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Q3 2023 Texas Instruments Inc Earnings Call

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PRESENTATION

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

Welcome to the Texas Instruments third quarter 2023 earnings conference call. I'm Dave Pahl, head of Investor Relations, and I'm joined by our Chief Financial Officer Rafael Lizardi.

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, I'll start with a quick overview of the quarter. Next, I'll provide insight into third quarter revenue results with some details of what we're seeing with respect to our end markets. Lastly, Rafael will cover the financial results, give an update on capital management, as well as share the guidance for our fourth quarter 2023.

Starting with a quick overview of the quarter: Revenue in the quarter came in about as expected at $4.5 billion, flat sequentially and a decrease of 14% year over year. Analog revenue declined 16%. Embedded Processing grew 8%, and our Other segment declined 32% from the year-ago quarter.

Now I'll provide some insight into our third quarter revenue by market. During the quarter, automotive growth continued and industrial weakness broadened. Similar to last quarter, I'll focus on a sequential performance as it's more informative at this time. First, the industrial market was down mid-single digits, with weakness broadening across nearly all sectors. The automotive market continued to grow and was up mid-single digits. Personal electronics was up about 20% off a low base. And next, communications equipment was down upper teens. And finally, enterprise systems grew upper-single digits.

Given where the market is now, it's a good time to remind everyone of our plan and areas of strategic investments. First, our confidence in the secular growth of semiconductor content per system, especially in industrial and automotive, remains high, and we're well positioned in these markets. Second, our long-term 300-millimeter manufacturing roadmap provides our customers with geopolitically dependable capacity. To support these buildouts and enable future growth, we continue to expect associated capital expenditures to be about $5 billion per year through 2026. In addition, we made good progress on our inventory replenishment, consistent with our long-term objectives to support growth and provide high levels of customer service.

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

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

Thanks, Dave, and good afternoon, everyone.

Third quarter revenue was $4.5 billion, down 14% from a year ago. Gross profit in the quarter was $2.8 billion, or 62% of revenue. From a year ago, gross profit decreased primarily due to lower revenue and, to a lesser extent, higher manufacturing costs associated with planned capacity expansion and reduced factory loadings. As a reminder, LFAB-related charges transitioned to cost of revenue in the fourth quarter of 2022. Gross profit margin decreased 690 basis points.

Operating expenses in the quarter were $923 million, up 7% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.7 billion, or 20% of revenue.

Operating profit was $1.9 billion in the quarter, or 42% of revenue, and was down 29% from the year-ago quarter.

Net income in the third quarter was $1.7 billion, or $1.85 per share. Earnings per share included a 5-cent benefit for items that were not in our original guidance.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was $1.9 billion in the quarter and $6.5 billion on a trailing 12-month basis. Capital expenditures were $1.5 billion in the quarter and $4.9 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $1.6 billion.

In the quarter, we paid $1.1 billion in dividends and repurchased about $50 million of our stock. In September, we announced we would increase our dividend by 5%, marking our 20th consecutive year of dividend increases. This action reflects our continued commitment to return free cash flow to our owners over time. In total, we have returned $5.6 billion in the past 12 months.

Our balance sheet remains strong with $8.9 billion of cash and short-term investments at the end of the third quarter. Total debt outstanding was $11.3 billion with a weighted average coupon of 3.5%.

Inventory at the end of the quarter was $3.9 billion, and days were 205, down two days sequentially. Inventory was up $179 million in the third quarter, less than half the increase versus the prior quarter, as we near our desired inventory levels. Therefore, we began to lower factory starts in the third quarter, which results in additional charges to the income statement. This impact is comprehended in our outlook.

For the fourth quarter, we expect TI revenue in the range of $3.93 billion to $4.27 billion and earnings per share to be in the range of $1.35 to $1.57 as we continue to operate in a weak environment.

Lastly, we continue to expect our 2023 effective tax rate to be about 13% to 14%. As you are looking at your models for 2024, based on current tax law, we would expect our effective tax rate to remain about what it is in 2023.

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 Dave.

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

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

QUESTIONS AND ANSWERS

Operator

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

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

My first one, I did want to ask about gross margin. So I mean, depending on what I assume for OpEx mix, where I'm getting something like 250 basis points of compression, maybe more. I know you talked a little bit about how some of that is the impact of utilization. Can you give us some feeling for, I guess, like the magnitude of the different drivers, utilization, lower revenue, depreciation, pricing? And how we ought to be thinking about that trajectory as we get into the next year? Like is there more to go, I guess, is what I'm asking?

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

Yes. So thanks, Stacy. Let me try to help you with that. Of course, we -- for the forecast, we give a range on revenue and a range on EPS, not the pieces. But let me -- let me go through some of what I said for third quarter, which applies for fourth quarter and beyond. So for third quarter, like I said in the prepared remarks, in third quarter gross profit decreased primarily due to revenue. So that's the first driver. Then to a lesser extent, higher manufacturing costs associated with planned capacity expansion -- namely depreciation is the main one there -- and reduced factory loadings, and that's the underutilization component.

Then as I also said in the prepared remarks, inventory, which is the other side of the coin. As we near desired levels of inventory, we began lowering factories starting in the third quarter. So there was an impact in third quarter due to that on the income statement. There will be a bigger impact in fourth quarter due to that. Beyond that, we're not forecasting, but of course, that will depend on revenue expectations well into next year. Do you have a follow-up?

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

I do thanks. Can you give us a little color on the end market behavior in Q3? Can you give us some thoughts on even qualitatively what to expect by end market into Q4? And particularly for auto, it sounds like auto in Q3 was still strong. Do you still see that strength continuing into Q4 and the year end?

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

Yes, Stacy, I'll take that. When you look at the guidance, it would suggest and we believe that we continue to operate in a weak environment in general. And if there was something significant that was changing from one quarter to the next, as is our typical practice, we highlight that. And we just don't have anything to specifically call out for -- in the fourth quarter. So thanks, and we'll go to the next caller please.

Operator

Our next question comes from the line of Timothy Arcuri with UBS.

Timothy Michael Arcuri ***UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment***

Dave, I also had a question on autos. It sounds like it's holding in there despite this broadening strike. And I guess the question is, are more of your customers on consignment in that business? Or is the split in auto about the same as that two-thirds, one-third versus the rest of the company? And I asked because I'm wondering sort of what you're seeing on the disti side that you would sell into autos? Do you see bookings at least weakening that would be more consistent with what we're seeing in terms of this strike and some of the weak macro numbers that we see.

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

Sure. Yes. And as we mentioned in the prepared remarks, it was up -- auto was up mid-single digits sequentially, and it was up 20% when you look year on year. So obviously, that growth had continued. In general, I would say that a market like automotive and personal electronics will have larger customers; those larger customers tend to be biased to more consignment. So we would have that probably more in automotive than if I contrast it to a market perhaps like industrial. But overall, as you know, we've moved to having closer direct relationships with customers, which would include the customers that we have in automotive. And I think we service pretty close to 1,000 or so different automotive OEMs. So there is quite a bit of broadness in who we serve there. Do you have a follow-on, Tim?

Timothy Michael Arcuri ***UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment***

I do, Dave. Yes. So what would it take to for you to think about cutting CapEx. And I asked because the plan was put into place when revenue was quite a bit higher than where it is today. Is there kind of a line in the sand for revenue where you would reconsider the plan? I know you've actually increased the plan while revenues continue to weaken. But is there some like tree around -- is there some -- if it weakens to this point, you would consider cutting CapEx? Just wondering any comments there.

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

Yes, let me comment on that. We're very pleased with the progress on our manufacturing expansion that will provide geopolitically dependable capacity for -- to support customer growth for the coming decade. And as you know, semiconductor content continues to increase and to provide us the ability to grow at that 10% growth rate that we talked about at the last capital management call, if the market requires that. We'll continue to make those investments, so we continue to expect $5 billion of CapEx per year in '23, '24, '25 and '26. So you should count on that.

Let me also give everyone, as a reminder, these CapEx numbers are gross, meaning they do not include benefits from the ITC or grants from the CHIPS Act. So we're actively working through the grant application process with the CHIPS program office which we believe will be meaningful to our manufacturing operations in Texas and Utah and will help support semiconductor growth for decades to come. And funding from the CHIPS -- from the CHIPS Act grant was comprehended in our decision-making for these investments.

Operator

Our next question comes from the line of Ross Seymore with Deutsche Bank.

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

In the third quarter, I think it was the first time in a few years that you guys just came in at the midpoint of your guidance. Usually, you beat it by 2%, 3%, 4%, something like that. So I guess my question is, anything strange in the linearity in the quarter, either by end market, just aggregate bookings. Any color on that you could provide?

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

Nothing strange, Ross. I'd say that revenue built as we went through the quarter. And I'd say just in general, it's reflective of a weak environment that we're operating in, so which is obvious from the guidance that we're giving. Do you have a follow-on?

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

I did. On the end market side of things, you said automotive was up about 20% year over year. I know oftentimes you go between giving sequential or year over year, but could you give us year over year by the end markets, please?

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

Certainly, certainly. Yes. So industrial market was down mid-teens. I mentioned automotive was up about 20%. Personal electronics was down about 30%. Comms equipment was down about 50%, and enterprise system was down about 40%. So I think consistent with that weaker environment that we talked about. So thank you, Ross.

Operator

Our next question comes from the line of Toshiya Hari with Goldman Sachs.

Toshiya Hari ***Goldman Sachs Group, Inc., Research Division - MD***

I was hoping you guys could elaborate a little bit on the pricing environment. I think many of us have been picking up evidence of the pricing environment, particularly in Asia, intensifying over the past couple of months or a couple of quarters. You don't really give pricing as a reason for gross margins to be down sequentially and year over year. But what kind of role is pricing playing? Has your strategy changed at all, whether it be on the Analog side or the MCU side?

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

Yes. So thanks for that question. Always helpful to be able to clarify that. And first, I'll just start with pricing doesn't move quickly in our markets, nor is it a primary reason that customers choose our products. So we're typically agreeing to pricing that's out to six months or on an annual basis for the following year. And so we're continuing to move through that. Our pricing strategy, as we mentioned before, hasn't changed. So we're regularly monitoring what's going on with pricing. We always have a goal to remain competitive. And certainly, as supply and demand has come into balance, or more closer to balance, we've said for some time that we would expect that pricing to behave like it has over the last couple of decades, meaning low single-digit decline. So as we move out in time, that's what we're beginning to see. So really no changes other than going back to what we've seen over the last couple of decades. Do you have a follow-on?

Toshiya Hari ***Goldman Sachs Group, Inc., Research Division - MD***

Yes, I do, Dave. So I guess over the past 12 months, OpEx is up about 10%. And revenue is down about 10%. So as we think about calendar '24, I was hoping you could give us a hint as to how to think about OpEx. And Dave, I think you used to give or you had given multiyear guidance on depreciation. How should we -- to the extent there are any updates, how should we think about '24 and '25 depreciation?

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

Yes. No. Thanks for the question. I'll address both OpEx and depreciation. So on OpEx, we've held a steady hand on OpEx for many years, and we'll continue to do so. So as an example to illustrate the point, from 2017 to 2021, we ran at about $3.2 billion of OpEx. And then in '22, it ticked up to $3.4 billion. And now we're running at about $3.7 billion on a trailing 12-month basis. So you can see the steady hand and just a bit of an increase over the last few years. And that's as we have held a steady hand with our hires, new college hires, and as we make investments to continue to strengthen the company, in the case of R&D, the broad portfolio, in the case with sales and TI.com, on the reach of our channels.

Then on depreciation, so our CapEx expansions are unchanged. We've talked about that, addressed it with the previous caller. So $5 billion of CapEx per year for the next '23 and three years beyond that, as we have been talking about. Now when it comes to depreciation, as time has passed, we have more clarity on what to expect on depreciation. So for fourth quarter, let me start fourth quarter of '23, we expect depreciation to increase on a quarterly basis at about the same rate as what we have been seeing throughout 2023. So essentially, we're going to end the year just shy of $1.2 billion, maybe 1190, 1180, 1170, somewhere in that range for the year. As an update for 2024, we expect depreciation to be between $1.5 billion and $1.8 billion and for 2025 to be between $2 billion and $2.5 billion.

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

We'll go to the next caller, please.

Operator

Our next question comes from the line of Ambrish Srivastava with BMO Capital Markets.

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

I had a question on factory loadings and inventory. So correct me if I'm wrong. I thought the thinking up until now has been, we got to be ready for the upturn. And so we're building inventory for that. And you have highlighted that over several quarters, look, we're not -- we don't have a target, but you did raise the target in terms of how much inventory you want to carry. So this change, which I want to make sure I'm reading it right, that you're taking an underutilization charge because you've reached a desired level of inventory. Is that a reflection that your expectation for the recovery is changing, i.e., you're expecting a slower ramp in revenues than what you perhaps were thinking a couple of quarters ago?

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

Let me start, and Dave, if you want to chime in. But we have targets for where we want inventory levels to be and that goes by product and by state of finish of those products. So for example, of the 80,000 different products that we have, more than -- the vast majority of those are catalog, meaning they sell to many, many customers. They last for a long, long time. So we can have so many years of inventory at the chip level or finished goods level, in many cases, at both levels, and that's based on our internal process to set those. So those are the -- and in aggregate, that's added up to $4 billion to $4.5 billion, and that's what we've been kind of guiding to and we've been talking about.

But what really matters is what happens at the very specific level on a part-by-part number. So as we have neared those levels, and you see our inventory level -- inventory levels have increased about $500 million per quarter for two quarters, and then this last quarter, $179 million. So clearly, there is a deceleration of that growth, and that's on purpose because as we near those levels, then we have slowed down the factory starts, that goes primarily with the fab, but also with the assembly test operations. And then we -- that slowdown will continue into fourth quarter. So the reverse -- the other side of slowing your factory loading -- is the underutilization charges. So we -- as we near those levels, we are ready to be on the other side of this cycle for the upturn.

And of course, it's not just inventory. Capacity is really the bigger driver, but you know what we've been doing on that now for a number of years and we're investing, but inventory really bridges that gap as an upturn happens until you get your factories really cranking at a higher level.

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

Yes. And I'll just add and bring back to our capital management that we've been saying for, I think, over a decade now, our objective with inventory is to maintain high levels of customer service, keep our lead times stable, keep product availability really high. So as we talked about earlier, TI.com, really essentially all of our catalog products are available for immediate shipment. Lead times are stable. And so we are prepared for that next upturn when it does come. You have a follow-on, Ambrish?

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

Yes. Quick one, Dave. Just looking at the year over year in the fourth quarter, double-digit year-over-year decline, and I looked back many years. There have been other cycles where we've had multiple quarters of negative but not that many times we have seen a double-digit kind of four, five quarters. I just wanted your perspective on what you folks are seeing this cycle versus -- and I know no cycle is the same, but just kind of give -- just help investors think about how to think about that double-digit four quarters and could be potentially longer year-over-year decline?

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

Sure. Yes. And I think we all know as being students of studying the cycles over the years. They're all the same, and they're all different at the same time, and they're unique. The one thing that is unique of course with this cycle is how the markets have behaved differently. We've seen bifurcation and really lined up very well with when markets recovered.

So PE was the first to recover and was very strong early on. The other markets followed very shortly after that, and automotive was last. As you remember, many automotive manufacturers struggled to restart their factories, and people weren't going to showrooms when were are in the midst of the pandemic. So really, as we've seen things begin to roll over, personal electronics was first. It was then followed by the other markets, and yet we still have automotive that's hanging in there. So I think that's the one thing that's unique, and I think as we've learned and studied the cycles, our product portfolio has changed as well over time. But the best time to be preparing for the upturn is before it shows up. So that's what we've been busy doing, and we think we're in a great position to support the next upturn and to continue to gain share.

Operator

Our next question comes from the line of Vivek Arya with Bank of America Securities.

Vivek Arya ***BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst***

I wanted to go back to automotive, just to make sure that I understood what you said. Do your comments imply that you're seeing a largely seasonal environment in Q4 with no changes in terms of orders to traditional or EV customers? And if that is the case, if I understood it correctly, isn't that surprising given the macro headwinds that sector is facing?

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

Vivek, your question was on third quarter or on fourth quarter?

Vivek Arya ***BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst***

So what is being -- I think when you were asked before, you said that if there was anything abnormal, you would have mentioned it. So I assume that because you didn't mention it, that it is normal.

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

Yes. So yes, what I said is if there was something that we needed to explain the outlook, or unusual, or however you want to describe it, we would do that. So I'm stopping at that point intentionally. And we'll finish up the quarter and report out what happens in the fourth quarter. Do you have a follow-up?

Vivek Arya ***BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst***

Yes. On depreciation, what is driving the revision? Because your CapEx doesn't seem to be changing. And then kind of part B of that is, if I take that year-on-year delta, Rafael, I think it's about $400 million, $500 million or so incremental in '24. So at the current revenue run rate, that's a two to three-point headwind to gross margin. I just wanted to make sure that I got those two points right.

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

Yes. So the -- for '24, I said $1.5 billion to $1.8 billion, and that is down from what you probably had before -- $2 billion. And for 2025, I said $2 billion to $2.5 billion, so that is down from $2.5 which we had said before. And the reason, as you pointed out, CapEx is not changing, so that's not the reason. It's just as time has passed, we have more clarity on what to expect.

So for example, depreciation on tools -- that doesn't start until the tool is not only received, but installed and then qualified, and that's when depreciation starts. So that doesn't happen immediately. As we have learned more as to how that process works with all the number of tools that we're receiving for the various factories, then we're providing an update on depreciation.

Vivek Arya ***BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst***

And the gross margin headwind. Is that -- did I have the calculation, right? It's a two- to three-point headwind on gross margins?

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

Well, so we've given you the tools to calculate gross margin. So let me remind everybody what that is.

First is revenue. So if you pick the revenue that you believe is going to happen for the next several years, and this works on a quarterly basis, but of course, in any quarter, there are a lot of puts and takes, but better to do it over longer horizons. So you start with revenue, then you fall that through at 70% to 75% which, by the way, that is reflective of the great not only geopolitical dependable capacity that we're putting in place, but it is -- all that new fab capacity is 300- millimeters. So is the -- has a structural cost advantage. Not to mention that we're getting ITC and grant benefits as that is installed in the United States. So but -- so then you fall that through at 70% to 75% then you need to account for the added depreciation. So this year is probably going to be close to $1.2 billion. And then next year, I just gave you $1.5 billion to $1.8 billion. So if you want to take a point between that, then you get your added depreciation for 2024. And then at a high level, that's it.

But of course, in any given quarter, even in any given year, but especially in a given quarter, you have puts and takes. And one of them that we're seeing right now is the underutilization. But that right now is a headwind, but that can also be a tailwind when we're on the other side and we're increasing loadings and what that does is that then it comes back the other way, right? So -- but that's more of a tactical comment that happens in some quarters.

Hopefully, that answers your question.

Operator

Our next question comes from the line of Joe Moore with Morgan Stanley.

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

I wonder if you could walk us through the calculation on the underutilization charge. I mean I think it seems like with the over 200 days in inventory, you would see the cost impact of that in six months, but you're pulling it forward. Can you just talk about how you determine how much to pull forward?

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

Yes. Well, so it's an accounting process, and it's essentially when you're below what's considered normal utilization, that percent that you're below that -- and that is generally determined by wafer -- in the fab, it's wafer starts and outs, in the assembly test operation, it's your -- the number of units that you're producing and you -- you divide that by the capacity that you can get, the maximum capacity. You establish a normal, which is where you normally expect to be. That could be 85%, 90%, 95%, depending the situation. And whenever you're below that, then you take that percent that you're below and then you take those fixed costs and go, to go straight to the P&L instead of going into inventory.

So some of those costs that will come in fixed costs, some of them are depreciation, but it's not only depreciation. You have electricity, for example, is largely fixed. You use about the same amount of electricity whether a tool is running production or not as long as it's plugged in. So you take that into account. And then at the end of the day, you're not creating money when you do that, you just essentially put it on the balance sheet or the P&L. And in this case, it's going directly into the P&L as an in-quarter charge because that portion of the capacity is not producing.

Now one more comment, that gives us tremendous operating leverage on the other side of that, right? Because think about fixed costs. On the way down, they hurt a bit. But on the way up, they're fixed, right? So from a cash standpoint, on the way up, you don't spend any more and then you get just tremendous cash fall-throughs on the revenue, particularly when it's 300-millimeter capacity at very low cost.

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

Do you have a follow-on, Joe?

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

Separately, on the comm infrastructure, business seemed quite soft, both quarter on quarter and year on year. I know that business isn't a focus for you guys, but can you talk about what's driving that weakness?

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

Yes and it -- last year was about 7% of our revenue, Joe. So we can find great opportunities in comms equipment. We continue to invest; we just don't think it has the secular growth that other markets like industrial, automotive have. So we continue to make investments there.

And as we've talked about that market over the years, it's one that just tends to be choppy. We believe that they're continuing to adjust their inventory levels as we work our way through this quarter. And as I mentioned earlier, it's down 50%, so that's a pretty significant drop. So yes, so again, long term, we think it's a great market, and we're positioned well there, but it will have these types of moves overall.

Operator

Our next question comes from Tore Svanberg with Stifel.

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

Yes. So you talked about operating in a weak environment. Could you also give us some color on bookings trends, maybe even the current run rate versus where you think consumption is? Just trying to understand, and this goes back to Ambrish's question about four consecutive quarters of double-digit declines. So yes, any color on bookings trends would be really helpful.

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

Yes. So as I mentioned, I think as part of another question on revenue order linearity, there was nothing unusual inside of that. Secondly, we obviously, we're describing the environment as being weak. And we don't have a system that tells us, are we shipping above or below demand. The strongest signal that we get is orders from customers. Now as we talked about earlier, comms -- or a market like personal electronics was the first market to go into the downturn. We've had a couple of quarters of growth inside of that market. Now it's up off of a very weak base, but we are seeing that as a trend. If you compare that to the industrial market, we had seen that, let's say, let's call it, about half of the sectors begin to weaken a couple of quarters ago. It was really this quarter that we saw that, that weakness is broadening. So customers, we believe, inside of markets like that, inside of markets like comms equipment that we said, they're adjusting their inventories as such. So again, that provides us the opportunity, both strategically with building the capacity and more tactically, building, putting in place the inventory to be able to support the next upturn because it will certainly come. Do you have a follow-on?

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

Follow-on for Rafael. Rafael, thank you for the depreciation numbers for the next few years. Do you also have an update us on the timing of the offsets to the depreciation, especially in relation to ITC and the CHIPS Act and anything new there?

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

So nothing new, frankly. The ITC is -- the expectation is similar, which is about a 20% to 25% credit on everything that is spent on CapEx in the U.S. for fabs.

So what we said back in February is that that's going to be roughly $4 billion of the $20 billion or so, that for CapEx, the $5 billion times four. So roughly about $4 billion of that we're going to get back on ITC, about one-year offset.

Of that, we have already accrued $1.2 billion on the balance sheet. So you'll see that on our balance sheet under long-term assets. A portion of that, we will get some time next year, probably by fourth quarter next year is when we expect to get that cash, so that's when the cash will start flowing in.

As I mentioned in an earlier call, on an earlier question, we are actively applying for the grants. So that's going to be in addition to the ITC. We're not counting on that. We don't have any numbers on that because you have to apply, you have to wait until the Department of Commerce makes that decision. But we are -- we're planning on receiving then -- the funding from the CHIPS Act grant was comprehended in our decision, and we firmly believe we are very well positioned to receive those funds, and we're a great candidate for that, and we believe that will be meaningful to manufacturing operations in Texas and Utah to support semiconductor growth and the objectives of the CHIPS program office.

Operator

Our next question comes from the line of Harlan Sur with JPMorgan.

Harlan L. Sur ***JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment***

China headquartered shipments or about 20% of sales for the first half of this year. This geography has experienced the most significant decline. I think it was down like 33%, 35% year over year in the first half of this year. Much of your China business is focused on industrial. Is this geography continuing to contribute to the weakness here in Q4? And what other geographies are you seeing that is contributing to this broadening out of sort of the weak industrial trends?

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

Yes. So let me -- I'll speak to what we saw in the third quarter. And just in general, including industrial and China, continue to remain weak. So I think if we're having this call a year ago or so, as China came out of COVID, I think most of us would have expected there to be a more significant rebound, which just hasn't materialized. So yes, I think when you look at on a regional basis compared with the year ago, the only region that was up was Japan. So the other regions were down. And so again, just described that weakness as being very broad in nature. Do you have a follow-on, Harlan?

Harlan L. Sur ***JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment***

Yes. So your Embedded business continues to hold up relatively well, right? Trailing 12 months, it's up 8% year over year. You've talked about the positive strategy changes in Embedded. Last quarter, you also cited some constraints. I assume that those constraints have fully normalized. So do you anticipate Embedded continuing to hold up? Or do you anticipate this segment starting to weaken from here with some of the capacity constraints potentially easing?

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

Yes. As we talked about before, we had focused on changing the product strategy that we had inside of Embedded. I'd say we're very pleased with the results that we have so far. Our first objective was to stabilize that business. And we continue to invest in it because we believe it has long-term growth potential and contribution to free cash flow. So we're very pleased with where we're going.

I think more tactically, as we talked about last quarter, we saw that business does rely more heavily on foundry suppliers. We began to see those -- that capacity begin to free up for us. And I think that it was different because we had capacity in place to service analog, our own capacity there overall. So yes. So again, we think that business long term is going to be a great driver for us in the future. So thank you.

And I think we've got time for one more caller.

Operator

Next question comes from the line of William Stein with Truist Securities.

William Stein ***Truist Securities, Inc., Research Division - MD***

Dave, can you remind us what's in the Other segment besides calculators and perhaps why that end market was down so much more than the others? I know it's very seasonal from calculators, but there was a big drop year over year.

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

Yes. So besides calculators, we have our DLP or digital light processor products that are in there. So those products are continuing to make their way through inventory correction overall. And calculators had a weaker back-to-school this season. Do you have a follow-on?

William Stein ***Truist Securities, Inc., Research Division - MD***

Yes, perhaps something that hasn't come up in a while, but lead times, we were dealing with this golden screw issue for a while where there were quite a number of parts or quite a big part of the, let's say, all the available SKUs that had very extended lead times with revenue down as much as it is. I'm guessing that, that's mostly resolved, and lead times are like sort of stocked to four weeks for most things at this point. But if you could level set me on that, the degree to which there are still extended lead times, that would be really helpful.

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

Sure. Yes. So and I may have mentioned this earlier, but almost all of our catalog products are available on TI.com for immediate shipment. And so as we approach our desired level of inventory, we've got product that is positioned both in finished goods as well as in wafer form to be able to restock that. Of course, lead times, therefore, are what I describe normal levels and continue to be consistent. And there's probably no time that we don't -- with so many different products and so many different customers, we'll have hotspots, but they are very few and far between, and our ability to close those is very -- we've got flexible manufacturing is -- most of our production is fungible.

So with that, I'll ask Rafael to wrap up the call for us.

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

All right. Let me wrap up by reiterating what we have said previously. At our core, we're engineers, and technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate value for owners is the long-term growth of free cash flow per share.

While we strive to achieve our objective, we will continue to pursue our three ambitions. We will act like owners who will own the company for decades, we will adapt and succeed in a world that's ever changing, and we will be a company that we are personally proud to be part of and would want as our neighbor. When we are successful, our employees, customers, communities and owners all benefit.

Thank you, and have a good evening.

Operator

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