over a year or something. So I do see that the Embedded has room to grow in the sense of not only top-line growth, but also gross margins as well.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. Moving on to our next caller, please.

Operator

Joe Quatrochi, Wells Fargo & Company.

Joe Quatrochi - *Wells Fargo Securities LLC - Analyst*

Yeah, thanks for taking the questions. I wanted to ask about the auto demand commentary you provided, talking about you're seeing customers kind of wake up a little bit. Can you give a little bit more color? Is that broad-based demand that you're seeing? And are you seeing customers add more inventory? And is that across analog and embedded, or more concentrated?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah, I will start, but automotive, I think I would describe the demand we are seeing in automotive as such that keeping -- demand is coming in pretty strong in Q3. We did see a nice sequential growth. We are seeing mid-teens year over year growth, but I think customers have not had -- not kept a lot of inventory on their side. So when they saw maybe demand growing, maybe a little bit more EV as fuel prices went up, they were not well positioned compared to customers we've seen in other markets.

So we are now supporting these customers as they're trying to ramp their production. I don't see any inventory buildup. On the contrary, I wish they had a little bit more. But we are positioned to grow. Of course, the fab, you cannot switch a flip -- flip a switch, sorry -- to get the output, the right mix immediately. And this is where we help some customers with the existing inventory we've built ahead, but some of the parts are more unique and we need to react to customer demand. So that's what I'm seeing right now.

In terms of region, can you add a little bit, Mike?

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Yeah, so similar to last quarter, you may recall that we saw China and the U.S. averaging up the overall growth. We continue to see that in third quarter as well.

And the comment around EV mix, you can see it clearly in our sectors as well. So the hybrid electric and powertrain systems sector grew about twice as fast as the overall did. So that just gives you a sense of the mix that has shifted toward EV inside of that.

So with that, do you have a follow-up?

Joe Quatrochi - *Wells Fargo Securities LLC - Analyst*

Yeah, thanks. And then just, as I think about it, you talked about back-end tools, lead times kind of starting to extend and things. Capacity, obviously tight. Does that change any of your plans and how you're thinking about just moving more of your capacity on the back-end side to internal? Are you trying to flex some of your external capacity a bit more, just given the pretty significant increase in demand you're seeing?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yes, I think I commented before, earlier this year, we have done it throughout the year. So we are not getting as much as we wanted from our OSAT partners, and I think it's also just tightness of supply, as you mentioned.

So we do have a new site in Malaysia that we are ramping very quickly. It's our largest A/T site, newly built, and I'm very glad we have it. The parts are being qualified and ramped, so we can continue and increase capacity every quarter. Thanks to the cleanroom we have, the rate of which we go is a function of how quickly we add tools. And that's also a function of the demand, I would say.

But in general, I'm very pleased with our situation, both front end and back end, because we control our destiny here. And we've done the work during the downcycle, again, when lead times were very short on this type of equipment to get ahead and to be ready for a range of scenarios. This scenario right now is a very strong demand scenario.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. Thanks, Joe. Moving on to our next caller, please.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus & Company Inc - Analyst*

Thank you, and congratulations on the results. Just zooming in a little bit on data center, I think it almost doubled year over year. I think in the past, you've talked about your exposure to the data center still kind of being more building block components, but I do know you have some newer products that are starting to get designed in. So how should we think about that in the context of the almost double year-over-year growth rate?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah, look, I'm very excited about the market in the sense of -- you guys know exactly what's going on there, but what I would like to share is that we see a very high breadth of opportunity, and we are continuing to invest. I mean customers want new solutions to get more -- I mean these are very expensive assets if you think about the compute rack or networking rack, and it needs a lot of telemetry and cooling. And efficiency is critical. Power density is critical. So we are seeing customers being very, very innovative on how they add parts that are mainly coming from our portfolio of foundational chips, of analog and embedded chips, to do all of that. So just a growing opportunity in terms of diversity of part numbers. We reviewed it earlier this week and we have about 10,000 different GPNs, or generic part numbers, that we are selling into this market, and it's growing every quarter. So that's a very exciting opportunity.

Now our focus is -- again, we are a company that is trying to -- breadth of our portfolio is one of our competitive advantages. But of course, we also pay attention to the more application-specific sockets. We have developed the technology for that. I think I've mentioned it. It's now early ramps in Sherman. I think the execution is going well. So I'm excited about continuing to expand our portfolio in data center, assuming the investments in data center continues in the U.S. And by the way, it's not only in the U.S. We are seeing it worldwide, but the U.S. is leading.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Your follow-up, Tore.

Tore Svanberg - *Stifel Nicolaus & Company Inc - Analyst*

Yes, thank you, Mike. So in industrial, which is a little more than 30% of your revenue, I know you talked about the cyclical growth and the secular growth. But I'm just also curious, if you look at all the subsegments there, how much of that, let's say 35% of revenue, is potentially being impacted by the data center buildup as well?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

So I think we have about nine or 10 sectors over there in industrial. The last one is kind of what we call "Other", all other end equipment. But of the nine, I think two are very much data center-specific: energy infrastructure and also test and measurement. But I think I see a lot of robustness there. I mean, people are building memories and GPUs for the foreseeable future. They need to test them. This has been a very fast-growing sector for us, and we are doing well over there.

And then the energy infrastructure, I think the world is rebuilding its grid, and it's -- the content is very rich with semiconductors, so that has been a very good sector growth for us. I think data center influences it, but the world needs more energy, I think in general. If you think

about automation and later on physical AI and robotics and aerospace and defense, everything needs more energy, and I think that's going to continue. So I'm very excited about the progress over there.

Now we are seeing, as Mike mentioned before, we just see other secular trends that are not -- I don't think -- they may be related to data center because they have helped accelerate them, but what's going on in the aerospace and defense with autonomous end equipment, if you will, that are very content-rich in the type of parts we make. Very early on the robotic side, but I think '27 is going to be a great deal of ramps. Our content over there is actually per -- for example, per humanoid is very high. I would say somewhere between \$500 to \$1,000 per -- content for TI won on this type of system. So I don't know how many they'll build there next year, but definitely the demand is -- they want to grow.

So all of that is putting a lot of -- providing a lot of tailwind on our industrial business, which I'm excited about because it also helps you. There was a question before on margins. This is our best market in terms of diversity and longevity, but also in terms of margins, so a very lucrative market.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Thanks for the questions, Tore. Moving on to our next caller, please.

Operator

William Stein, Truist Securities.

William Stein - *Truist Securities Inc. - Analyst*

Great. Thanks for taking my question. I'm hoping you can comment on customer inventory levels and their ability to complete kits. We've heard some feedback from industry contacts that this is becoming a challenge the way it was a few years ago in the so-called golden screw era. I wonder to what degree you're seeing this, and what is your ability to perhaps help customers deal with those challenges?

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yes, first, we all here in TI lived through the previous upcycle during the COVID days. I would not compare the situations. I think also we are earlier right now in terms of where the cycle is. So we'll have to go to see. But again, from a TI perspective, we are much better prepared in terms of we have -- we can grow our capacity every quarter, and we've built inventory during the downcycle.

Now, as you have a very rapid, fast growth in some of the customers or markets, and especially where customers have not prepared and did not have enough inventory on their side, you can run into situations like that. I think I gave an example before on the automotive market. That's the one place I would say that I see it right now versus in capital -- in the COVID cycle, we did see a much broader situation across almost every customer over every end market. So I would not compare them yet.

I will say that yes, we have come for help many times, we have been the solution many times indeed right now in other markets. So some of our industrial customers, some of our data center customers have asked for help, and many times, we had the inventory and could also commit capacity or growth into '27 and beyond. So we are seeing early anecdotal feedback that we can help our customers, but we need to see how the situation develops.

I will say, as I said before, in terms of capacity addition, outside of China, mainly on the analog side, it's not -- we don't see a lot of cleanroom and a lot of new capacity added in the last four years. And as I mentioned, the cycle time to build from moving dirt to getting output from

the fab, it's about four years, not to mention about full ramp of a fab. So I think TI is in an advantaged position here versus the rest of the market.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

I do think that customers, in the context of the question on kitting and making sure they have all the products they need, they will come to us and say, I need to make sure I have what I need from your portion to meet -- as I get what I need in maybe another area where they're having a challenge getting it. So this is all part of what we're seeing in our markets overall, but I think we are in a good position to be able to help work with our customers to help them as they grow.

So Will, do you have a follow-up?

William Stein - *Truist Securities Inc. - Analyst*

Yeah, I appreciate that helpful answer. And the next one, you might have discussed it already, but can you talk about where lead times might have changed in the last quarter and what your customers' willingness and ability to place backlog with you has been? Has the backlog duration extended materially in the last quarter? Thank you.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

I'd characterize the backlog as consistent with the overall demand environment that we're seeing. And we have seen an uptick in lead times. And there are areas where you'll see, just as you would expect in an environment like this, where there may be more or less tightness in certain areas.

But in terms of where we are from a lead time perspective, we're competitive right now. And again, we're in a position where we can make investments into the cleanroom and the assembly and test facilities that we have to be able to support growth for our customers. And we'll continue to ramp those as we move into this quarter and beyond.

With that, we'll move on to our next caller.

Operator

Nabeel Aziz, Rothschild & Company.

Nabeel Aziz - *Rothschild & Co Redburn - Analyst*

Thanks for taking the question. I just had a question on supply/demand tightness through the quarter and what you're seeing in terms of socket wins and your engagements with customers there and whether you've started to see incremental market share gains through the quarter. Thank you.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah, Nabeel, I think we -- when it comes to market share, we don't like to measure it. Of course, we look at the results internally, but I think we should look at it through the cycle as, again, if we are indeed better positioned than some of the competition to support demand. And if demand continues, we should be able to translate it to market share gains, but we cannot measure it yet.

So I think we have to wait through the cycle. Let's see when the next peak is, it will arrive one day, and then see where we are. But I'm pleased with the momentum we are building, I'm pleased with the ability to continue to ramp our supply, and let's see how we do over the long term.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

Do you have a follow-up, Nabeel?

Nabeel Aziz - *Rothschild & Co Redburn - Analyst*

Yeah, just to follow up on the back-end tool comments, could you just confirm, is there a potential that back-end tool availability could at all bottleneck your growth and whether that is a gating factor for you over the next couple of quarters? Thanks.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

I don't want to talk about the gating items because the gate is when you don't have the cleanroom, right? The gate when you now are stuck for a couple of years to build your shell and to build a cleanroom and all the infrastructure behind it. We don't have a gating item like that.

I think this is just simple blocking and tackling, as we say, or execution of getting the equipment on time. Our suppliers also need -- their supply chain is complex, and they have to get through it. It's just a period of high demand all over. And everybody is going through their challenges, but there is a very large opportunity to expand capacity, and we are.

I would say that I don't see -- between front end and back end, we are going to be balanced. Of course, the higher investment we need to make when you think about CapEx for the longer term is always on the front end. This is where the CapEx is more expensive. And also, the lead times are always longer with the supply chain over there. And this is why we are not planning only '27 and '28. We are actually thinking through the rest of the decade what is our plan and how are we going to slot our future tools and even new cleanrooms so we can continue to support a range of scenarios that the market may present to us.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. Thanks, Nabeel. We'll move on to our final caller.

Operator

Vijay Rakesh, Mizuho Securities.

Vijay Rakesh - *Mizuho Securities USA LLC - Analyst*

Yeah, hi. Just a quick question. I see your data center site is growing pretty strong. It's almost like a \$2.5 billion run rate this year annualized. Just wondering, as you look at '27, do you expect that growth rate to continue and double from here? And a quick follow-up. Thanks.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Yeah, I mean, we are watching, like everyone, the CapEx investment into the data center market. It doesn't have -- it doesn't signal right now any -- we are not seeing any slowdown. We are seeing continuing demand, actually growing demand.

As I mentioned before, our portfolio is growing. That's my -- that's what I'm excited about, our investment. We are not sitting still. We are creating new parts. We are continuing to attack new subsystems. So we want to continue not only to grow with the market, but also play in more sockets and ultimately gain market share. So far, so good. We'll see how the demand continues to develop into the next year.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

And Vijay, just zooming out, when there's more power, there's more opportunity for TI. When there's more power density, there's more opportunity for TI. When there's higher voltages, there's more opportunity for TI. And obviously, these are things that are all being worked on very heavily in this end market. And again, we look forward to supporting.

So do you have a follow-up?

Vijay Rakesh - *Mizuho Securities USA LLC - Analyst*

Agreed. Thanks. And just a quick one. On the commentary on the EV side, is this more of a -- does TI have more exposure on China, kind of China export EV market as well? Like how would you characterize the EV strength just globally across regions? Thanks.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

No, as I talked many times over the last several years, the China industry for the automotive industry and especially EVs is leading in many ways. And they are not only building for their domestic market. This is why a supplier like TI was always something that was very, very important to them. We are a global company, very diverse supply chain across the globe. And we've continued to design parts into their systems.

I think I am excited about the fact that the China is growing faster their export business because these are usually just, in terms of content, just higher content and also higher share for us there. So that also is driving the growth. Mike has mentioned before that automotive business for TI in Q3 was driven by China and the U.S., and we are excited about our position there.

Mike Beckman - *Texas Instruments Incorporated - Head of Investor Relations, Vice President*

All right. With that, I'm going to have Haviv close us out for the call.

Haviv Ilan - *Texas Instruments Incorporated - President, Chief Executive Officer, Chairman*

Okay. So let me wrap up with what we've said previously. At our core, we are engineers, and technology is the foundation of our company. But ultimately, our objective and the best metric to measure progress and generate value to our owners is the long-term growth of free cash flow per share. Thank you and have a good evening.

Operator

Thank you. And this concludes today's conference, and you may disconnect your lines at this time. We thank you for your participation.

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