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OVERVIEW:

Company Summary

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PRESENTATION

Dave Pahl - *Texas Instruments Inc - Vice President, Investor Relations*

Welcome to the Texas Instruments first quarter 2025 earnings conference call. I'm Dave Pahl, and I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Rafael Lizardi. In addition, Mike Beckman has joined us. As you may know, I will be retiring, and Mike will replace me as vice president of Investor Relations. Mike has worked at TI for nearly two decades and has worked directly with me in Investor Relations for five years. Mike will moderate today's call. And with that, let me turn it over to Mike.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Thanks, Dave. I'm looking forward to the opportunity.

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

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

Today, we'll provide the following updates. First, Haviv will start with a quick overview of the quarter, including insight into first quarter revenue results and some details of what we're seeing with respect to our end markets. Next, he'll share how we are approaching the overall market environment and provide guidance for second quarter 2025. Lastly, Rafael will cover the financial results and give an update on capital management.

With that, let me turn it over to Haviv.

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

Thanks, Mike. Let me start with a quick overview of the first quarter. Revenue came in at \$4.1 billion, an increase of 2% sequentially and an increase of 11% year over year. Analog revenue grew 13% year over year, and Embedded Processing was about flat. And both segments grew sequentially. Our Other segment grew 23% from the year-ago quarter.

Now, I'll provide some insight into our first quarter revenue by end market. We continued to see recovery across our end markets, with industrial showing broad recovery across sectors and geographies. We believe customer inventories are at low levels across all end markets. Similar to last quarter, I'll focus on sequential performance, as it is more informative at this time.

First, the industrial market increased upper-single digits, after seven consecutive quarters of sequential decline. The automotive market increased low-single digits. Personal electronics declined mid-teens, in line with typical seasonal trends. Enterprise systems grew mid-single digits, and communications equipment was up about 10%.

Before I go to our second quarter guidance, let me take a minute to frame how we are approaching the current environment. It is a time of high uncertainty in the world, as tariffs and geopolitics are disrupting global supply chains and creating unpredictable economic conditions. Adding to that, semiconductors are highly visible as it is broadly understood that people and economies are increasingly dependent on chips.

To navigate in this environment, we will continue to rely on our three key ambitions: We will act like owners who will own the company for decades. We will adapt and succeed in a world that is ever-changing. And we will be a company that we are proud to be part of and would be proud to have as our neighbor.

These guiding ambitions are not new. They have served us well for decades, and they are enormously valuable in times like these.

We look at the current environment in two important categories: 1 where we are in the phase of the semiconductor cycle, and 2 providing geopolitically dependable capacity and navigating in a world that is changing.

To help understand where we are in the cycle, we spent some time looking at previous events, including Y2K, the global financial crisis and the COVID-19 pandemic. While no two scenarios are identical, these recent examples help inform our decisions as we prepare for a range of market scenarios. What may be unique right now is that we are at the bottom of the semiconductor cycle, and customer inventories are at low levels across all end markets.

So relative to where we are, history says it is important to have capacity and inventory in times like these, and we are well positioned.

In addition, geopolitically dependable capacity will matter more, and it is increasingly critical and valuable to our customers. We have flexibility and are prepared to navigate the evolving supply chain dynamics.

Translating all this to second quarter guidance, I would like to make three points:

First, we remain cautious, as there are many things still changing, and we are working with our customers to understand and support their needs. As such, potential impact on our customers, suppliers, and TI is unclear and will likely evolve.

Second, at this time, we don't see near-term impact to second quarter, and we expect TI's revenue in the range of \$4.17 billion to \$4.53 billion and earnings per share to be in the range of \$1.21 to \$1.47.

Finally, we will have to see what happens in second half 2025 and going into 2026, and we are prepared for a range of scenarios. We are, and will remain, flexible to navigate, especially in the immediate term.

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

Rafael Lizardi - Texas Instruments Inc - Senior Vice President & Chief Financial Officer, Finance and Operations

Thanks, Haviv, and good afternoon, everyone.

As Haviv mentioned, first quarter revenue was \$4.1 billion. Gross profit in the quarter was \$2.3 billion, or 57% of revenue. Sequentially, gross profit margin decreased 90 basis points.

Operating expenses in the quarter were \$989 million, up 6% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were \$3.8 billion, or 24% of revenue.

Operating profit was \$1.3 billion in the quarter, or 33% of revenue, and was up 3% from the year-ago quarter.

Net income in the quarter was \$1.2 billion, or \$1.28 per share. Earnings per share included a 5-cent benefit not in our original guidance.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was \$849 million in the quarter and \$6.2 billion on a trailing 12-month basis. Capital expenditures were \$1.1 billion in the quarter and \$4.7 billion over the last 12 months. Free cash flow on a trailing 12-month basis was \$1.7 billion.

In the quarter, we paid \$1.2 billion in dividends and repurchased \$653 million of our stock. In total, we returned \$6.4 billion to our owners in the past 12 months.

Our balance sheet remained strong, with \$5 billion of cash and short-term investments at the end of the first quarter. In the quarter, we repaid \$750 million of debt. Total debt outstanding is \$12.95 billion with a weighted average coupon of 3.93%.

Inventory at the end of the quarter was \$4.7 billion, up \$160 million from the prior quarter, and days were 240, down 1 day sequentially.

For second quarter, we now expect our effective tax rate to be about 12% to 13%.

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 - Vice President & 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 - Analyst

Thanks much. So the guidance is up 7%. That's even better than normal, seasonal. I know this is a hard question to answer, but is there any way for you to know how much of this is pull-ins ahead of the tariffs? I mean, is there any way your discussions with customers, any of the tonality that's changed? Thanks.

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

Tim, thanks for the question. So first, before I talk about our approach into the second quarter, just as I said in my prepared remarks, we are looking at two different categories of change in front of us. One is related to the cycle. And the cycle, we saw in Q1, a continued recovery. I think we mentioned before, I think it was in the last, in the previous call, that we have three markets now growing year over year and recovering. It was the PE -- or personal electronics -- market, enterprise, and comms.

It's very obvious to us now that industrial is really joining the pack, and it's a large market for us. We've seen some evidence in Q4, but based on what we've seen in Q1, I think this is a real recovery rather than the way I see it right now related to tariffs, at least not for the first quarter. And the cycle has hit a bottom because we are seeing more and more evidence from customers that they are really, really short on inventory. They have sometimes a few days of inventory. We've seen that age-in phenomena, or orders within the quarter, turns, as we call it, strengthening in Q4. It continued to do the same in 1Q. So more and more evidence and signals that across all channels, all geographies, a recovery of the industrial market is here.

But the automotive market was always correcting in a very shallow manner. So you can kind of say that the markets are now pointing pre the trade challenges all up and to the right.

Now, when you look at the second quarter, I think we have to stay very cautious, as we said, about the forecast. So we are seeing that many things are still changing. It's a very, very dynamic environment, and I say sometimes by the day. And there is a potential impact on our customers and our suppliers and also on our revenues. So it is unclear, and it will evolve. But as I need to call, and we spent a lot of time on it, looking at past examples, understanding where the cycle is, and looking at the data we have in front of us, we don't see an immediate near-term impact.

Of course, the customers wouldn't tell us why we see the orders coming in. But I would guess that a time like this, when there is a little bit of anxiety, and do you want to have a little bit of more inventory on your shelves or less? So my guess is more. And that's maybe why we are seeing kind of -- I would call it a seasonal, maybe a little bit, a pretty typical seasonal second quarter forecast.

And Mike, you've looked at some more data on the second quarter. Maybe you can add a little bit more information on what we're seeing specifically for the second quarter.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Yeah, so quarter to date, the revenue linearity we've seen has started out about as we'd expect, and it shouldn't be too surprising, just given the low inventory levels across the customer base. And also, we see diversity across the end markets and geographies, so consistent with what Haviv shared. You have a follow-up, Tim?

Timothy Arcuri - UBS - Analyst

I do, yeah. Is there a way to handicap sort of what your exposure is in China to these retaliatory tariffs? I know you report 19% as companies into China, but there's probably some added exposure from other companies that are domiciled beyond China that are building product in China. And I guess, can you offset some of that by having product on consignment? Do you have a lot of inventory on consignment in China to sort of offset some of that? Thanks.

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

Yeah, and again, Tim, as I've said in my prepared remarks, we are providing geopolitically dependable capacity to our customers, and we are working every hour with them right now to navigating the changing world. So as you said, we have a lot of capabilities.

I think it is important to start and focus first on our China-headquartered customers. You know, as you said, it's a little bit, maybe it was 19% of our revenue last year. I think it was 20% in Q1. Aligned with our GDP share, so nothing very special here. And I think we said many times it's an important market.

And our customers, we have a long-term relationship with them, right? They value our product breadth. They value our quality. They also value our scale and service. To your point, part of the service we provide is having inventory on hand, some of it consigned, some of it very close to their manufacturing plant. So all of that is part of the way we serve our customers and have been serving them for years, especially in the last several years where we've taken more customers direct in China and worldwide.

Now, you also remember, Tim, that these guys -- they are and want to continue to be and even further grow their global play. They are making end equipments that are sold into China, but they're also making end equipments that are sold worldwide.

And again, this is where our geopolitically dependable capacity is very, very important and valuable. This is where our immediate focus is right now. And this is where -- I'm sure we'll have some follow-up questions on that. I'll just say at a high level, we do have flexibility. And it's a case-by-case, but we are working with the customers. Everyone has different requirements of how we can support them on an immediate basis and alleviate some of their concerns on what's going to happen in the second half of 2025 or even into 2026.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Thanks, Tim. Let's move on to the next caller, please.

Operator

Vivek Arya, Bank of America Securities.

Vivek Arya - Bank of America - Analyst

Thanks so much. First, just wanted to say thanks and best wishes to Dave and his next ventures, and also good wishes to Mike. For my first question, maybe for Rafael, so inventory was up again, and I think on the last call you suggested that factory loadings would go down, so it seemed like maybe they did not.

So how much was the gross margin benefit from that? And then how are you thinking about the direction of loadings and the pace of gross margins from here?

Rafael Lizardi - *Texas Instruments Inc - Senior Vice President & Chief Financial Officer, Finance and Operations*

Yeah, sure. Let me give you a few pieces of information on that. Gross margin did better than expected. Most of that was due to higher revenue and the greater mix of industrial in the quarter, but also our loadings, they were down versus fourth quarter, but they were higher than originally expected, the base case that we originally had, and that was, of course, revenue did better than the midpoint, and what we're seeing, as Haviv described, the current environment with customers running pretty lean on inventory and demand being pretty strong and age-ins, et cetera.

On a forward-looking basis, our base case right now at the midpoint, we expect factory loadings to increase slightly into second quarter and gross margin to be up versus first quarter. So first quarter to second quarter, gross margin up. Do you have a follow-up?

Vivek Arya - *Bank of America - Analyst*

Yes, thank you. So maybe for Q2, I think you mentioned that it is perhaps right in the range of seasonality or perhaps at the upper end. I know it tends to be a stronger quarter for your other calculator business, but when you look at your core segment, could you help us get a feel for what is going to be better or lower than the 7% or so sequential rate, whether it is by industrial or automotive or consumer markets or whether it's by analog or embedded, just so we get a better feel for what is driving Q2 to be at kind of the upper end of seasonality despite all these macro and tariff-related headwinds. Thank you.

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

Thank you, Vivek. First, I would say when we are in a normal environment and we are in an up cycle, just to go back to trendline, you need to have some of these quarters running a little bit above seasonality. That's the only way to get back to trendline. So I think we've started to see some of it in terms of the demand signals we're seeing.

And I think there is nothing I would call specifically versus Q1 other than the continued strength in industrial. I think the industrial signal is now -- I would say, probably five months or so. I mean, we've seen some above industrial seasonality in Q4. Typically, it goes like mid-single digits down in Q4. I think it went down low single, I think, Mike. And then, again, an above seasonal industrial in 1Q, close to that 10% mark. And I don't see right now, at least, any slowdown there. And that's also very -- and I think it's also very intuitive, as I said. When there is a little bit of anxiety and unknown, I think customers want to have a little bit more inventory than less. So if I have to call the second quarter, I would expect it to behave very similarly to Q1.

Remember, the automotive cycle was the last one to join the pack, just kind of a late comer, both on the way up in COVID and down. So I do expect it to come in last. But it was always very, very shallow. Even in Q1, I think we've seen automotive growing sequentially, and I think even growing year-over-year. So the automotive cycle has been very, very shallow, kind of a mid- to high-single digit. That was what we've seen on a trailing 12-month basis. Also that would be my read into the second quarter.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Thanks, Vivek. Let's move on to the next caller.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - Bernstein - Analyst

Hi, guys. Thanks for taking my questions. You know, Haviv, you said at first that you didn't see any pull forward, but then you talked about customers wanting to hold more, which sort of seems like the definition of pull forward, and you seemed concerned about the second half.

I mean, I guess my question is, if there was pull forward going on, would you care, or would you just ship? Like, is your typical plan -- I always thought it was if you can fulfill it, you ship it, and it doesn't really matter more than that. Is that how we should be thinking about how you're living in this environment right now, given some of the upside that you are seeing or clearly seeing?

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

Yes, Stacy. Thanks for the question. Let me first clarify the first point I've made. Maybe I was a little bit not clear enough. I would guess that what we've seen in the first quarter, okay, the dominant signal I've seen in the first quarter -- and we've seen it across channels, across geographies, was very consistent -- is just a return of industrial. We've seen that in a broad way across the channels, on our online business. It's just been very, very broad. Nothing that looked anxious or nothing that looked like huge orders or whatever, just an acceleration of the age-in trend we saw in Q4. So very consistent with what we've seen in Q4, but accelerated, right? So that's my comment on the first quarter.

For the second quarter, we have data only for -- I mean, it's not even been -- it's not even a month yet, right? Our lead times are very short, and the signals we see right now are nothing that signals anxiety or something very, very weird, but kind of a continuation of the cycle. My guess is, again, that's when I think about industrial customers, running low volumes, exposed to all this news, I think that you would want to have a little bit more than less. And that's also my anecdotal discussion with customers. They do have a wish to maybe replenish some of their empty shelves. So I think we are seeing now, maybe in the matter of industrial, just a little bit. And that's what I would say is a typical cycle behavior.

Now, when I say we have to prepare to any scenario, that thing can develop both ways. The second half could turn into -- I don't know, slowdown and just no end demand. And we will see that in our orders at a certain point of time. We haven't seen it yet. But, you know, as anxiety builds -- and we've seen sometimes situations like that. Think about COVID. In COVID -- and we looked at that cycle very, very carefully -- the economy stopped. I mean, people were not building end equipment. People were not showing up to factories. So everything stopped. But then there was this period after that anxiety has built, and we've seen orders, three years worth of orders on our books. And we are not right now there.

But we do have to think about what happens if customers get into this anxious mode. And then we need to support them. And to your question, a specific one, we are not going to just flood them with stuff that we don't think they need. We have a playbook that we have written over the last several years of what happens in an up cycle. And we'll manage customers according to their demand in a very structured and organized way.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Stacy, do you have a follow-up?

Stacy Rasgon - Bernstein - Analyst

I do, thank you. Maybe the follow-up on that, again, I know it's only been less than a month in the quarter. I know we're 23 days in. I think we're, what, about two weeks or so since Liberation Day. Just what have you seen on -- I guess, any acceleration in the order rate, you know, during those, kind of two weeks post-tariff versus, say, what you saw exiting Q1? Like, have orders, like, materially accelerated, the pace of orders materially accelerated over the last couple of weeks? Or is it consistent?

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

I'll say a very high-level comment, and, Mike, you can use some more color. In general, Stacy, our forecast represents what we're seeing right now. I mean, we, of course, want to give you the best data when we come to this call, and that's our best estimate of what the quarter will do according to what we see right now.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Yeah, I think it's difficult to rule out any specific reason, for a given order. But, again, as we mentioned before, what we have seen since the beginning of the quarter, the linearity so far is about what you'd expect to see from a first to second transition, and also in an environment where you're having end markets that are in recovery. So not unusual what we've seen so far.

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

Stacy Rasgon - *Bernstein - Analyst*

Thank you.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Institutional - Analyst*

Yes, thank you, and congratulations to Dave on his retirement. Tremendous career, and you'll be sorely missed.

My first question is on some of the activity that you've seen here the last few weeks. Is there any regional disparity here? I mean, I'm asking the question because, obviously there's variances on the potential tariffs by region. So is that also very consistent with what you typically would see?

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

Yes, I'll take that and maybe provide a little bit more color. I think Tim went there, and I can provide a little bit more color on what's happening. As we said in the prepared remarks and also in my response to team, we are working very closely with our customers because, of course, they are reading the situation. They are studying their supply chains. And we are a large supplier of them, very broad supplier. And of course, they want to have flexibility. And by the way, the rules are changing every day, and they could continue to change. They are attacking and thinking about what can they do right now. And of course, if you think about, Tore, about the way our market works, the way cycle times are built for semis, nothing can be fixed immediately, right?

Everybody is kind of preparing for what the second half of the year could be, and they want to have a very robust and what we like to call a geopolitically dependable capacity supplier on their side. So if you go and -- I'll go a little bit of more specificity why we think and why we can say that our discussions are going well, because we do have flexibility.

If you think about the -- let's just take, for example, our main focus is our China-headquartered customers. For the majority of our portfolio, we have already an internal dual flow capability, right? This was put together back in -- actually in the Japan earthquake more than a decade ago that we want to have a disaster recovery framework when supply chain gets shut and what customers can do. And that's also a very big requirement for customers to buy high volume from TI.

So that is something that we now have to work immediately on some logistics because now to optimize potential cost for customers, we have to adapt our manufacturing flow and our logistics in order to get the right parts to the right customers, okay?

And we have inventory. Sometimes we have inventory from both flavors on our shelves right now. But we just have to make sure that the machine because we have more than 100,000 customers, and they are buying sometimes hundreds of different parts per customer. We have to make sure that logistically, our machine has to adapt and optimize the right path for the customer.

We also have external partners, right? So if you think about -- I can give a very easy example from our Embedded business. Our Embedded business is in the process of shifting manufacturing from foundries -- in this case in Taiwan -- to our fab in Lehi.

So by definition, the parts are double -- they have a dual flow, one internal, one external. And we just have to, again, get the right wafers to the right customers. That is something that we are busy doing with the customers who need that. And just a reminder, we are coming from a very deep cycle way below the trend line.

And we have four fabs outside of the U.S. We have two in Japan, one in China, one in Germany. And we have most of the parts that we have running on -- in the U.S. also running there, right? So maybe these fabs are not as cost efficient as our 300mm wafer fabs, but they are competitive. And this is where the control of our technology allows us to shift some of our supply into these fabs where needed. Obviously, these fabs are underutilized because at the down cycle, you optimize your capacity to your lower cost rather than to your 200mm wafer fab.

So the bottom line, it's a complex execution plan that we have. The teams are engaged, working closely with customers. And we are prepared to navigate the evolving supply chain dynamics into the second quarter, but also into the second half of '25 into next year.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Thanks, Tore. Let's move on to the next caller, please.

Operator

Tom O'Malley, Barclays.

Thomas O'Malley - Barclays - Analyst

Hey, guys. Thanks for letting me ask a question. And again, I want to pass along the thanks to Dave. You will be missed.

My first is just on the China -- for China strategy. So if you look at your global footprint versus your peers, clearly, you guys are really well positioned from the ability to serve different geographies with different capacity. But maybe just one on your China facility. If you were to look at demand that is coming from China specifically, can you meet all of that demand with your China facility in country? Or could you help me just understand how much of that demand you can meet with that facility? Is that something that you could entirely support with your footprint there?

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

Yes. Let me -- I think I said before that I think customers, they don't ask for domestic manufacturing plant. They ask us for a dependable capacity footprint. And that's what we have. Look, the tariffs could change three more times in the next two weeks, okay? And that's something that we can't forecast and also nor our customers. But I will say that when we look at our footprint of manufacturing between the U.S. and between Asia and Europe, and also look at the work we do with our external partners and foundries, we are well positioned.

The issue is not on the capacity side. The issue is how quickly you can get your logistics and also the cycle time of starting new wafers landing at customers to optimize the cost of the supply. I think TI is very, very well prepared for that. So when you have a part that is already running on the board and it's already qualified and all you need to do is right now ship it instead of from Dallas, from Japan, that's not a big deal, okay? It works in the system. It is dual qualified. It's just a matter of cycle time of starting wafers and getting the supply in front of our customers. So that's the kind of challenges we deal with. It is going well. Our team is working 24/7 on it, and I'm very pleased with our reaction time and the urgency that the team is showing.

I will say on the China supply, in general, we have a decent fab in - an 8-inch fab in China. We also have a large AT facility over there. And in general, I think the footprint that TI has is very, very -- is a good answer to what our customers in China need, but beyond that, what our customers need worldwide.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Do you have a follow-up, Tom?

Thomas O'Malley - *Barclays - Analyst*

Yes, super helpful. This may be a silly question, but I just want to understand, too, because in your filings, you talk about front-end and back-end manufacturing at your different facilities. When you're doing production of a certain chip in a geography, is the back end always associated with that same foundry? Or are you shipping that to different places before it meets the end customer?

Okay, where is the back end done? Is it pretty much aligned with your foundry footprint? Just because they're listed similarly in the filings. I just want to understand a little better.

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

The short answer is no, but I'll let Rafael -- we have full flexibility, but Rafael, maybe you can comment.

Rafael Lizardi - *Texas Instruments Inc - Senior Vice President & Chief Financial Officer, Finance and Operations*

Yes. No. So there's almost unlimited amount of permutations of how this -- the fabs and the ATs and processes in between a bump and probe, if you will, that happens. So a fab can be -- a wafer can be fabbed in the United States and then be assembled and tested. Be assembled in Malaysia and then tested in Taiwan, for example. So it's not all in one geography.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

And some of that, by the way, can be changed immediately. Some of that can take time, but a lot of that is actually -- can be moved pretty quickly.

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

Yes I think the most important point is there are things that can happen immediately and then things that have taken a little bit of a longer time. So if you think about them in order of -- the easiest thing to do is just to route. That's a logistic comment I have. I have to route the right part to the right customers. That's an IT thing. Again, we are a massive supplier, okay? We run well above 10 billion units a year -- sorry, a quarter -- to our customers. So that's not something you could do manually on an Excel sheet, right? So logistics and IT has to be put together, and we are.

The second thing that you are doing is just on the AT. AT is a very easy permutation to Rafael's point, and it's very simple to take a wafer from a certain fab and run it quickly on a new assembly and test factory, just because the cycle time is lower. And of course, there is -- when we go to the base layer, the chip, the chip just has longer cycle time, and this is where we are gathering information from our customers so we can solve their problems as soon as possible.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Thanks, Tom. Let's move on to the next caller, please.

Operator

William Stein, Truist Securities.

William Stein - Truist Securities - Analyst

Great. Thanks for taking my question. I wonder if you could talk to us about the breakup between -- in growth between pricing and volume, specifically as it relates to tariffs. Was there anything that helped, for example, the new tariff, you're passing the price along, and so you see some price benefit either in the Q1 results or in the Q2 guidance? Anything that we can quantify?

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

No, I can -- that's an easy answer. It's based on just shipping more volume to customers. That's what we're seeing, the recovery of the cycle.

Mike Beckman - Texas Instruments Inc - Vice President & Head of Investor Relations

Do you have a follow-up, Will?

William Stein - Truist Securities - Analyst

I wonder if you could give us an update on the competition in China. I think some people have observed greater competition there. One of your somewhat smaller competitors in Analog and Embedded with sort of similar product profile, perhaps a bit more narrow, but similar product profile, talked about no longer competing in standard products in China and instead of selling dies and having customers assemble, test, support, et cetera, which seems like a strange approach, but they said that the Chinese are becoming more intense or more capable competitors now. And I wonder if you could update that -- update us relative to what you see.

Haviv Ilan - Texas Instruments Inc - President & Chief Executive Officer

Yes. Thanks for the question. This is something that we've been watching, as you know, for years. This is not a 2025 phenomenon. And as I said before, and we said many times, the competition in China is intensifying. And by the way -- and I was in China just last quarter, okay? And no discussion on trade. It was all about supply and expanding positions on boards and design-ins. So just a regular visit across more than 20 customers.

And in general, the competition is intensifying across the board. It's in general purpose, but it's also in a more application-specific part. I will tell you, our largest competitor on a 77 gigahertz chip in China is a Chinese competitor. That's where we fight, and that's where we -- and I won't call that a general-purpose part, okay? That's a very, very unique, large die size, four channels of transmit and receive, running at very high frequency. This is not a general-purpose part, very application specific, very complex.

And we are not surprised. We've seen those folks working for more than five years and just very, very good companies and very aggressive, very urgent, moving fast. And I like to call it our conditioning room because that's where you can strengthen your muscle, your muscle of competitiveness of urgency. China is the best landscape to do that.

I think we can compete on both. And even now and especially now when we show the scale and power of TI. We have a lot of options for our customers, not only the breadth of the product, the high level of quality.

The number one discussion point I had a quarter ago is about supply and the fact that we had inventory and we have capacity. It's super important for our customers. They are feeling -- they are always - the Chinese, or the China market, is always a little bit ahead in the phase of any cycle, any recovery. We saw it on the way up in COVID and the way down, and now we see it on the way up. They always like almost the early indicator.

And that was the discussion. It was all about how can we get more quicker. And also a lot of thanks to the level of support of TI, simply having inventory for them ready to go with very short lead times. So that would be my high-level comment on the competition. I think we need to assume that the competition will continue to intensify.

I will say that our competitive advantages, especially on the breadth of the portfolio, the fact that we can solve many problems on the boards, we can solve it with one company rather than with 20. And the fact that we have this diverse supply chain or diverse manufacturing plan, which is geopolitically dependable for their China business, but also for their export business is super important. I think it will continue to stay important at this time.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Okay. We'll move on to our last caller.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

Great. Thank you. I wonder if you could talk about the share repurchases in the quarter. I saw that \$600 million-plus number. You've got \$1.7 billion of trailing free cash and \$5 billion dividend. I know the free cash is getting better, but can you just talk about what drives the timing of your buybacks? And how much are you willing to take on more debt to buy back more? Thank you.

Rafael Lizardi - *Texas Instruments Inc - Senior Vice President & Chief Financial Officer, Finance and Operations*

Yeah. Our objective when it comes to buybacks and in general just cash return is to return all free cash flow via dividends and repurchases. But you got to recognize that there's times to build and drain cash. So if you look at our cash balance, for example, we're at a very comfortable \$5 billion, and our balance sheet is really strong with that.

But a year ago, it was at \$10 billion, and that's because we had so much more of our CapEx ahead of us. Right now, we're at 70% -- we're 70% through the elevated investments. So we're in the -- approaching the last innings of the elevated CapEx period. So we felt more comfortable operating at lower levels of cash. But having \$5 billion of cash that still gives us plenty of room.

And on your question on debt, we've taken debt before. We still have plenty of room on our balance sheet to take on more debt as it makes sense, when it makes sense.

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Joe, you have a follow-up?

Joseph Moore - *Morgan Stanley - Analyst*

Yes, I do. And thank you for that. I guess with regards to the Chinese tariffs, I've talked to some of the customers, and people don't seem to have clarity on what exactly the tariff rate is. And yet I think the tariff is already being charged. Like do you have clarity on that? Are people immediately paying those tariffs?

Is there just any way to sort of tell how much impact there is? Or is that something where the actual tariff is kind of calculated later? Just what are the mechanics of this being implemented so rapidly?

Mike Beckman - *Texas Instruments Inc - Vice President & Head of Investor Relations*

Yeah. Thanks for the question. And I'd first start with and reiterate that there's a lot still changing. It's a dynamic environment. And our customers are looking at their supply chains, and they're working, and we're working with them to understand and help support their needs.

And as Haviv mentioned, we have the flexibility to navigate those evolving dynamics. In terms of how that, who pays that, really the question is, are you able to be competitive. And with our competitive advantages, the flexibility that we have, our geopolitically dependable footprint, we do have the ability to be competitive and to support our customers where they are. Haviv, do you have anything to add?

Haviv Ilan - *Texas Instruments Inc - President & Chief Executive Officer*

Yes. Just the last point on that, Joe, and this is where we need -- we just need to let this quarter play out. And so many things can change in the next few weeks, and I actually expect them to change, right? So it's very hard to answer the question. I will just say that the way we learn about what our customers need is through their orders, through their backlog, and of course, if we see a change, we will -- if we would see a change, we will let you know.

But that's the only way for us to gauge demand -- is what our customers are asking us to do. And our objective is to serve them, serve them well at high quality and deliver the parts they want, not only right now in second quarter, but also towards the second half of the year and also next year.

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

Operator

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

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