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OVERVIEW:

Company Summary

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PRESENTATION

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Welcome to the Texas Instruments third quarter 2025 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 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.

You likely saw last week we announced that the board of directors has elected Haviv Ilan chairman of the board, beginning January 2026. Haviv succeeds Rich Templeton, who will retire as chairman after a 45-year career with TI. I'm sure you will join me in congratulating them both.

Today, we'll provide the following updates. First, Haviv will start with a quick overview of the quarter. Next, he'll provide insight into third-quarter revenue results, with some details on what we are seeing with respect to our markets. Lastly, Rafael will cover the financial results, give an update on capital management, as well as share the guidance for fourth quarter 2025.

With that, let me turn it over to Haviv.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Thanks, Mike. I'll start with a quick overview of the third quarter. Revenue came in about as expected at $4.7 billion, an increase of 7% sequentially and an increase of 14% year over year. Analog and Embedded both grew year on year and sequentially. Analog revenue grew 16% year over year, and Embedded Processing grew 9%. Our Other segment grew 11% from the year-ago quarter.

Let me provide a few comments about the current market environment. The overall semiconductor market recovery is continuing, though at a slower pace than prior upturns, likely related to the broader macroeconomic dynamics and overall uncertainty. That said, customer inventories remain at low levels, and their inventory depletion appears to be behind us. We are well positioned with capacity and inventory and have flexibility to support a range of scenarios.

Now I'll share some additional insights into third quarter revenue by end market. First, the industrial market increased about 25% year on year and was up low-single digits sequentially, following a strong result in the second quarter. The automotive market increased upper-single digits year on year and around 10% sequentially, with growth across all regions. Personal electronics grew low-single digits year on year and grew upper-single digits sequentially. Enterprise systems grew about 35% year on year and grew about 20% sequentially. And lastly, communications equipment grew about 45% year on year and was up about 10% sequentially.

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

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Thanks, Haviv, and good afternoon, everyone.

As Haviv mentioned, third quarter revenue was $4.7 billion. Gross profit in the quarter was $2.7 billion, or 57% of revenue. Sequentially, gross profit margin decreased 50 basis points.

Operating expenses in the quarter were $975 million, up 6% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.9 billion, or 23% of revenue.

Operating profit was $1.7 billion in the quarter, or 35% of revenue, and was up 7% from the year-ago quarter.

Net income in the quarter was $1.4 billion, or $1.48 per share. Earnings per share included a 10-cent reduction not in our original guidance. This includes 8 cents of restructuring charges related to efforts to drive operational efficiencies to support our long-term strategy, including the planned closures of our last 150mm fabs.

Let me now comment on our capital management results, starting with cash generation. Cash flow from operations was $2.2 billion in the quarter and $6.9 billion on a trailing 12-month basis. Capital expenditures were $1.2 billion in the quarter and $4.8 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $2.4 billion. This includes $637 million of CHIPS Act incentives, including a $75 million payment received in the third quarter related to the direct funding agreement.

In the quarter, we paid $1.2 billion in dividends and repurchased $119 million of our stock. In September, we announced we would increase our dividend by 4%, marking our 22nd consecutive year of dividend increases. This reflects our continued commitment to return free cash flow to our owners over time. In total, we returned $6.6 billion to our owners in the past 12 months.

Our balance sheet remains strong with $5.2 billion of cash and short-term investments at the end of the third quarter. Total debt outstanding is $14 billion, with a weighted average coupon of 4%.

Inventory at the end of the quarter was $4.8 billion, up $17 million from the prior quarter, and days were 215, down 16 days sequentially. We have executed well on building an inventory position which we believe will allow us to consistently deliver high levels of customer service.

Turning to our outlook for the fourth quarter, we expect TI's revenue in the range of $4.22 billion to $4.58 billion and earnings per share to be in the range of $1.13 to $1.39. Our fourth quarter outlook includes changes related to the new U.S. tax legislation and now assumes an effective tax rate of about 13%. In addition, we expect our effective tax rate in 2026 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.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Thanks, Rafael. Operator, you can now open the line for questions. In order to provide as many of you as possible an opportunity to ask your questions, please limit yourself to a single question. After our response, we'll provide you an opportunity for an additional follow-up.

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Timothy Arcuri, UBS.

Timothy Arcuri - *UBS AG - Analyst*

Haviv, I'm wondering if you can talk about the linearity of bookings through the quarter. I know in the June quarter, things had softened throughout the quarter. But this quarter, it seemed like things got a little better as you moved through the quarter. So can you talk about that as you head into CQ4?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, I'll give some high level comments, and Mike, please add anything with more detail. Yeah, this quarter came in as expected and -- not similar to what we saw in Q2 which was a little bit hectic with the tensions related to trade and tariffs, we saw a lot of change through the quarter. This was more of an as-expected quarter through the quarter in July, August, and September.

Mike, anything to add on that one?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

We had talked about the turns portion of the business had started out strong at the beginning of second and moderated near the end. We didn't see that same behavior again in third. Really, that portion kind of followed what you'd expect to see in a cyclical recovery that we saw in third.

Do you have a follow-up?

Timothy Arcuri - *UBS AG - Analyst*

I do, yeah. Rafael, I wanted to ask about loadings that are assumed in the fourth quarter. I know you usually come in at the high end, but if we assume the midpoint of the guidance, and I assume that depreciation grows like it has the past few quarters, gross margin, if I exclude the depreciation, so on a cash basis, it's down like sub-67. It hasn't been that low in like 10 years. And you are already sitting on a lot of inventory. I don't think you want to build more, so what's the path to get cash margins on a better path here? I mean, it's below where it was seven to eight quarters ago when revenue was $600 million to $700 million lower than where it is today.

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, let me try to answer that. There were several questions there, so let me see if I can hit most of them. First, your question is maybe fundamentally on inventory, so let me start there. We're very pleased with current inventory position. The objective for inventory is to support customers, to keep lead times short and have just great customer delivery and customer satisfaction. So that we are achieving, and we're pleased with where the inventory is.

Now, given where revenue -- the midpoint of our revenue, in order to continue to maintain those levels of inventory and where we want to be on inventory, we're adjusting the loadings down into fourth quarter. We did some of that in third quarter, and we're going to do some more in the fourth quarter. So as we do that, and as you pointed out, when you look at fourth quarter, you have lower revenue, you have higher depreciation, you have the hit on the lower loadings. So that's how you get to the EPS range that we have listed.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

All right, we'll move on to the next caller.

Operator

Chris Danely, Citibank.

Chris Danely - *Citigroup - Analyst*

Hey guys, could you just talk a little bit more about the restructuring, maybe what was the catalyst for it, and then any benefits to expenses, either gross margins or OpEx, going forward?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

High level, it's related to actually two things. First, I think we announced several years back that we are winding down our 6-inch fabs, or 150mm fabs. We have one in Sherman, the old site, the old fab in the site, and one in Dallas. Both of them have actually started the last wafer this month, and we will see a gradual reduction in cost related to these two factories that grew, I think, the first half of '26. We're just taking the hit on the restructuring cost in Q3 as we had predictability, and the amount was clear to us in terms of the size of it.

Regarding the other part of it, this is an ongoing work that we're doing. We always look at efficiency gains. We had some areas where we felt that our R&D machine was not generating the returns that we would expect in the long term, and we decided to consolidate some sites. That is also going to take place in the next couple of quarters for the company.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Chris?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

And Rafael, is there anything just on the OpEx side that you want to mention, Rafael?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

I would just say, tactically for fourth quarter, expect OpEx to be about flat to third quarter. And as Haviv alluded to, the benefits from the restructuring, they don't all come in immediately, so it just takes a little while for that to happen. And there will be benefits in both COR as well as OpEx.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Chris?

Chris Danely - *Citigroup - Analyst*

I think you guys said industrial was up low-single digits sequentially and auto was up, I think, it was high-single digits or something like that sequentially. That sounds like a bit of a change from what you said last quarter and intraquarter. Is that true? And then why do you think industrial is slowing down and auto is a little better than expected?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Let me take first. Chris, as you remember, we only guide at the company level, we don't guide by market. We did say, I think on the industrial side, that we had a very strong Q2, so we kind of indicated that we assumed Q3 will taper off, right? And actually, to me, that low-single digit growth sequentially was good. I'm pleased with the result. Remember, very strong growth in the second quarter.

On the automotive side, I would say, look, automotive is kind of sequentially up and down and up and down, but all in a very similar level, right? The recovery in automotive, at least for TI, was very -- the trough was shallow, and now it's kind of back to where it used to be. So I would not read too much into it. It came in more or less as expected. And I think, Mike, it grew across the regions in automotive?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

It did, yeah. It grew sequentially across all the regions.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

All the regions. So no surprises there, Chris, from our perspective at least.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Yeah, I’d just add that with industrial, a second to third transition usually is actually down. If you just look across the averages over history, it's actually down a little bit. So an up low-single digit is actually not an unusual result if you're in a recovery.

All right. I'll move on to the next caller.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

I guess, I continue to get a lot of questions about pricing for you guys. Anything unusual happening there? I think you alluded to an ongoing learning curve, price declines, but anything happening where any markets are different on the pricing side?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

The short answer is, no. And again, for the year, I think our assumption coming into the year was a low-single-digit decline, like-for-like on the pricing side. And I think that's how we're trending today. So I expect the year to end at that low-single-digit price reduction in 2025.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Joe?

Joseph Moore - *Morgan Stanley - Analyst*

Yeah, and just any comment on lead times? Are you still in the range that you've talked about? Any areas where lead times are getting longer?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Across the portfolio, very consistent with what it was the quarter prior. There's not much of a change in that. Our lead times right now are competitive. We've worked very hard to make sure that our inventory position could allow us to do that, and we're happy with the lead time position that we have. So yeah, not a lot of change on a sequential basis.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

And Joe, just a little bit more color on the lead times. I think we always talk about inventory part by part, technology by technology, package type by package type. I think, as Rafael mentioned, the third quarter was a very good quarter for us because we've reached our milestone of where we need to be. We had a few areas where we were still catching up. So that's now behind us, and we are now prepared to any scenario.

As Mike said, we are serving our customers through growth this year of mid-teens with no issues. So very strong support from TI. We are hitting our metrics and exceeding them even, and the customer service is continuing to be very high for the company, which explains some of the low visibility we're seeing in terms of turns business, as Mike mentioned before.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

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

Operator

Stacy Rasgon, Bernstein Research.

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

For my first one, I just wanted to dial in on the gross margin expectations explicitly for Q4. You talked about loadings and everything else. You talked about the tax rate coming up. It seems to me you're guiding it down, I don't know, maybe 250 bps, something in the ballpark of 55%. I just want to know, is that the right number to think about? And then given that baseline, how much cost should I be expecting comes out of the model due to the 6-inch fab closures in the first half?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, so Stacy, high level, you're in the ballpark. We let the EPS guide speak for itself, but you have lower revenue, and you fall that through. You have increases in depreciation. For the year, it's $1.8 billion to $2 billion, so it should be an increase second to third similar to -- third to fourth should be similar to second to third. So you do that, and you have higher levels of depreciation.

And then, as Haviv said, we're very pleased with our inventory levels. They're doing what they're supposed to. So now, we are moderating those wafer starts, those loadings, and as those come down, we get the impact on gross margins.

Let me just also step back and stress that we run the company with the mindset of a long-term owner and the objective to grow free cash flow per share over the long term. And that is gaining momentum. On a trailing 12-month basis, our free cash flow is up 65% from last year, and it has the potential to accelerate and grow even faster next year, as we outlined in our framework back in capital management.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Stacy?

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

I do, thanks. So your Q4 guide is down about 7% sequentially off of the slightly higher-than-expected Q3 base. My math suggests that down 7% or so is pretty much seasonal, like on a pre-COVID basis. I know post-COVID seasonality has been all over the place, but pre-COVID it typically was down, call it, high-single digits.

So you seem to be on a seasonal trend now, and maybe that's consistent with customers no longer draining inventory. How should I think about normal seasonality, like pre-COVID levels for Q1? My feeling is it's typically down sequentially. I'm not asking you to guide it, but just what is normal for Q1, at least on a pre-COVID basis, if we're running more of a seasonal pattern from here?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Stacy, before we talk about Q1, let me just add a little bit more color on Q4. As you said, I look at it as a roughly seasonal guide as you said. And the reason is, there is a recovery, but it's at a very moderate pace, right? So that's what guides our, call it, seasonal view into Q4.

I also mentioned, and that's what we're seeing, this is part of the way we do business these days. More customers are direct, more customers are on consignment. Customer inventories are low, and I think they've gone through this depletion process. That's behind us. So we are going to be just seeing it real time as it comes, and hence our guidance.

Now, regarding Q1, Mike, you can comment if you want.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Yeah, it's not unusual to see fourth to first historically -- this is not a guide for what we're going to see, but what historically has done, it's typically down just slightly sequentially. It's not unusual to see.

All right, Stacy, thank you for the questions. We'll move on to the next caller, please.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank AG - Research Analyst*

I'll ask a couple questions. Haviv, congratulations on the chairman role as well. I wanted to go back to the gross margin side. Rafael, you talked about all the reasons it was going to drop and the rough range from the prior question. Just wondered, how does that flow through into next year from the perspective of depreciation?

Is there any change to the range you gave before? And if you're flat to slightly down in the first quarter, does that flow through, and the utilization dynamic, does that have to flow through inventory, et cetera, leading to a headwind as we go into the first half of next year as well?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, so a couple of things. First, on depreciation, no change to our guidance, $1.8 billion to $2.0 billion for this year. So you can back into fourth quarter, as I answered to Stacy a second ago. And for next year, we've said $2.3 billion to $2.7 billion, but to be on the lower end of that range. So that should give you enough to model that.

Beyond that, we'll forecast one quarter at a time. It's going to depend on revenue and demand. So by lowering the loadings now, it puts us in a good position to have the level of inventory that we think is required. And I think that's going to put us in a good position going into 2026.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

And Ross, the only color I'd add, and Rafael touched upon it, we do think, and that's the way we run the place, on free cash flow per share. We have made excellent progress on ramping and qualifying our Sherman new site. We are winding down two 6-inch fabs. Our investments in Utah, in Lehi 2, are continuing as planned. So our eyes are on free cash flow per share growth and start with free cash flow, right?

So when you get to the right level of inventory, when you execute on your expansion plans, I think we are now well prepared for any scenario. And as you remember, we have framed 2026 not on GPM but on free cash flow, and that's where our sight is on.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Ross?

Ross Seymore - *Deutsche Bank AG - Research Analyst*

Yeah, I do. I just wanted to also talk about margins, but on the OpEx side. Clarification first on the question, clarification for Rafael. You talked about OpEx being flat in the fourth quarter. I assume that's excluding the charge in the third quarter.

And then as you look forward, in the past you've had years where OpEx is flat year over year. You just took some restructuring, you're consolidating R&D sites, you said. How should we think just generally about OpEx, whether it's relative to revenue or absolute levels? Do you plan to grow it low-single digits? Is it something higher than that, like this year? Any sort of color about how you're approaching OpEx as you look into next year?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, so a couple of things. First, on the first part of your question, when I think about OpEx, I do not include restructuring in that. That is a separate line. So that $85 million, of course, that's not going to repeat. So put that out. And the regular OpEx, I expect it to be about flat third to fourth quarter.

Beyond that, on R&D and SG&A strategy more broadly speaking, we have a disciplined process of allocating R&D and SG&A to the best opportunities and the best investments. That's primarily on the R&D space, but even in SG&A strategies such as TI.com to strengthen our competitive advantages.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yeah, and on the R&D side, Ross, look, today I'd like to talk about -- and we are seeing the data center market becoming a larger opportunity over the last several years, and I think that continues into the future. So when I think about industrial, automotive, data center, the amount of opportunity to expand our portfolio is high. We have a lot of good investments to make there, and we plan to continue to grow our portfolio in these three areas. We care about all markets, all five markets, but these three will have a really long-term growth opportunity ahead of them, and TI can do more to serve these markets. So I expect to see that in '26 and beyond.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Thank you, Ross. We'll move on to our next caller, please.

Operator

Jim Schneider, Goldman Sachs.

James Schneider, Ph.D. - *Goldman Sachs Group Inc - Analyst*

I just wonder if you could maybe give us a little bit of color in China and what you're seeing there. I think last quarter you called out some pull-in activity. I'm curious whether you saw a reversion there in terms of orders or whether orders ended up better than you expected, and sort of what you're seeing on a real-time basis heading into Q4?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

High level in Q3, China came back to normal, and I expect that to continue into Q4.

Mike, anything specific on the China business?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Yeah. And maybe add, as we probably talked about last quarter, there was potential for pull-forward in second. And if you look at industrial in China, that was the only market that didn't grow sequentially. But if you look on a year on year, still up about 40%. But I think you're looking at where it essentially didn't repeat. We didn't see that same level of pull-forward, at least evidence of it. Can't confirm that with certainty, but it doesn't appear that same pull-forward trend repeated itself in third just based on that. But we'll have to see how it plays through. That's the only thing I would add.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Okay, so nothing special to report there, Jim, okay?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up?

James Schneider, Ph.D. - *Goldman Sachs Group Inc - Analyst*

Yes, please. I know when you get to the beginning of next year you'll give us an update on the capital management day, but I'm curious, as we sit here today, in light of the slower recovery, you seem to be talking about right now or you're seeing right now, can you maybe give us a sense about whether you expect that your CapEx for next year will be toward the lower end of the range you outlined at the beginning of this year?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yeah, we gave you the framework, Jim. And again, we gave you a $20 billion to $26 billion framework there, but of course, it can be higher or lower. I think the probability of being lower is probably more probable than higher than $26 billion, right? So at the end of the day, we'll see what it wants to do. This recovery has been moderate, so we haven't seen even the market goes back to trendline, not to mention going above trendline and customers building inventory. We just haven't seen it. It could still happen in this cycle. It could not.

The good news from a TI perspective that we are ready for any scenario. If it wants to grow quickly, we will be able to serve it. But if it wants to continue in that moderate recovery, of course, we will be at the lower end of the CapEx, and free cash flow will grow as indicated in our framework we provided in capital management. And as February comes in, we'll have some more information, we'll have Q4 behind us, and we'll provide more color on that, Jim.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Thanks, Jim. Move on to the next caller, please.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research LLC - Analyst*

Yeah, thank you. I guess, the first question is with regard to general conditions and the recovery. I think the words you said were that the recovery was continuing at a slower pace. Can you talk about what's changed in your mind since the last earnings call? I think earlier in the year, perhaps we were more optimistic that this would follow the lines of a more typical recovery, which would be stronger by now. But what sort of changed in the part of your customers and such compared to the last earnings call?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, sir. And I think that's related more to the first half of 2Q. I think Mike mentioned that, and we acknowledged that in the July call that it had a very rapid start. We were thinking that we were sitting on a sharp slope. I think time taught us that it is not. I would not say -- it's just moderate, okay? We are seeing the market getting back toward trendline but still below trendline. And that's one of the more moderate recoveries that we've seen in history.

I think you have to go back many years to see similar behavior. It could still change. My -- and, again, I cannot prove it, but I do see when I talk with customers, especially on the industrial side, and if you think about investing, building new factories, putting more CapEx, there's a bit of a wait-and-see mode with our customers. They're just hesitant to have clarity on what exactly are the final rules. Should I put my factory in this country or another one?

Even in our domain, think about it, the rules are still not finalized in terms of the rates of tariffs, for example. Will they be or not? So I do see this hesitancy at the customer base, and I see it mainly on the industrial side.

On the automotive side, the secular growth is continuing, so just content growth allows that market to go back to the level it peaked before. And the outlier is data center. Data center, again, not a large part of our revenue, but growing more than 50% for TI year to date. That's where we see strong investment. That's the only place where we see strong growth, where customers are investing and moving fast, and TI wants to do more there, and we are investing as well. But again, it's a smaller part of our revenue.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Chris?

Chris Caso - *Wolfe Research LLC - Analyst*

I do, thank you. And as a follow-up, if you could take us through your thought process with regard to the reduction in wafer starts and utilization. I mean, is it a function of what you just said that typically the recovery would be stronger at this point, and it's not there, so you need to moderate a bit? Take us through the thought process for that and for how long you would keep the loadings at a lower level, and what would you need to see to start raising those loadings again?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, so you can think of it fairly mechanically, frankly. Think of revenue was $4.7 billion and change in the third quarter. Now the midpoint is $4.4 billion. If you run the factories the same way you were before with lower revenue, you just grow inventory and keep on growing inventory. We only grew $17 million in the third quarter, so it was essentially flat. But at lower revenue, same loadings, you would grow inventory. So you need to moderate that in order to keep inventory either flat or maybe slightly down as we go into fourth quarter.

The second part of your question, it's going to depend on revenue, right? So the higher the revenue could be over the next 6, 9, 12 months going into 2026, then the faster we could increase the loadings back up. Or we may leave them at that level if the revenue is more moderate. So it's just going to depend on how revenue comes in.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Moving on to the next caller, please.

Operator

Blayne Curtis, Jefferies.

Blayne Curtis - *Jefferies - Analyst*

I had two questions. I just wanted to follow back up on that loading comment. I mean, you said that you would keep it flat in December. I mean, I guess you don't guide to March, but I'm just kind of curious, you've been growing inventory for many, many quarters. Is this now the way to think about it? You'll keep it flat until you see a more robust recovery in the top line?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, and I think you're referring to flat inventory levels, and I said flat to down. So we're comfortable with the $4.8 billion that we have of inventory that has a very low obsolescence level. We hardly ever scrap any of our inventory because it lasts a long time, both in finished goods and in chips, in chip form and die bank and in finished goods. So we feel very comfortable with that level.

But it's about sustainability, right? If you just keep on growing, it's just not a good allocation of your cash, of your capital for owners. So it's better to moderate the loadings. That way, you're flat to down in the current environment, and we feel that we can do that and continue to have very high levels of customer service and metrics supporting our customers.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Blayne?

Blayne Curtis - *Jefferies - Analyst*

And then, I guess, just a follow-up, in terms of the lower loading in the December quarter, is that all reflected in the gross margin guidance, or does that kind of spill into March? Obviously, like I said, you're not going to guide to March, but just thinking about the moving pieces, is there any part of the December cut that spills into March in addition to whatever March is?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah, so we're not guiding to March, as you pointed out. But the lower loading that I'm talking about, the one that happened in third quarter. There was a step down in third quarter, second to third, and there's another step down into fourth. That is, of course, embedded in the EPS guidance that we just gave.

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

All right, thanks, Blayne. Moving on to the next caller, please.

Operator

Tore Svanberg, Stifel.

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

My first question is on the enterprise data and communications business. I get the enterprise data, that's obviously the data center, but I'm a little bit surprised to see the communications equipment being that strong. Is that also tied to data center and perhaps some of these cluster buildouts, or is there anything else going on there?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, I think it's a great question, and that's the reason I think we indicated before and we'll provide more color in Q1 that we are planning to break out data center as a market for the company. Right now, our data center sits mainly in enterprise, in that compute end equipment, but also on the comms side. We have there the wire, the switches and the wired comms in rack and rack-to-rack. We also have the optical module business there in comms. So they are really part of the data center market, if you will.

The other part of the data center market for TI sits today in industrial. Think about all these high-voltage power delivery, the PSUs and all that. And there is a lot of architectural change there going to high-voltage DC and all that. So I think it's time that TI calls out data center at the top. We'll provide more color in Q1, but just for the year, and then we are in the midst of collecting all the bits and pieces, but TI is running more or less at a $1.2 billion run rate in 2025. That's what we're seeing right now. And again, we'll provide more specifics in Q1, but it's also our fastest growing market. It's growing year to date about 50% for the first three quarters. And I see customers continuing to invest, as I alluded to before. That's the one market that we see CapEx going into, and I'm not seeing any slowdown there at least in the foreseeable future related to our visibility at least, okay?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

Do you have a follow-up, Tore?

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

Yes, that was very helpful. Just a quick follow-up. I know you typically don't guide by market in Q4, but any sort of outliers one way or the other by your end markets into the December quarter, please?

Mike Beckman - *Texas Instruments Inc - Head of Investor Relations*

I'd just say there's no specific outliers to call out. As you look across our businesses, some of our end markets have higher sensitivity to seasonality than others, personal electronics being probably the most sensitive to it. But overall, there's nothing specific that I'd call out about fourth quarter's transition.

Tore, thanks for the question. I'll hand it back over to Haviv to wrap us up.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Thank you, Mike. So let me wrap up with what we've said previously. At our core, we're engineers. Our technology is the foundation of our company. But ultimately, our objective is to -- 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.