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TXN.OQ - Q2 2026 Texas Instruments Inc Earnings Call

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**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

**Julie Knecht** *Texas Instruments - Incoming Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Atif Malik** *Citibank Cameroon SA (Douala Branch) - Analyst*

**Vivek Arya** *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

**Timothy Arcuri** *UBS AG - Analyst*

**Joshua Buchalter** *Cowen and Company LLC - Analyst*

**Thomas O'Malley** *Barclays Investment Bank - Analyst*

**William Stein** *Truist Financial - Analyst*

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

## PRESENTATION

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

Welcome to the Texas Instruments second quarter 2026 earnings conference call. I'm Mike Beckman, head of Investor Relations.

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, I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Rafael Lizardi. Also with us today is Julie Knecht, who will become our chief financial officer on August 1. Julie has been with TI for more than 25 years and has held a number of finance and accounting roles, most recently serving as chief accounting officer since 2021.

As you know, Rafael, who has been our CFO for nearly a decade, plans to retire at the end of August. Rafael's focus on disciplined capital allocation, including our investments in 300mm manufacturing capacity, and commitment to return all free cash flow to shareholders have positioned TI for continued long-term growth and value creation.

As this is Rafael's final earnings call, I want to thank him personally for all of his contributions to TI. I'm sure you will join me in congratulating both Rafael and Julie.

With that, today we'll provide the following updates. First, Haviv will start with a quick overview of the quarter. Next, he will provide insight into second quarter revenue results with some details on what we're seeing with respect to our end markets. Lastly, Rafael will cover the financial results and give an update on capital management, as well as share the guidance for third quarter 2026.

With that, let me turn it over to Haviv.

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

Thanks, Mike.

Let me start with a quick overview of the second quarter. Revenue was $5.5 billion, an increase of 13% sequentially and an increase of 23% year over year. Analog and Embedded Processing both grew sequentially and year on year. Analog revenue grew 26% year on year, and Embedded Processing grew 16%. Our “Other” segment declined 2% from the year-ago quarter.

Let me provide a few comments about the current market environment. In the second quarter, revenue came in above the range, as we saw continued growth in industrial and data center, in addition to accelerated growth in automotive.

Our investments in inventory and capacity are serving us well, which allows us to support our customers during this time of increased demand. We are prepared with capacity and have cleanroom space available and are well positioned to support continued growth.

Now I'll share some additional insights into second-quarter revenue by end market.

First, industrial increased around 30% year on year and was up about 10% sequentially, growing broadly across sectors and regions.

Automotive increased mid-teens year on year and increased upper-single digits sequentially.

Data center doubled year on year and grew around 20% sequentially.

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

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

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

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

Thanks, Haviv, and good afternoon everyone.

As Haviv mentioned, second quarter revenue was $5.5 billion. Gross profit in the quarter was $3.4 billion, or 61% of revenue. Sequentially, gross profit margin increased 340 basis points.

Operating expenses in the quarter were $1 billion, about as expected. On a trailing 12-month basis, operating expenses were $3.9 billion, or 20% of revenue.

Operating profit was $2.3 billion in the quarter, or 42% of revenue, and it was up 48% from the year-ago quarter.

Net income in the quarter was $2 billion, or $2.14 per share. Earnings per share included a 5-cent benefit not in our original guidance, due to discrete tax benefits.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was $2.7 billion in the quarter and $8.7 billion on a trailing 12-month basis. Capital expenditures were $514 million in the quarter and $3.3 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $6.5 billion, up from $1.8 billion in the second quarter of 2025 and continuing to trend up as growth returns. Free cash flow in the trailing 12 months includes $1.6 billion of CHIPS Act incentives, which includes both the investment tax credit and direct funding. In second quarter, we received $549 million of ITC-related payments for qualifying capital expenditures.

In the quarter, we paid $1.3 billion in dividends. In total, we returned $5.8 billion to our owners in the past 12 months.

Our balance sheet remains strong with $7 billion of cash and short-term investments at the end of the second quarter. Total debt outstanding is $14 billion with a weighted average coupon of 4%.

Inventory at the end of the quarter was $4.6 billion, down $90 million from the prior quarter, and days were 196, down 13 days sequentially.

Turning to our outlook for the third quarter, we expect TI's revenue in the range of $5.65 billion to $6.15 billion and earnings per share to be in the range of $2.23 to $2.57. We expect our effective tax rate to be about 13% in the third quarter.

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.

Before I turn it over to Mike to start Q&A, I want to say that it has been an honor to work at Texas Instruments for the last 25 years and to have been CFO during the last decade. I have thoroughly enjoyed working with so many wonderful people. Over that time, we have made TI stronger and positioned it for continued success. I feel confident about the future at TI, and I'm looking forward to what's ahead for the company.

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

Thanks, Rafael.

Operator, you can now open the line for questions. (Operator Instructions) Operator?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Harlan Sur, JPMorgan.

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

Julie, congrats on the promotion. And Rafael, thanks for all of the great support and execution. Haviv, last call, there was some concern stepping into the second half that we might see some slight deceleration kind of similar to last year, right? But given your above-seasonal guidance for Q3, it seems like the strength in the first half is continuing into the second half.

You also are now starting to see the acceleration in automotive. Do you expect this profile of strength to continue end market-wise into Q3 and maybe second half? And then what's driving the inflection in automotive?

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

Thanks, Harlan. I think you characterized what you're seeing well. The -- I think we -- right now, as we stand in July, we see a setup that -- of a stronger demand, and it's broader. It's not only -- in the last couple of quarters, it was really an industrial and data center play. Right now, we are seeing demand growing to the automotive market.

I think my -- I'll talk about Q3. When you think about the above-seasonal guide, I think the contribution will come from all markets. The three markets that we've -- that drove the 2Q growth, meaning industrial, data center and automotive. But Q3 is traditionally a quarter of personal electronics strength. So I expect strong demand across the board.

Now regarding automotive, I think we saw a combination of a couple of things. I think we did see an uptick in -- and by the way, it developed throughout the quarter. So when we came to the call in April, we didn't have the same visibility. It built up as we went through the quarter, led by China. And I think it's really led by EVs and hybrids. Cost of fuel drove that, I believe. In addition, I think our automotive customers have taken their inventory to very low levels. And now as there is a little bit more demand, they find themselves in a situation that is not sustainable. I think that also drove part of the demand.

I think we are in the start of a cycle that is very, very broad. That's kind of -- when I look at it right now, that would be my prediction.

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

Harlan, do you have a follow-up?

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

Yes, I do. So input costs are moving higher. Demand remains strong. I assume that the TI team is still seeing expanding short lead time orders not anticipated in your customers' initial forecast coming into the quarter. You put all of this together, right, you guys had talked about potential for pricing increases in the second half of the year on the last earnings call.

Are you executing positive pricing initiatives with customers? When do these go into effect? And is the breadth of these increases across both your Analog and Embedded segments?

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

Yes. Thanks, Harlan. I will just -- first let me just recap what we said in the previous call regarding the first half of the year. We now have the full six months behind us. And as we predicted, pricing was stable in the first half of the year, meaning flat, if you will. And that's an above-average year for us, right? Typically, prices do go down a couple of points every year. And this time, they held. I will say that we have started executing price increases, yes. And because we go to the market direct, we have it -- the discussion. This is not a one-time discussion with our distribution channel. It's really a discussion customer by customer. So if you will, it will be -- it will be dependent on the customer. Some of it will start to play in, in Q3, but I expect that to continue into the fourth quarter. And also, some of our customers, we decide pricing once a year during our annual price discussions, and that happens only at the end of Q4. So that can continue also into the next year.

Regarding the segments, meaning Analog and Embedded, look, where we see the most pressure, also within lead time escalations, I mentioned automotive, it's right now mainly on the Analog side. That's what we saw in the first part of the year. But I would say that Embedded is joining the trend. So if I can -- if I look at our opportunity for the second half of the year, I think we have an opportunity across all markets, but also across the two segments. I think the pricing discussions for Embedded will be more centered towards the next year.

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**Operator**

James Schneider, Goldman Sachs.

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

I was wondering if you could maybe comment on where your factory loadings stand today? How much you plan to increase them in the next couple of quarters? And then maybe just sort of comment on -- your kind of desired inventory position went down slightly this quarter. Do you expect that to stabilize in absolute dollars or go down?

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

Thank you, Jim. Let me frame it at a very high level, and then I'll let Julie comment on this one. First, look, as I said, we saw the demand developing through the quarter. So it was very dynamic. And as we also mentioned in the last call, the best way to support short-term demand or demand that materializes very quickly through inventory, and that helped in the quarter.

But of course, we also have to prepare for the future, and that's where loadings come into play. Julie, maybe you can give some color on this.

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**Julie Knecht** - *Texas Instruments - Incoming Chief Financial Officer*

Sure. So our loadings did increase from first to second quarter. And throughout the second quarter, it did continue to increase. For third quarter, it will really depend on what demand looks like, but we do have cleanroom space available that we can equip and ramp, so we can support a wide range of scenarios from a customer demand standpoint.

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

Jim, do you have a follow-up?

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

Yes. Given the free cash flow strength that you reported in Q2, can you maybe comment on whether you're on pace to exceed the range of free cash flow outcomes you sort of provided back at your capital management day earlier?

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

So let me just again remind everyone that we gave a framework of revenue and free cash flow. I think the case of revenue, if I think -- if I remember well, at $20 billion, it was $8 to $9. And I think at $22B, it was $9 to $10. So that framework is still valid, Jim. You can use it as you model the company moving forward.

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**Operator**

Stacy Rasgon, Bernstein Research.

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

I wanted to first ask about OpEx. Like usually, it's typically down seasonally a few points into Q3. Are you still anticipating that? Or are there some differences in your spending plans, given the growth profile that we're seeing now?

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

Stacy, this is Rafael. I'll take that one. On OpEx, net of other income and expense and acquisition charges, you should expect all of those to be flat, second quarter to third quarter. That should help you with modeling the company and modeling gross margins.

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

Got it. That's super helpful. For my follow-up, I just wanted to ask about personal electronics. Haviv, I kind of got from your comments, it sounded like you were almost expecting strength into Q3 in personal electronics. I'm just wondering what you're seeing in that market, given the current memory dynamics.

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

Let me maybe clarify that. Thanks for the question, Stacy. It's very good. We have typically a very high -- if you look at our PE, or personal electronics business, typically in 3Q, it's growing nicely, sometimes mid-teens. I expect this business to be growing sequentially, but maybe at a lower level. You saw our results in 2Q year over year, it was -- PE was flat. We are seeing challenges in PE as some shortages are putting pressure on our customers. So I think that the growth is typically -- in Q3, the growth is driven by PE. This time, it's more broad, okay? So think about all the markets. But PE will be a participant, I believe, because we see the demand breadth is very, very high.

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

(technical difficulty) flat year over year or down in Q3?

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

Sorry, can you repeat the question?

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

Sorry. So do you think it's like down year over year in Q3, given it was flat in Q2 and given it's sort of weaker versus normal trends in Q3? I'm just trying to dial in the model.

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

I don't have a by end market guide for each of the end markets. But I think as Haviv talked about what we saw, I think that's a good characterization of what we saw in the second quarter.

**Operator**

Atif Malik, Citi.

**Atif Malik** - *Citibank Cameroon SA (Douala Branch) - Analyst*

Welcome, Julie. I have a question on the data center sales that doubled year over year. Can you talk about your full year outlook? And then as the industry transitions to 800 volts, how do you see your competitive position versus incumbents?

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

Yes. Again, we do continue to see strong demand in the data center market, Atif, and I don't expect that to change in the foreseeable future. I think when you talk -- think about future architectures like 800 volts, it will be phased into the market. I think you can envision at the beginning, maybe an AC to DC, maybe AC to 800 volts and then an 800 to 48, 48 to 12, for example, right? That's how you bring in the technology.

So to me, that just means higher growth of the TAM, more conversion stages, and that helps our market on the analog and embedded side, if you think about the different analog parts participating in every conversion stage and also the embedded controllers and the signal chain parts. So I think that is a tailwind to -- for our market.

Now in the longer term, and that's going to take some time once we have the SST established, data center input will be at a DC voltage of 800 volts. And then I envision maybe direct conversion from 800 directly to 12 or 6 volts. And -- but that's coming later. And this is where the TAM continues to show strength. The higher voltage, the more opportunity we see.

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

I think that layers on top of the foundational position that we have in data center, which has been growing very nicely as well. So we are looking forward to both those types of chips contributing in the future. Atif, do you have a follow-up?

**Atif Malik** - *Citibank Cameroon SA (Douala Branch) - Analyst*

Yes. On the gross margins for the data center business, as this business grows, are your expectations that the profitability of the data center business will be in line with the corporate average over time?

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

So up to where we are now, it's been pretty similar to the overall corporate average. So I wouldn't skew you in either direction far on that. We'll have to see where it goes. I think we'll have to see as it ramps, what that's going to mean. But today, I wouldn't skew in either direction on what it's going to do to the gross margins overall.

And what I will say is the good news is that as we ramp in any of the end markets, including data center, it's going to be on 300mm, it's on newer assets that do have excellent ability to fall through for us. So we are looking forward to that.

**Operator**

Vivek Arya, Bank of America.

**Vivek Arya** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Best wishes to both Rafael and to Julie. Haviv, my first question is for you, which is where are we in the industrial recovery cycle? How many more above-seasonal quarters should one expect? And I think you mentioned pricing as a lever for Q3. Can you help us quantify how much pricing is contributing to this, I think, 8% or so sequential growth in Q3? And can prices go up again in Q4?

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

Yes. Let me start with the industrial market, and maybe I'll say a few words about pricing at the end. So look, the -- I think, Vivek, we have a lot of opportunity in front of us. We -- even with a nice growth in Q2, we are still -- I have to go back to 2022, and we are still lower than that peak, maybe 5 points or 6 points lower than the 2022 peak.

So if you think about a trend line of the industrial market, and I like to think about it as mid- to high-single digit growth on a market TAM opportunity. You -- and you're four years later, one can argue that we still have a lot of room to grow ahead of us. On top of it, I think the data center market is also providing tailwind into the industrial market. Think about sectors like the energy infrastructure, and think about test and measurement. And they were our fastest-growing segments or sectors, as we call them, in the second quarter or the first half of the year. So I think there is more tailwinds ahead. I do believe that customers are early and are not yet building inventory. So I think the setup is very positive.

Regarding pricing, look, as I said, it's -- in our case, it will be really weaved into the future. It depends on the customer. So if I think about the forecast for Q3, the vast majority of it is just unit growth and maybe a little contribution from pricing, but almost insignificant.

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

All right. Do you have a follow-up, Vivek?

**Vivek Arya** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yes. So Haviv, if we try to think about TI's opportunity in the data center beyond '26, right, so '27, '28 and beyond, what is the right kind of growth rate that one should think about? Is it 40%? Is it 50%? Like what is that right way that one should model TI's growth rate? And as part of thinking about that growth rate, do you think that achieving that growth rate kind of exposes you to winning or losing specific sockets at specific GPU or ASIC vendors? Just how is your visibility? How should we think about TI's long-term growth rate in the data center business?

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

Yes. I don't think I can help there, but maybe, Mike, you can say a few words about what we're seeing. But look, our opportunity in data center is growing. And the reason it's growing, Vivek, is because of our R&D investments and also our ability to supply. That's the way I look at it. So as we move on and that market becomes a more substantial part of the analog and embedded market in general, ability to supply, ability to supply from geopolitically dependable capacity like we hold is becoming an advantage. So I think as long as we continue to see CapEx coming into data center, I think TI can do very well there. Our objective is not to put a certain growth rate, but actually to outgrow the market. I believe we will do it in 2026, and that's our plan into 2027.

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

Yes. And I would just add, as Haviv talked about, a lot of our chips are used in the power tree involved in the data center. And there's other chips that are also -- that would sit more in the signal chain side that are also there, too. But as you have more power that's dedicated to data centers, as you have a larger number of them out there, we're going to benefit from that, just given the amount of chips that we have in those systems. So it really depends on what that build-out looks like. But as Haviv pointed out, we're in an excellent position from the portfolio that we have and the opportunities that are in front of us that we're working on as well on the ASSP side to be able to grow faster in that market compared to the overall. So I look forward to that.

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**Operator**

Timothy Arcuri, UBS.

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**Timothy Arcuri** - *UBS AG - Analyst*

I wanted to ask about CapEx and the ITC. So Rafael, you're kind of run rating, it looks like at the lower end of the $2 billion to $3 billion gross CapEx guidance for the year. So I'm wondering, is it right to think that we'll be at the low end for the year? And then also as part of that, net CapEx has basically been zero during the first half of the year because of the ITC. So is it right to think that the ITC is going to still contribute about the same amount that it did during the first half of the year per quarter?

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

Yes, so a couple of things in your question. First, on the CapEx expectation for 2026, it continues to be $2 billion to $3 billion. I could not skew it -- I would not skew it or bias it lower on the lower end at this point. If anything, it could be on the higher end of that midpoint, just given demand and how we want to support that for the subsequent years.

On your ITC question, ITC can be choppy because it's for equipment that was placed in service the prior year. And so you just saw the first half or even the quarter, it was net -- it was more ITC than CapEx, but you shouldn't expect that. In fact, if anything, going forward, because a lot of the CapEx will be disproportionately placed in the assembly test operation, which is not in the United States, that portion does not get ITC. So we'll continue to file and get 35% ITC on U.S. manufacturing front end, and expect that benefit, but just -- it can be a little choppy over the years.

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

Tim, do you have a follow-up?

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**Timothy Arcuri** - *UBS AG - Analyst*

I do, Mike. So Haviv, I also had a question on data center. So I think you're qualified for some new designs on Phase 2. And I guess in that business, because you have a high catalog business, I would think that you should be able to take advantage of like hot spots more so than maybe some of your peers could. So what are you seeing? I mean, are you really going in and you're able to gain share because you do have a lot of inventory sitting there? And is that more like the exception versus the rule?

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

Tim, I think you and I discussed maybe end of last year, I do like the market or the complexity of a rack, if you will, just because of the diversity of sockets. And we like them all. We like the more complex one that are higher AUP and usually very competitive sockets. We like to call them ASSPs. We also like, as you mentioned, the catalog ones that you can have several options to solve the problem.

But when you have inventory and capacity, you can benefit. So yes, we are seeing examples, real-time examples of, hey, we are line down, please help us. And every time that happens, that's an opportunity, because it's a discussion with the customer, and it's -- when you solve a problem, I think they make more bets on you for the future. So that's part of the reason why you've seen our business doubling more or less year to date. And we plan to continue to have capacity, cleanroom, inventory ahead of demand, so we can react or we can respond to these opportunities.

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**Operator**

Joshua Buchalter, TD Cowen.

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**Joshua Buchalter** - *Cowen and Company LLC - Analyst*

Let me echo the congrats to both Rafael and good luck to Julie. Maybe to start following up on some of the earlier ones. I think if we plug in the flat OpEx, it implies sort of flattish gross margins for the third quarter, despite what should be an increase in volume. Any -- can you just walk through some of the puts and takes into gross margins for the third quarter across pricing, increased loadings and also 300mm mix? Because I think is it basically that the tailwinds are being offset by depreciation? Anything else going on we should be aware of?

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**Julie Knecht** - *Texas Instruments - Incoming Chief Financial Officer*

Yes. So -- yes. So as a reminder, Rafael said earlier on the call that OpEx acquisition charges and the net between OI&E and interest should all be about flat to second quarter. And then if you play that in, then you have the fall-through of 70% to 85%, excluding depreciation, you should get in the right zip code. But as far as second -- third quarter is that 70% to 85% is a good placeholder. There's always some puts and takes in there. But it will -- the loadings will depend on what revenue looks like, but that model should get you close.

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

But it shouldn't be flat. It should be a little higher.

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**Joshua Buchalter** - *Cowen and Company LLC - Analyst*

Thank you. Sorry, I'm on the road and might have screwed something up. And maybe bigger picture, I was hoping you could give an update on how you're thinking about capacity and CapEx coming out of this year. With Sherman and Lehi shells built out, you're at the point where you can be more nimble, but there's still probably like a year of runway from spending to capacity output.

So like I guess, how comfortable with the runway and the amount of capacity you have online you are now? And any early indications of how we should be thinking about 2027 CapEx as we think about being a couple of quarters into this upcycle?

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

Thanks, Josh. I think I also said in my prepared remarks, we are excited about where we are because we have the cleanroom. The cleanroom was our biggest headache in the previous cycle. That, as you know, takes two to three years to be able to equip a cleanroom, and that's behind us.

When you think about the combination of -- while we are equipping in a very high level Richardson, RFAB2, we have a full cleanroom available almost in Sherman 1. So -- and not to mention, a shell, a second shell in Sherman 2. So when I think about our Analog opportunity to grow into the brick and mortar we have, we are in a great shape.

On Lehi, we do have to execute on Lehi 2 because as you remember, Lehi 1 enjoys the transfer of external manufacturing done in foundries into Lehi 1, but we are also starting to see growth that is not insignificant on the Embedded side. So Lehi 2 will come in just in time at the end of this year, we'll have the shell, and we can again grow into it seamlessly, as it's not a new site, and we don't need new customer qualifications.

Now what we will need to do, and I think Rafael alluded to it, we need to equip the fabs. And we are prepared for a wide range of scenarios, but I think uniquely prepared versus the competition. I think we are -- we have done the hard work ahead of time. And we have capacity to build into. And regarding the exact numbers, I'll let -- we'll keep that for the capital management call in February. But as Rafael discussed, we're already making decisions right now to think about not only '27 and '28, even beyond.

Anything to add, Rafael?

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

No, I would just say, high level, you can always use our -- the framework we've given you of 1.2 times the growth to calculate capital intensity, and that's not a bad rule of thumb to use to get a ballpark figure of where CapEx could go based on your expectations for top-line growth.

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**Operator**

Tom O'Malley, Barclays.

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**Thomas O'Malley** - *Barclays Investment Bank - Analyst*

Occasionally, you guys will give a little color on the out quarter by segment. It sounded like you kind of broadly said you saw strength across the board. I think the question was on personal electronics before, but you answered we're seeing strength across the board, which is typical seasonality. But anything that you could offer in terms of vectors of growth, particularly with auto acting a bit better in Q2? Do you think that continues into Q3? And do you think this mentality of kind of just in time to just in case continues to kind of spur above-seasonal growth in the near term?

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

Yes. I think typically, I don't provide so much color on the future. But this time, it's just easy. It's everywhere, okay? So when I look at the demand signal, it's just very strong and broad. And now it's -- we need to execute, right? We -- inventory helped. We are ramping our factories. We are going after it. And let's meet again in October, tell you how it went. But the team has executed in Q2, and I expect them to do the same in Q3.

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

Tom, do you have a follow-up?

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**Thomas O'Malley** - *Barclays Investment Bank - Analyst*

Just in terms of the capacity expansion, I think that you guys have alluded to your ability to increase utilization, but you also talked about cleanrooms. Is there a way to think about when you are going to decide to expand your footprint? Just obviously, you have plans already that you stated at the last capital management day or at least for some time now. But the assumption here with inventory where it is, is that you would take up utilization first. Any kind of metric that we should be looking at or market dynamic or revenue targets that could help us just understand when you decide to put more capacity in place, versus just kind of turning the key on the existing facilities?

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

Yes. I'll just -- to the cleanroom question. And again, we'll give you more color during the 2027 capital management call. But in general, we are good for the next three years, okay? So you know what we've -- you can go back to our capital management slide. You can see the facilities between Richardson and Sherman 1 and the shell in Sherman 2 and Lehi 1 and 2. It's for us, okay, let's -- we are in Phase 3, modulate the equipment. That was our vision. We are now executing to it. Of course, I also think about '29 and beyond, but we can give a little bit more color there during the capital management call.

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**Operator**

William Stein, Truist Securities.

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**William Stein** - *Truist Financial - Analyst*

Great. I want to offer my congrats to Rafael and Julie. And I don't think it's been asked, but can you offer us any update on the timing or update on terms or conditions and approvals regarding Silicon Labs and the potential close of that transaction?

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**Julie Knecht** - *Texas Instruments - Incoming Chief Financial Officer*

Yes. So regulatory approvals are moving as planned. We still expect to close in the first half of next year. And really no changes on how we're planning for the transaction to be financed, still expected to fund the transaction with cash on hand and debt.

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

Do you have a follow-up, Will?

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**William Stein** - *Truist Financial - Analyst*

Yes. I'm hoping you can talk a bit about backlog and the duration of backlog. I wonder if you're seeing any extension in that, that might, for example, result in a change in lead time quotes.

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

We have seen backlog. First of all, you look at what second quarter did, we did see backlog build throughout the quarter, both in orders that are for immediate shipment, but also for backlog that's further out in time. We did see that build. And it's reflected in the guide. And as you heard Haviv talk about what we're seeing, we are seeing strength across our core markets.

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

Let me just -- maybe just on the lead time, let me just add one point over there, Mike. So lead times are still, I think, very competitive. But they were below -- I think we talked about it in the last quarter on one of my fireside chats on a conference -- they were below 13 weeks in Q2, but we are seeing a little bit of an uptick there, not dramatic. Maybe a couple of weeks higher, simply because the demand is growing. And I do -- when I talk with customers, I do believe our lead times are the most competitive in the market.

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**Operator**

Tore Svanberg, Stifel.

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

Congrats to Rafael and Julie. Maybe on that last point there, Haviv, obviously, this cycle, you're very differently prepared in the last cycle with good capacity, low lead times and so on and so forth. And I know share gains is something that you measure over time, especially in Analog. But are you starting to see more and more customers come to you, especially in this environment with those long lead times?

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

Look, as you know, share in this -- in our market moves slowly, and this is why we like to measure it over time. But as I gave some examples, I think there was a previous question of immediate solving problems in an immediate way, I think we -- many times are the answer. And as you mentioned, in this upcycle, our plan is not to be the problem. We want to be the solution, okay? So in that sense, we are ready for that.

I will say that when some of the competition talks about lead times that are 52 weeks away, that's an opportunity for TI because that means that there is a little bit less visibility for customers. And sometimes they will start a new design even on a very complex part. So we are seeing more opportunities coming our way, but we'll have to measure it over time.

As I mentioned, I think we picked some market share last year. We need to let this year play out and see how we did in '26. But I think this cycle will provide more opportunity. And when we get to the peak, we'll see how we did.

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

Tore, do you have a follow-up?

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

Yes. I wanted to ask a question on the industrial market. It's obviously very strong. And you talked about all the reasons why. And I know sometimes it's a little bit difficult to dissect exactly what's driving the strength. But you mentioned pricing, you obviously mentioned customer inventory levels, and then there's the indirect impact from AI and so on and so forth.

But I'm also wondering for your specific products, is there also an element of just higher prices here, meaning you have newer products now that perhaps have higher value that carry higher ASPs? Because obviously, I think we're all quite surprised about how strong this market continues to be.

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

Yes. Maybe I'll take that, and Haviv, feel free to add. But what we saw in second quarter, and you saw this leading up through first as well, was broad strength across the sector base and the region base. I think that, to Haviv's point earlier, you have had four years of secular content growth that's happened that has added content to industrial automation. We've seen aerospace and defense grow at higher rates, energy infrastructure for reasons probably adjacent to some of the data center reasoning. Robotics grew at a higher rate as well. But if you look at the entire sector based in industrial, all the sectors grew both sequentially and year on year, and every region grew as well. So it's pretty broad. I would chalk it up more to higher secular content growth than pricing. And as Haviv mentioned, the first half pricing was stable, about flat for us. If we see that benefit, it would likely be in third and beyond, as those conversations happen.

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

Yes. Let me just -- to Mike's point, I think he was spot on. This is really driven by secular growth.

So you can ask, hey, why did we have to wait so long? It's all about inventory. It's inventory of parts, but it's also inventory of finished goods of the customer. So the customers, I think they've overbuilt during the previous cycle, and they have to go through that inventory depletion. Once they are done, what's waiting? New systems. New systems that were designed in the last four or five years. As you know, design cycles in industrial are long.

And I think that's what we are seeing. We are seeing no more depletion of inventory. On top of it, you're seeing new generation of systems with higher secular growth.

And to me, industrial is not different than automotive. If you look at an end equipment and you look at the generation-to-generation content, the content growth is quite significant.

I also want to believe -- and again, time, the results will tell -- that we grew share on the larger content opportunity. So let's see how it does, but I think that's the reason you see such strong growth in industrial and expect that to continue.

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

And we'll go ahead and close the call. I'm going to move it to Haviv and let him wrap us up.

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

Thanks, Mike. 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 owners is the long-term growth of free cash flow per share. Thank you, and have a good evening.

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**Operator**

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