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Q3 2020 Texas Instruments Inc Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2020 / 8:30PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Craig Matthew Hettenbach *Morgan Stanley, Research Division - VP*

Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst*

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

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

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

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

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

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

PRESENTATION

Operator

Good day and welcome to the Texas Instruments 3Q '20 Earnings Release Conference Call. Today's conference is not (sic) being recorded. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

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

Good afternoon, and thank you for joining our third quarter 2020 earnings conference call. 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. A replay will be available through the web.

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

Our Chief Financial Officer Rafael Lizardi is with me today, and we'll provide the following updates: First, I'll start with a quick overview of the quarter; next, I'll provide insight into the third quarter revenue results with more details than usual by end market, including some sequential performance since it's more informative at this time; and then lastly, Rafael will cover the financial results, capital management and our guidance for the fourth quarter of 2020.

Let me start with a quick overview with three key points.

Revenue was higher than expected and grew 18% sequentially, with notable strength from the rebound of automotive and growing demand from personal electronics. Revenue increased 1% from the same quarter a year ago.

In April and again in July, we explained we would maintain high optionality with our operating plan so we could support customers, particularly during a time when their ability to forecast will be limited. This approach has served us and our customers well and we'll continue this posture in the fourth quarter.

Finally, while visibility for the near-term demand has improved, we remain cautious, as the broader economic impact of the global pandemic could continue for several years. Our approach in an environment like this is to maintain high optionality with our operating plan in the short term, to continue critical investments in R&D and in new capabilities like those for TI.com, and finally, to invest to ensure long-term manufacturing capacity, particularly for the 2022 to 2025 time frame.

We've made these decisions with our overall ambitions in mind, which include running the company with the mindset of a long-term owner. These decisions have continued to serve us well.

Looking at our segments, Analog grew 18% and Embedded Processing grew 19% sequentially. On a year-over-year basis, Analog grew 7% and Embedded Processing declined 10%. Our "Other" segment declined 19% from a year ago, primarily due to lower calculator sales or COVID-19 impacted back-to-school sales.

Moving on, I'll now provide some insight into our third quarter revenue by end market.

First, the automotive market rebounded with about 75% sequential growth and returned to levels similar to a year ago. Revenue has grown from the bottom we saw in May, as North American and European automotive assembly plants resumed operations.

Next, the industrial market was down low-single digits sequentially, roughly a sequential decline, and about even from a year ago. Not surprisingly, there were areas of strength, and there were areas of weakness. The diversity within industrial results in relative stability, reinforcing the attractiveness of this highly diverse market.

Personal electronics was up more than 20% sequentially and up about 15% compared to a year ago. The strength was broad-based across personal electronics combined with TI being in a position to support unforecasted demand in the third quarter.

Next, comms equipment was down about mid-single digits sequentially and up mid-single digits from a year ago.

And enterprise systems was down in both comparisons.

Lastly, I'll note a housekeeping item. We've simplified our Analog business structure into our Power business and our Signal Chain business. Starting this quarter, our reporting will reflect these changes.

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

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

Thanks, Dave, and good afternoon everyone.

Third quarter revenue was \$3.8 billion, up 1% from a year ago. Gross profit in the quarter was \$2.5 billion or 64% of revenue. From a year ago, gross profit margin decreased 60 basis points.

Operating expenses in the quarter were \$793 million, up 2% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were 23% of revenue. Over the last 12 months, we have invested \$1.5 billion in R&D.

Operating profit was \$1.6 billion in the quarter or 42% of revenue. Operating profit was up 1% from the year-ago quarter.

Net income in the third quarter was \$1.4 billion or \$1.45 per share.

Let me now comment on our capital management results, starting with our cash generation.

Cash flow from operations was \$1.4 billion in the quarter. Capital expenditures were \$146 million in the quarter. Free cash flow on a trailing 12-month basis was \$5.2 billion.

In September, we announced we would increase our dividend by 13%, marking our 17th consecutive year of dividend increases. In the quarter, we paid \$825 million in dividends and repurchased \$15 million of our stock. In total, we have returned \$6.4 billion in the past 12 months, or 123% of free cash flow. Over the same period, our dividends represented 64% of free cash flow, underscoring their sustainability.

Our balance sheet remains strong with \$5.5 billion cash and short-term investments at the end of the third quarter.

Regarding inventory, TI inventory dollars were down \$64 million from the prior quarter, and days were 137. Distribution-owned inventory declined in the third quarter by about \$100 million, the eighth consecutive quarter of planned reductions, as we have continued the transition to have fewer distributors and bring more customers direct. As a reminder, as we build closer, direct relationships with our customers, we further strengthen one of our competitive advantages, the reach of our market channels. Tactically and strategically, we are pleased with the progress of the transition and the impact for our customers.

For the fourth quarter, we expect TI revenue in the range of \$3.41 billion to \$3.69 billion, and earnings per share in the range of \$1.20 to \$1.40. Our annual operating tax rate has not changed much, but now rounds up to 14% from the year, and that's what you should use for your models in the fourth quarter. For next year, we expect our annual operating tax rate to remain at about 14%.

In closing, we continue to invest to strengthen our competitive advantages and in making our business stronger. 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) And we'll go ahead and take our first question from Toshiya Hari with Goldman Sachs.

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

Rafael, Dave, my first question is on automotive. You guys saw very strong results in the September quarter. I think you spoke to a 75% sequential increase in revenue in the automotive end market.

What's your view on December as it relates to automotive? And how are you thinking about sustainability into the early part of 2021? And then I've got a quick follow-up.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Sure, Toshiya. Yes, I think that, that 75% sequential obviously was very strong, but it's probably best explained by looking at the previous quarter. And as we talked about last quarter, the majority of the automotive revenue is on consignment. So as the North American and European manufacturers had closed plants, that revenue reacted very quickly, and we were down 40% sequentially and year-on-year. And so as those factories opened up, we saw the bottom in May, and we expected revenue to grow, and as they opened up, obviously that revenue reacted very quickly in the other direction.

So that's really the story that we saw in third quarter. Again, as we've given color last quarter on the automotive market and talked about how that was moving pretty significantly, in the fourth quarter, we're not breaking out any particular end market or specific color on that front. So there's not a reason to, as we look into the fourth quarter. You have a follow-on?

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

I do. My follow-up question is on gross margins in Q3. Rafael, you mentioned that gross margins were down 60 basis points on a year-over-year basis. And I was just trying to better understand what the puts and takes were. Overall revenue, I think, was up 1%. Your mix of businesses improved with Analog up 7% year-over-year, Embedded Processing down 10%. And 12-inch versus 8, and so I'm guessing, 12-inch was up year-over-year.

So I'm just trying to understand what the negatives were on a year-over-year basis that drove gross margins down a little bit. But I appreciate you guys don't run your business for gross margin, but just curious.

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

Yes, no, happy to answer that. So yes, on a year-on-year basis, revenue was up 1%. Gross margin dollars were up, but a little less than that, maybe half a percent or so. So -- but when you're looking at such a big number that then the delta is so small, it's difficult to look at the pull-through like we normally look at it, right?

So in the big scheme of things, revenue was up a little bit and gross margin dollars were up a little bit. But having said that, I would also point out that the mix of personal electronics revenue was higher in third quarter than it's been -- what it was the same quarter last year or even second quarter.

Operator

We'll take our next question from Craig Hettenbach with Morgan Stanley.

Craig Matthew Hettenbach *Morgan Stanley, Research Division - VP*

Maybe just a follow-up on the last point on the strength in personal electronics. Really, as you look out to Q4, Dave, how do you feel about kind of inventory versus end demand sell-through? And then as part of that and perhaps other segments as well, how you think about Huawei in terms of perhaps kind of last shipments there and how you're seeing that as you go forward?

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

Let me go ahead and start, and then Dave can address the Huawei question or anything else. But at the highest level, we are very well positioned to handle whatever comes at us, whether it's personal electronics or any other market. But personal electronics is one that by having the inventory strategy that we have followed, having that optionality that we have talked about for now, 180 days or so, the last two quarterly releases, has put us in a really, really good position.

Now that is not just having that kind of tactical strategy, it's also -- or tactical position -- it's also having the strategic position of being the supplier of catalog parts that are highly diversified, that sell to many, many customers. We have over 100,000 different customers, sell 80,000 different parts. So it put us in a position where we can build the inventory, have the asymmetric bet, so that if our revenue's strong, we can support it. If it's not, then we hold inventory a little longer than usual. But that's okay, it's just a little working capital.

With that, I also want to make the point that inventory, we think, very -- it's a strategic asset. As we have talked about earlier, we're comfortable holding high levels of inventory. And in fact, we're going to update, we're going to give you an update on our range on inventory at the next capital management call in February. Dave?

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

Sure. Yes, I'll make the comment on Huawei. So Huawei was about 2% of our revenue in the third quarter. That was a little higher than what they were in the first half of 2020. So certainly we're in compliance with U.S. export restrictions and stopped shipping to them on September 14, and they are not included in our fourth quarter revenue guidance. So do you have a follow-on, Craig?

Craig Matthew Hettenbach *Morgan Stanley, Research Division - VP*

Sure. No, thanks for all the color there. I guess just how you think about as the business rebounds, just from an OpEx perspective, any puts and takes there for Q4 and into next year?

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

Nothing significant that I would point to. In Opex, of course R&D is a big part of that. It's about \$1.5 billion a year. That's a big component of our competitive advantage of having the broadest portfolio in the industry. We continue to put out some of the best products, catalog products that go into automotive, industrial, personal electronics, communication market. So we'll continue to strengthen that advantage.

Another one that goes in OpEx in the G&A portion -- in the SG&A portion -- is the investment that we're making in TI.com to strengthen the reach of our channels. So we continue to strengthen that tool, that ability to reach channels, reach customers better and keeping them engaged longer and selling more and more products to those customers.

So at the highest level, OpEx has been running \$3.1 billion, \$3.2 billion a year -- on a trailing 12-month basis. I would expect for that to run at above that level, maybe over time up 1% or 2% year-on-year, but in that neighborhood.

Operator

We'll take our next question from Stacy Rasgon with Bernstein Research.

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

So the first one, I wanted to touch on the strength from PE. I wanted to know if you can give us a little more color on how much of that would be PCs versus smartphones? I know that you had talked about some of that strength coming from your ability to satisfy unexpected demand. I assume that was maybe more a PC statement, but any color you could give us on sort of the relative mix and growth of those two sub-end markets would be helpful.

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

Yes, Stacy, I'd say that as the pandemic first started back in March and even in last quarter, a lot of the strength was initially driven by PCs and tablets. But we have seen that strength broaden, so even to TVs and smart speakers and other things that are used in the home. So our best estimate or guesstimate of what's going on is that as people are spending more time at home, they're upgrading the things that they're using more. So that spend is broadening beyond just the PC. And as Rafael was talking about, our portfolio of products serves us well and puts us in a position to be able to support that demand. Do you have a follow-on?

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

I do. So I know you're talking about continuing to hold high inventory levels and maintaining high service into Q4 and beyond, and I get that. I just want to know if you could give us any color on what that implies for your utilization and loading going forward? I'm assuming your utilization was up sequentially in Q2 -- in Q3, I mean. Please let us know if that was the case? And what are your plans for utilization, factory loadings as we go into Q4 and the end of the year?

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

Sure. So Stacy, as you know, we only talk about utilization when there's a big inflection point or something unusual. So we did talk about it in April going into second quarter because most people -- most other vertical competitors decreased their loadings. And instead, we kept them flat at that point to first quarter to maintain that optionality, to have that optionality that frankly has served us tremendously well during these last six months.

Since second quarter, we have biased up our loadings, so did that from second to third, a little higher. And third and going to fourth, we'll probably bias that up -- we are biasing that up higher. It's nothing significant. But it is biased up so that we maintain that optionality and we can maximize revenue and support our customers with any potential upsides that they have that are -- also, that would be unsupported otherwise.

Operator

We'll take our next question from Timothy Arcuri with UBS.

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

I guess my first question is on the share buyback. It was quite small, even lower than in the depths of the financial crisis back in '08. Yet your business has already snapped back a lot.

What's the thinking there? You've always been pretty astute about the intrinsic value of your stock, so how should investors sort of read that?

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

Yes. No, first, let me step back and remind everybody how we think about cash returns. And we talk about this during capital management every year in February and when we meet with investors.

But when we think about cash returns, the objective there is to return all free cash flow to the owners of the company via buybacks and dividends. We use both.

And if you look at in the last -- on a trailing 12-month basis, which is the best way to look at that, we have generated \$5.2 billion of free cash flow and have returned \$6.4 billion. So \$1.2 billion more than the generation, so well ahead of the generation, the return has been. Do you have a follow-up?

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

I did, I did. So I wanted to double-click just a little bit on the drop-through in Analog. It seemed like the drop-through in Embedded was fine, but you're still a little below where the op margin was back in sort of the late 2018 time frame at sort of similar levels.

Is there something going on with mix? Is that maybe the PE mix that you were talking about before within Analog?

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

There's nothing unusual there to comment. Clearly, Analog is the biggest segment that we have. So anything that we would comment at the company level applies -- likely came from Analog. So -- and they have a fair amount of PE impact, a disproportionate amount of personal electronics, given that Embedded doesn't have much personal electronics, so yes.

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

Yes. And Embedded is essentially industrial and automotive for the most part. Probably 90% of those two, so that's where that growth would come from.

Operator

We'll take our next question from Harlan Sur with JPMorgan.

Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst*

Great job on the quarterly execution. Can you guys just give us the quarter-on-quarter and year-over-year trajectories by geography? I know they're just shipped to locations, but I think it's still useful as a proxy for demand and overall economic activity, just depending on the breadth of the participation?

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

Sure, Harlan, yes. A year ago, Asia was up and all of the other regions were down. And sequentially, all of the regions were up, but -- and Japan was down. Do you have a follow-on?

Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes. So you guys mentioned last quarter that there may have been some industrial customers that were building some inventory to potentially buffer against future supply chain disruptions and just prudent business continuity planning. Did you guys continue to see that in Q3? Or are these customers starting to work down these inventories, or just sustaining the higher levels as we head into the winter months and flu season?

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

Yes. And Harlan, I think our comments last quarter were one, just more of an observation of history in our industry, that basically it's taught us that whenever we've seen supply constraints, that customers react by building some inventory. So it's just our belief that it would be naive that this would be the first time that, that wouldn't happen, right? So I think that those supply constraints in our industry still exist. So to that extent, that could still be the case.

And now our lead times have remained stable. Our product availability is still very high. I think today, you can go to TI.com and get immediate availability of over 40,000 different devices. So -- and that doesn't mean that we don't have pockets of delivery problems. We'll always have that at any time. But overall, our lead times are very solid. And availability is high, but that's not true for the industry. So yes, I think it just would be naive to believe that, that wouldn't be the case. So thank you, Harlan.

Operator

Our next question comes from John Pitzer with Crédit Suisse.

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

Congratulations on the solid results. David, if you look at kind of your guidance over the last two quarters, it looks like you sort of rightfully discounted kind of what the bottoms-up bookings was telling us. You said as much when you guided for the June quarter. And just given the magnitude of (inaudible) in September, it kind of feels the same way. And that to me seems to make sense in the midst of a global pandemic.

I'm just kind of curious, you're guiding the December quarter to plus or minus about seasonal, inclusive of what sounds like a 200 basis point headwind from Huawei. But I guess I could argue maybe phone builds started a little bit later this year that should help December.

I guess as you forecast the December quarter, was seasonal kind of the metric you were going for? And are you discounting kind of your bottoms-up in the December quarter as much in hindsight as you did in June and September?

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

Yes. No, I think you've covered a lot of good points, John. And like you point out, in any quarter there's puts and takes. You've got the headwind of Huawei. We've got the unwind of the distributor program, which in fact we've actually wound that up this past quarter, and just with the growing demand and the inventory needs and positions that -- we've essentially completed that. So we depleted about, as Rafael, I think mentioned, about \$100 million worth of inventory in that quarter.

So you've always got puts and takes. But I'll tell you that the most important thing that we see and the most important input that we get is the demand that our customers tell us they want. And we get that from the orders in the backlog that our customers provide us as well as demand fees that we get through consignment. And so that is really what drives and informs the outlook that we provide. So you have a follow-on, John?

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

Yes. Dave, it's fair to say that there's been nothing typical this year, but you and I have talked about this in the past. If you look at the year-over-year growth discrepancy between Analog and Embedded, it's fairly wide. And I'm wondering now that we're 90 days more into this kind of difference in year-over-year growth, is there a good explanation in your mind? And importantly as we look forward, when do you expect the Embedded business to kind of catch up to Analog on a year-over-year basis?

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

Yes, sure. I think that certainly, the Embedded business isn't performing the way that we would want it to over the last multiple quarters. And I think that if you look over the most recent quarter here, certainly we're encouraged by the progress or the numbers that, that would show. But we've been working very hard on turning that business around and getting it performing like we would like it to be performing. And we're making investments there because we believe that it will be a great contributor in the coming years. So -- and so we're busy building that business stronger, and -- but it will take time. And success in that business will be not measured over this quarter or even over a couple of quarters, but will be measured over time. So thank you for that, John.

Operator

Our next question comes from Ross Seymore with Deutsche Bank.

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

I wanted to follow up on that same last question of John's on the Embedded side of things. Dave, last quarter where Embedded was sequentially weak and year-over-year weak, you talked about the over-indexing to automotive and industrial. But given that automotive was up 75% sequentially, I'm a little surprised Embedded was basically the same as Analog from a sequential perspective.

Were there some offsets in that business? I know you said industrial was down a little bit, but it doesn't seem like it would be enough to offset that over-indexing on the -- excuse me, on the automotive side.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Well, Embedded grew a little faster than Analog. And essentially just as last quarter as you pointed out, Ross, that it didn't have any offsets to the business. Essentially, all you have left is industrial. So it's those two end markets. And so with the return of revenue, it's performing about the same as Analog is. So those are the two -- those are really the two components driving that.

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

So it doesn't have nearly as much PE, or in fact hardly any PE, personal electronics. And personal electronics was a big contributor to growth in third quarter, sequential growth.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

That's right. That's right. Do you have a follow-on?

Ross Clark Seymore Deutsche Bank AG, Research Division - MD

Great. I guess my follow-up, if I can pivot over to the industrial side, just a higher-level question. You guys seem to be flat to up year-to-date in your industrial segment.

How do you explain the actual growth in that segment versus the global GDP and the general economic activity dropping? It doesn't seem like the inventory concerns are as high as what you had last quarter, where you first said it would be naive to think otherwise. It seems like some of those concerns have gone by the wayside, but you're still nonetheless outperforming the global economy. If it's not inventory, I guess, what is it?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Well, the longer-term thesis of course is that content is expanding inside of those markets. And I think if you look below, we talked about there's areas of strength and there's areas of weakness. So if you look at certain markets like aerospace and defense that is obviously weak, people aren't taking deliveries of planes, as an example.

There's other areas of strength like appliances. If anyone that's listening on the call is doing any home renovations like my wife is, you have to wait multiple months to, just to get home appliances. And so we're seeing very, very strong strength in those types of areas.

But I think the diversity of that market, coupled with the content expansion, I think just proves out why it's such an attractive market for us. And our products are really tailor-made and well positioned to take advantage of that market.

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

Right. And the other thing I would add is, listen, we have 100,000 different customers, 80,000 different products. The vast majority of those sell into industrial. That is the most diverse end market. So it'd be impossible for us to know what those customers are doing and what that adds up to.

The important part is the way we run the company to give ourselves the highest possible optionality, so that if it is driven by secular trends, or as it is driven by the secular trends, over the long haul, maybe any one quarter it could, or two quarters it could, oscillate. And it could be inventory building. But over the long term, those secular trends are there, and we put ourselves in a good position tactically to have that inventory available to support our customers. And if we have a correction, inventory correction or something of that sort, we'll go through that. And that inventory will not go back -- it will not go bad. We'll have it in storage for years, and then we'll sell it at the other end of that, of whatever correction we may have.

Operator

Our next question comes from Tore Svanberg with Stifel.

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

I wanted to ask John's question a bit differently. Does it feel like bookings are not going to back to reflecting true end demand? Obviously, this year everything has been abnormal, right? But as I think about your fourth quarter guidance, is it safe to say that bookings are now running very much aligned with end demand?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Well, Tore, that's always a question that we don't have precise insight to, right? We don't have a system that tells us that.

I think you have to go back to third quarter '18 where the market had turned, we were going through a classic inventory cycle. We worked our way through that through '19. And just as we bottomed out and saw signs of inflection, COVID-19 hit, so that kind of changed things, but certainly we started this year with inventories at lower levels. And so that -- certainly, that's where we started the year, right? So -- but inventories and demand are certainly tied together. And -- so I don't believe that they were ever largely disconnected over time.

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

And so much of our business is on consignment or just-in-time demand, that the bookings versus revenue trend is really not that meaningful.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

That's right. Yes. So it's almost what inventory our customers have that's downstream. And so that's why I think that we, from an optionality standpoint, try to ensure that we've got product available that if things want to continue to strengthen from here, we're in a position to support it. And that's the posture that we're taking. If it doesn't, we certainly know what to do in the other direction as well. You have a follow-on, Tore?

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

Yes, that's fair. So I know communications is smaller for you and it may even be less of a strategic end market for you, but it did take a sequential breather. It was still up year over year. Directionally, do you have any views on where that market is headed?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Well, it -- I think that our longer-term thesis is, is that it's not a structural grower, just there's not new subscribers being added to the network overall. We've made investments in 5G, and we'll benefit from it. But as you say, it's just not a very large portion of our revenues. Certainly, there's noise in this quarter's numbers with Huawei, but growth will resume.

And as it always does, I think everyone in the industry describes it as a choppy market. And that doesn't make it a bad market, it just makes it choppy. And so we'll continue investments there. It's a good market for us. And we'll continue to make investments in it, and we continue to like it.

Operator

We'll take our last question from Ambrish Srivastava with BMO.

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

Dave and Rafael, I had a question on the industrial business as well. So clearly it's seemingly very resilient if I look back at the past cycles. But is it also because -- and I know you guys look at it very long term as well. 2019, for four consecutive quarters and for the full year, it was down. So is this because as we -- and I think Dave, you mentioned that in an answer to an earlier question, is that when we entered the year, the -- really, it was -- the supply chain was drained out of any excesses because of what you have seen. And so now we are, despite all the problems we've seen and the demand collapsing in certain end markets and industrials, it's held in also because of that factor, that the supply chain inventory was pretty lean?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. I think we've just completed seven quarters of year-on-year declines. This is the first quarter of year-on-year growth that we've had. So industrial's been a piece of that. I think those year-on-year declines, a good part of that was just our industry cyclicality, as you pointed

out.

So I -- that -- but structurally, industrial, with its breadth, and if you look, we've got 13 sectors that we're investing in. All of them are -- have content that's growing. And so we're -- I think we're very positioned -- positioned very well to be able to support that growth.

So what we can't call and what we don't know is in the short term, how the economy is going to behave. And even in a weak environment, that market has done reasonably well compared to some of the other markets. You have a follow-on?

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

Yes, just a quick one on the Embedded side. I think last earnings call also, you mentioned that you're encouraged by the signs of stabilization. I just wanted to -- just help us understand what are some of the steps you have taken to ride the business. And as you've said, it doesn't happen overnight.

And you talked about investments. And I know several years ago, you said that you were going to de-emphasize comms infrastructure, because that's longer term, you didn't see growth there, at least on the comms on the Embedded side.

So is the investment profile in this business looking a little bit different as you look forward? And what are some of the other steps that you guys have taken to, "ride" the business and get it back on track?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. The -- yes, so you've highlighted a couple of steps that we have taken in the past. I think none of those have been secrets. The decisions on the comms side was something that we had talked about.

I think, going back six, seven years ago now, as we didn't believe that comms equipment was going to be a structural grower, and specifically on the Embedded side, we did believe that there was some opportunities on the Analog side, so we took up investments there. And we're enjoying the benefits of those investments on the Analog side today, but that did provide a headwind.

We talked about, I think, it was a couple of quarters ago now the -- some of the restructuring that you mentioned inside of the Embedded business. And we've got, I think, eight different product groups, and we took down some of the resources in some and took up some of the resources in others. And really just getting resources onto the best opportunities overall and making sure that we have resources into the places that we believe will be the best growth opportunities.

And I'd just say in general, what we're trying to do is leverage our competitive advantages, ensure that the products that we are investing in have a broad-based appeal in a customer base standpoint, and they'll be products that will generate cash flow for a long time to come. And just taking a step back, again, I'd say that we're investing in that business because we believe it'll be a great contributor when we look at the years ahead, so.

And so again, there's a lot of effort going into building that business stronger, but it will take time. So that success will be measured over years, not just in a quarter or two.

So with that, I'll turn it over to Rafael to wrap us up for the night.

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

Thanks, Dave.

Let me wrap up by emphasizing 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 long-term value for our owners is the growth of free cash flow per share.

Our strategy to maximize free cash flow per share growth has three elements: A great business model focused on analog and embedded

products and built around four sustainable competitive advantages; two, discipline in allocating capital to the best opportunities; and lastly, efficiency, which means constantly striving for more output for every dollar spent.

While we strive to achieve our objectives, 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 a part of and would want as our neighbor. When we're successful, our employees, customers and communities and owners all benefit.

Thank you, and have a good evening.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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