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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Texas Instruments second quarter 2025 earnings conference call. I'm Mike Beckman, head of Investor Relations, and I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Rafael Lazardi.

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. Next, he will provide insight into second quarter revenue results, with some details of what we are seeing with respect to our end markets. Lastly, Rafael will cover financial results, give an update on capital management, as well as share the guidance for third quarter 2025.

With that, let me turn it over to Haviv.

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

Thanks, Mike. Let me start with a quick overview of the second quarter. Revenue came in about as expected at $4.4 billion, an increase of 9% sequentially and an increase of 16% year over year. Both Analog and Embedded grew year on year and sequentially. Analog revenue grew 18% year over year, and Embedded Processing grew 10%. Our Other segment grew 14% from the year-ago quarter.

Let me provide some comments on the current environment and what we saw in the second quarter. We continue to see two distinct dynamics at play. First, tariffs and geopolitics are disrupting and reshaping global supply chains. As we work closely with our customers, we are leveraging our global manufacturing capabilities to support their needs. We have flexibility and are prepared to navigate as things evolve. Second, the semiconductor cycle is playing out. Cyclical recovery is continuing, while customer inventories remain at low levels. In times like this, it is important to have capacity and inventory, and we are well positioned.

Now, I'll share some additional insights into second quarter revenue by end market. First, the industrial market increased upper-teens year on year and mid-teens sequentially, with recovery across all sectors. The automotive market increased mid-single digits year on year and decreased low-single digits sequentially. Personal electronics grew around 25% year on year and grew upper-single digits sequentially. Enterprise systems grew about 40% year on year and grew about 10% sequentially. And lastly, communications equipment grew more than 50% year on year and was up about 10% sequentially.

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

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

Thanks, Haviv, and good afternoon everyone.

As Haviv mentioned, second quarter revenue was $4.4 billion. Gross profit in the quarter was $2.6 billion, or 58% of revenue. Sequentially, gross profit margin increased 110 basis points.

Operating expenses in the quarter were $1.0 billion, up 5% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.9 billion, or 23% of revenue.

Operating profit was $1.6 billion in the quarter, or 35% of revenue, and was up 25% from the year-ago quarter.

Net income in the quarter was $1.3 billion, or $1.41 per share. Earnings per share included a 2-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 $1.9 billion in the quarter and $6.4 billion on a trailing 12-month basis. Capital expenditures were $1.3 billion in the quarter and $4.9 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $1.8 billion.

In the quarter, we paid $1.2 billion in dividends and repurchased $302 million of our stock. In total, we returned $6.7 billion to our owners in the past 12 months.

Our balance sheet remains strong with $5.4 billion of cash and short-term investments at the end of the second quarter. In the quarter, we issued $1.2 billion of debt. Total debt outstanding is $14.15 billion with a weighted average coupon of 4%.

Inventory at the end of the quarter was $4.8 billion, up $125 million from the prior quarter, and days were 231, down 9 days sequentially.

Turning to our outlook for the third quarter, we expect TI's revenue in the range of $4.45 billion to $4.80 billion and earnings per share to be in the range of $1.36 to $1.60. Our earnings per share outlook does not include changes related to recently enacted U.S. tax legislation and assumes an effective tax rate of about 12% to 13%.

In closing, as we transition into the second half of 2025 and going into 2026, we are prepared for a range of scenarios. We are, and will remain, flexible to navigate, especially in the immediate term.

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.

Mike Beckman - *Texas Instruments Inc - Vice President and 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) Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Bernstein - Analyst*

Hi, guys. So thanks for taking my questions. First, if I think how your tone sounded last quarter and frankly even how you sounded mid quarter, you seemed really confident that the cyclical recovery was here, and we were off to the races. And now I'm hearing you saying you're staying flexible like to go after a range of scenarios. And like even in the quarter, like auto was down sequentially. I guess, like what's going on? Like how is your, I guess, outlook and feeling about where things are? How's that changed like over the last three months, because you sound -- I guess, just based on tone and everything else, it doesn't sound maybe quite exuberant as maybe you sounded a few months ago. Like what's going on?

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

Hey, Stacy, I'll take this one. So first, as we -- as I said in my prepared remarks, we are seeing two dynamics at play, and one of them is the cyclical recovery. I think we talked through it in the second quarter call back in April. And the discussion was all about industrial is joining the pack. We are now one more quarter in. And this is the third quarter that we see a signal of industrial recovering. It's actually accelerated. So I can say we support five markets. We now have -- it started with PE and then enterprise and comms joined, and industrial is already in. So we have four out of five markets recovering in a nice pace. And this is part of the reason we've added the commentary on year-over-year performance, to just show the dynamics over there.

In terms of automotive, to your question, look, automotive, let's just remember that it's a year delayed versus industrial. Industrial peaked, for us at least, in the third quarter of 2022. Automotive peaked one year later in the third quarter of 2023. So one could expect automotive to be joining last.

The automotive recovery has been shallow, meaning we are running single digits versus the peak. We are running year over year -- we are actually having some growth in the second quarter from a year-over-year perspective, but at a very low level. So I will say that automotive is not recovered yet. But because of content growth, I think the cycle here is going to be less pronounced and more shallow.

The second point related to getting ready, look, we had some taste of it in the beginning of the second quarter, and we talked through it a lot during the call. But I think all the situation of tariffs and geopolitics disrupting supply chains, I think that's not over. It's true that there is pause right now on the semiconductor tariffs, both in the U.S. and in China. But we have to be prepared for what the future may hold. So we want to make sure, and this is also the message to our customers, that we'll remain flexible and we'll know how to support our customers, whatever the environment is moving forward.

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

Do you have a follow-up?

Stacy Rasgon - *Bernstein - Analyst*

I do, thanks. Maybe just to follow up on -- actually, I think I want to ask you about gross margins, so we'll go there. If I just back into the guidance for the next quarter, it seems like you're guiding gross margins probably down sequentially implicitly on revenue growth. I guess is that the case? And like what is that? Is that just depreciation? I know depreciation went up in the quarter. Is it just depreciation going up further? Or is something else going on the gross margin line or what?

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

Yeah, Stacy, so I'll take that. So to help you and everyone with their models, what you should be -- where you should be landing given our guidance is GPM percent about flat despite the higher depreciation that we're going to have going into third quarter. OpEx about flat. And then what you probably missing is the net of other income and expense and interest expense. That's going to be unfavorable about $20 million as we have lower cash levels, interest is lower, while debt interest expense has continued to increase. So that's the part that's probably missing to round out your model.

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

All right. Thanks, Stacy.

Stacy Rasgon - *Bernstein - Analyst*

That's helpful. Thank you.

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

Move on to our next caller.

Operator

Harlan Sur, J.P. Morgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Good afternoon. Thanks for taking my question. One of the signs of cyclical recovery is improvement in your turns business. Did the team see turns business grow sequentially in Q2, both in dollars and percent of revenues? And was it a broad-based across both your industrial and auto businesses?

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

Yeah, let me start and maybe, Mike, you can comment right after. So I think, yeah, from a turns perspective, we see a continuation of that dynamic. We saw again acceleration in the second quarter. We continue to invest in our inventory. Our lead times are at the lowest level. Customer inventories are very low, so we've seen that continuing. Mike, maybe you want to provide some more color here.

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

Yeah, I think as we've talked about in previous quarters, that's something that late last year and in the first quarter, began to build. We continue to see that into second quarter as well.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Great. And then for my follow-up question, good to see the continued sequential and year-over-year recovery in the industrial segment. It's quite diverse, right? 10 subsegments, but the largest subsegment, industrial automation, which is tied to manufacturing activity, is pretty sensitive to trade and tariffs. So just wondering if the segment is relatively weaker due to tariff concerns, or are you seeing shipment and order recovery here as well, especially among your China-based industrial customers?

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

Yeah, maybe I'll take that one. What we actually saw in industrial was recovery was broad, and it was across all sectors. So I'd say, yeah, it's continuation of the recovery we saw in first quarter. And that's where we are. So we'll move on to the next caller. Thank you.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank Securities Inc - Analyst*

Okay, thanks for letting me ask a question. Haviv, going back to the first question just in the tone and seems like a little bit of a tone change on our side, maybe not so much to you, but maybe I'll try to ask it a different way. You highlighted the uncertainties about the tariff side of things, but then endorsed the cycle was coming. Last quarter, you got significantly above normal seasonality, you seemed to lean in on the cycle side and didn't really say that tariffs were doing much. So did something change on either the strength of the cycle or the uncertainty around the tariff to lead you to guide to more of a typical seasonal quarter for 3Q?

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

Yeah, let me put some more color into it, Ross. I think it's a great question. So remember, when we met here in April, we dealt with reciprocal tariffs on both sides. U.S. was exempting semis, but China had a 125% tariff rate on semi during the call. So just a different situation versus where we are now. Now tariffs are put on hold, so a little bit of a different environment.

I will say that we, and I think I mentioned it also during the last call -- when there is a change of dynamics, like tariffs are being added, and I go back to April, customers are sitting on very low inventories, I think it's a good assumption to make that customers will want to have a little bit more inventory. And we did see that phenomena.

We did see that in the early part of the quarter, there was an acceleration of demand, and as expected when customers are sitting on no inventory and there is a lot of noise around tariffs. That has normalized through the quarter, and we are kind of back to right now what drives our day-to-day is just a cyclical recovery.

Now, if we forecast into Q3 and given the fact that we have a lot of real-time turns business that we have to assess for the future, I think it's prudent to have a little bit of -- or to remember that what we saw in Q2 is probably a combination of customers wanting to have a little bit more inventory because of tariffs and also the cyclical recovery. When customers make orders, they don't tell us why they want more parts. And I would assume that some of it was for building a little bit of inventory on the shelves to protect themselves from tariffs, if you will. So that is my assumption. Again, I don't know how the third quarter will play out. But that's part of the way we are forecasting Q3.

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

Ross, you have a follow-up?

Ross Seymore - *Deutsche Bank Securities Inc - Analyst*

I do. Switching over to Rafael. Just on the CapEx side of things, how should we think or is there any update on the CapEx and depreciation framework that you've given us for the annual numbers for this year and next year, especially given where you are in Phase 2, maybe going to Phase 3 on the CapEx side. Just wanted to see if there's any incremental color there.

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

Yeah, I know, happy to do that. The bottom line, there's no change. But let me go through those so that everybody has those. On CapEx for this year, 2025, we continue to expect to spend $5 billion. And for 2026, it's going to be between $2 billion and $5 billion, depending on revenue and growth expectations at that time. And we will update you on those -- on narrowing that CapEx window, most likely later this year. On depreciation, switching to depreciation, for 2025, we continue to expect $1.8 billion to $2 billion. And for 2026, we continue to expect $2.3 billion to $2.7 billion and likely to be at the lower side of that range.

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

Okay, we'll move on to our next caller.

Operator

Vivek Arya, Bank of America.

Vivek Arya - *BofA Global Research - Analyst*

Thanks for taking my question. Haviv, sorry to go back to this tone change. Because it's not just from the last earnings call, it's at the end of a conference, at the end of May, I think, you had suggested that every remaining quarter of '25 will accelerate from the first half up 13%, but your Q3 sales guide is up only 11%. So my question is that versus that reference point, which end market has softened? Is it that the industrial normalization is done? Is it that auto was a little weaker? Or is that just extra conservatism on TI's part? Because the tone changes, as I mentioned, not just from earnings but from the end of May.

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

Yeah. And again, I don't control probably tone level, but that's -- you guys are hearing that.

Vivek Arya - *BofA Global Research - Analyst*

No, but you quantified it, Haviv. You quantified it; it wasn't just tone.

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

Sorry. Directly to your question, Vivek, I would say that in the second quarter, we have seen industrial, in my opinion, running very hot. What were the numbers sequentially, Mike? It was up mid-teens, I think.

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

[Mid-teens, yeah.] (corrected by company after the call)

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

And it grew significantly year over year, in the second quarter close to 20%. So in that sense, I do believe it ran a little hot. This is where I want it to be a little bit more cautious into Q3. And we also saw, and I'll let them -- Mike -- comment about geographies. We also saw a little bit of higher pull from China in the second quarter. We will have it in the 10-Q when it comes out. But Mike, maybe you can give a little bit of a China by region -- maybe not only China -- behavior in 2Q.

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

Sure. So China, it was up about 19% sequentially. It grew about 32% year over year. And all end markets grew there, with the exception of automotive. And auto is pretty consistent with our overall results there. And industrial did lead the growth there in China. And just as a reminder, our China-headquartered customers represent about 20% of our overall revenue.

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

And Vivek, that information gives you a little bit of why I want to be cautious for Q3. We have seen China running again a little bit hot in Q2. It was not across all markets, meaning, on the automotive side, it behaved very similarly to the rest of the world. It was not across the board.

So we give you the data. That -- it's how to decipher what exactly or to decouple what was related to quote, unquote pull-ins or what was related to cyclical recovery. I think both are happening, and that's the data we have right now, and that's what guides our third quarter as we plan for Q3.

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

Do you have a follow-up, Vivek?

Vivek Arya - *BofA Global Research - Analyst*

Yes. Thank you, Mike. For my follow-up, given everything they have heard, Haviv -- I know you typically don't guide the quarter out, but how would you advise us to start thinking about Q4 that should we assume a similar conservative tone and assume something that is -- usually your seasonality is, I think, down sequentially or flat sequentially, if you could remind us of that in Q4. And given everything we have heard, how should we just conceptually think about the move into Q4? Thank you.

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

Vivek, as you know, we are a one-quarter-at-a-time company specifically on guidance. So I will just say let's let the third quarter play out. Mike, do you want to comment about seasonality?

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

Yeah. So historically, second and third are typically stronger quarters. Fourth and first are typically seasonally lower. But yeah, we'll have to let third quarter play out to -- before we're going to be ready to talk about fourth. So we'll go on to move on to our next caller. Thanks, Vivek.

Vivek Arya - *BofA Global Research - Analyst*

Thank you, Mike.

Operator

C.J. Muse, Cantor.

C.J. Muse - *Cantor Fitzgerald LP - Analyst*

Yeah, good afternoon. Thank you for taking the question. I was hoping to revisit gross margins. You indicated flat roughly sequentially. And I guess within that, could you speak to your plans for utilization? Are there any changes in mix? And if we were to normalize to your more typical 80% fall-through, that would be an incremental maybe $25 million, $27 million. So is the pause in gross margin uplift a 100% due to that increase in depreciation? Or are there other factors that we should be thinking about?

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

Yeah. No. Just to give you a few more information there. As I said earlier and you've restated, we expect third quarter gross margin to be about flat to second quarter. That is with higher revenue but also higher depreciation. In terms of loadings and inventory, we expect to run loadings about the same in third quarter as we did in second quarter, as we are well positioned with inventory to support a wide range of cyclical recovery scenarios.

Inventory expect to grow, but at a slower rate than the growth we just had in second quarter. So hopefully that gives you -- and then on the fall-through, we guide 75% to 85%. That's over the long term; that's over a year on year and not any one quarter. But we should be close to that fall-through. We'll speak more about that when we have actuals, and we have better information to provide. But you should continue to think of 75%, 85% as a good number to use over the long term.

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

C.J., do you have a follow-up?

C.J. Muse - *Cantor Fitzgerald LP - Analyst*

I do. Thank you. With the ITC going from 25% to 35%, curious if you can comment on your thoughts on impact to your net CapEx into '26, '27? And is there any movement or thought process that we should have around the impact of depreciation? Thanks so much.

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

Okay. No. Thanks for that question. So let's talk about that legislation that just passed. First, we're very pleased with the changes resulting from the passage of the recently enacted U.S. federal tax law. It includes expensing of U.S. R&D and eligible capital expenditures, an increase to the ITC from 25% to 35% and changes to other tax provisions such as the making FDII permanent.

We are -- the effects of the new tax law are not reflected in the statement that we just released, in the financials that we just released in the passage of -- that law happened in July. We are currently evaluating the changes on the legislation are going to have on future financial statements. That's why in the guide that we gave, we did not incorporate it. We want -- we need additional time to do a full evaluation.

However, I would tell you that based on our initial assessment, what we expect, what would likely happen is our GAAP tax rate will increase in third quarter and in 2025. However, it will decrease in 2026 and beyond. More importantly, the cash -- from a cash flow standpoint, we expect significantly lower cash tax rates for the next several years. So again, we're very pleased with that legislation.

Let me speak real quickly. You mentioned, you asked about CapEx plans specifically. Our CapEx plans remain consistent with what we shared in February and will depend on revenue.

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

All right. Move on to our next caller.

Operator

Jim Schneider, Goldman Sachs.

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

Good afternoon. Thanks for taking my question. Maybe following up on some of the other questions that were asked, can you maybe comment on some of the end markets, whether it be personal electronics or enterprise systems or otherwise that you think may have gotten a little bit ahead of themselves or run a little bit hotter into Q2 and which ones do you think are at risk of reverting a little bit in Q3 and in Q4? Thank you.

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

Yeah. Let take that. Remember that when we talk about PE market and also enterprise and CE, they're all they're all running at different phases on their cyclical recovery. It started with really PE, then followed by enterprise and comms, and then industrial joined later. As I mentioned before, the automotive market, again, is very shallow cycle. But we haven't seen enough signs of true broad recovery over there.

Now regarding the -- if you go back to second quarter where we saw a little bit, I would say, market that ran higher than expected, it was on the industrial. We did expect a cyclical recovery in the industrial. It did grow 15% sequentially, which is a little bit unnatural. When you add the -- on top of it, the geography footprint, this is where I have a little bit of a more cautiousness. I wouldn't mark anything else that behaved differently in second quarter. Mike, would you agree?

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

That's the right assessment.

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

Yeah. That's a market that we saw a little bit of, I think -- I wouldn't say anxiety, but customers just preferring to just have more parts. And we did see normalization through the quarter. So think about the front end of the quarter was running faster than the second half of the quarter. We think we left the quarter at a normal rate, but it's very hard to assess right now. So we keep watching it. And that's the market where I want to be more cautious when I think about Q3.

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

Do you have a follow-up?

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

Yes. I do. Thank you. Relative to capital allocation, you mentioned about the cash tax benefits that you expect that will positively impact free cash flow next year and beyond. You reiterated the CapEx guidance, but can you maybe speak to the capital return portion of this? Obviously, your free cash flow is better than -- what might you do differently or more on buybacks or dividends?

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

Yeah. No. That's a good question. It's going to depend. And it's going to depend on a number of factors. For instance, right now, we're still in the middle of a high CapEx environment. And we'll see how long that lasts. As we said, next year, we do have a range of 2 to 5. So that's still a -- even at the low end, it's still a meaningful amount of CapEx. And we need to be ready for that. And there are other factors, cash on the balance sheet, the price of the stock price, of the stock, that also plays into our decision. So we'll take that into, all into account. But at the end of the day, our objective remains the same when it comes to returning capital to owners, and that is to return all free cash flow through dividends and buybacks.

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

All right. Thanks, Jim. Let's move on to our next caller.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research LLC - Analyst*

Yeah. Thank you. Good afternoon. The question is about fab loading. And what your intentions are as we go through the back end of the year into next year. Or I guess in light of some of the caution that you expressed, any changes you're making to fab loading? And basically, where you want your internal inventories to sit as you exit the year?

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

Yeah. So I tell you, in an ideal world, what we would want to do -- and of course, the world is not ideal, then we'll have to navigate to that. But in an ideal world, what we would do is hold -- manage the operation so that the loadings are relatively stable, relatively flat over time.

And what happens during a cyclical upturn, we actually drain some inventory. And then during a cyclical downturn, we actually build some inventory. And that's how you get the factory to run effectively constant over that time. Of course, it's not an ideal environment. You never quite know when you're at peak, when you're at trough. So we'll have to add some guardrails to that to make sure that we maximize the opportunity and maintain flexibility. But at a high level, that's how we would like to run the company.

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

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

Chris Caso - *Wolfe Research LLC - Analyst*

I do. Thanks. And my follow-up is, if I could dig into auto a little bit more deeply. And it sounds like what you're saying there is auto hasn't really changed but hasn't recovered yet. That's a market where you got a few customers that you speak to there. What's their tone right now, given all the macro uncertainty? What are they doing with inventory levels and preparing now? Is it just in a holding pattern right now with regard to auto?

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

Yeah. I think that's a good description. In a way, the -- and again, I look at my graph here in front of me. So automotive, again, peaked for us in the third quarter of 2023. And in the last, I would say, sixth quarter, a little bit up, a little bit down, but hovering around a certain level of high-single digit down versus that number.

And think about the automotive customers, they -- those who ship into the U.S., they have tariffs to deal with. So I don't think they want to -- I think they're being cautious right now. And I think the orders we get is only when they really need it. I don't think there is any inventory replenishment there, not only at the OEMs, but also at the Tier 1 level. So everything is almost real time. And we'll just -- we have -- our lead times are so low, and most our automotive customers are on consignment. So we just get it real time. So to your point, we haven't seen yet the recovery.

But remember, industrial peaked in the third quarter of '22, and we saw the recovery starting in Q4 of '24. So you can argue that automotive could be maybe a year later, if you just keep the same duration. So is it going to be some time in the second half of the year? We'll just have to see real time.

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

Okay. Chris, thanks for the questions. Let's move on to the next caller.

Operator

Joshua Buchalter, TD Cowan.

Joshua Buchalter - *TD Cowen - Analyst*

Hey, guys, thank you for taking my question. Maybe following up on Chris's previous one. When you spoke about China, it was clear that auto was the outlier there and was down in line with your broader auto business. I mean, it seems like China auto trends have been positive year-to-date, including in 2Q. It doesn't sound like there's destocking going on. Can you maybe explain what's going on specifically in China auto? Is there any element of share loss happening there? Or do you think it's more inventory dynamics? Thank you.

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

Yeah. I think it's a good question. I think it's more the latter. Automotive ran very hot last year in China. And there was enough news out there that there was a little bit of caution coming, or guidance, they slow down, some of the price wars over there. So I think we saw some of the dynamics.

I think our automotive business in China is doing well. I think from a year-over-year perspective, it's a -- we grew the automotive business in Q2, but China was ahead of the rest of the market simply because, again, first in, first out. So we saw the recovery in China starting in 2024. I think it takes a little bit of a breather right now, but I think it's related to inventory correction on their side.

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

And I'll just add, if you look across the major regions for us in auto -- U.S., Europe, China -- they more or less performed pretty similarly on a sequential basis. They weren't vastly one stuck out differently than the others. When you look on a year on year, that for China now is going to be leading.

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

Yeah, I would say it's China and Asia ahead, and then you go to Europe and Japan behind. It's very coherent with what we've seen in other markets.

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

Do you have a follow-up, Josh?

Joshua Buchalter - *TD Cowen - Analyst*

Yes, please. It's a link -- similarly, when you talked about China, it sounds like there was some element of potential pull-ins that were impacting 2Q. You guys have talked for a while about having geopolitically dependable supply for the West. Are you seeing that on your customers outside of China at all? Or have they changed their behaviors? And when should we expect the share gains that you expect because of your U.S.-based manufacturing to start to flow through the model? Thank you.

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

Yeah. So let me start with just -- you mentioned the pull-in. We don't know. I just want to repeat that point. We just have to make assumptions. Customers don't tell us why they order. We just go through the data and try to decipher it. So we just can't rule out the possibility. And we say there was likely could have been some. When you see such a strong behavior in Q2 versus Q1, you have to attribute some of it to tariff environment.

Also, remember that in China, we have -- the automotive market is more like what you call assigned accounts. We talk to the customers. We can explain to them the options. We have many industrial customers. It's just hard to get to everyone at once. And I think it just takes longer to let customers know that TI has a diverse manufacturing footprint, and we've got their back. So I think that's part of what we've seen during the second quarter, plus the tariffs that took a breather after a month or so.

Now regarding the overall discussion on tariffs and our U.S. manufacturing footprint, I think that's an important point. We've spent a lot of time during the last call talking about the challenges maybe in China and how we are we are navigating it. But remember that the environment is dynamic. Things are changing regularly, and tariffs and geopolitics will continue to evolve, and as I said in the prepared remarks, reshape the supply chain.

I think some of it is going to be a little bit more permanent. So our customers are increasingly valuing our geopolitically dependable capacity. And in the U.S., I think TI -- I think, first, let me say our global manufacturing footprint is optimized to support all of our customers worldwide. But if you go into the U.S., I do believe that the U.S. will make semis be – U.S. semis will be increasingly incentivized in the U.S. And we do have a unique position.

These are not investments that were made during the last quarter. We have been working on it for the past five years. Again, not because we have foreseen tariffs. We just wanted to control our destiny, and the best way for us or the best efficiency for us to build a manufacturing footprint was in the U.S. And I think that hasn't played out yet. We do have a few customers -- you could probably count them on one hand -- that are savvy and knowing what the plan, how the plans could evolve. And they're already shifting and getting closer to us. But I think there is a lot of confusion at the broad customer base. People don't exactly understand the difference of reciprocal tariffs and sectoral tariffs and what's gonna come and when. So there is a little bit of a wait and see.

And by the way, we don't know as well how things will evolve in the second half of the year. I will say that I believe our opportunity is greater than our challenge.

While we are well equipped and well -- the diversity of our supply, of our manufacturing footprint and supply chain is high, and we have proven it to our customers in Asia, specifically in China in the second quarter, I think TI is unique in the fact that we have a manufacturing footprint in the U.S. And if U.S. chips are indeed becoming incentivized in whatever ways they choose to do that, TI has a unique answer. Not only that we have the scale and the size of the required capacity, it's also very affordable, it's low cost, very competitive. And again, that opportunity has not played out yet, but we are ready for whatever changes we are going to meet in the second half of the year and beyond.

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

All right. Thanks, Josh. We'll move on to the last caller.

Operator

William Stein, Truist Securities.

William Stein - *Truist Securities - Analyst*

Great. Thanks for taking my question. It's variation on the theme that we've listened to tonight. I think it was the past call, and if not, certainly during the quarter, Haviv, I think you characterized the environment as cyclical recovery as the signal and that tariffs and geopolitics are more noise, and that the signal-to-noise ratio is very high. And I think there was an expectation that the momentum that we saw in the first half of the year was going to extend, and yet the guidance is confusing in light of that view. Specifically, you just delivered a plus 16.5% result year over year, and I think you're guiding to 11.5% plus. So how do I reconcile this? Is the environment just much more noisy than what you would characterize a quarter ago? Or did something else change? Is there another way to describe what happened in the last quarter?

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

No. I think regarding, Bill, what happened -- Will, sorry. What happened in Q2, I think we were very open about it. As I said, we did see some dynamics within the quarter. It was more noisy, if you will, in the second half of the quarter. And it's very hard for us to, as I said to Vivek and others, to quantify how much of what we saw in the second quarter was tariff related or cyclical recovery or both. I will say that I think both played.

And when you make guidance into the third quarter, with the data we see right now, we just want to take a responsible approach. That's the data we have right now. That's the way we call it. I think during the last call, everybody was pushing back how could it be that TI will grow 7% sequentially, and I think we’ve upsided there.

So I think right now, maybe the expectations were higher, which we are just calling the forecast the way we see it. We have to let it play out. I will reiterate that I believe the cyclical recovery is strong. Even if it's masked a little bit by this tariff environment, I think we now have four out of the five markets already in. I expect automotive to join. I just don't see it yet.

And once we have all five markets pointing in the right direction, we'll be complete. This recovery is very, very different from any previous one. You can see it also at the slope of the recovery when you look at the overall WSTS without memory trend, you can see a not very sharp return to trend line. We are still running 12% or 13%, I believe, below trend line. And there is a lot of -- usually, when a cycle establishes itself, you first have to get a trend line, and then you have to establish the next peak. We are still running double digits percentage-wise on units below trend line.

So I think that's what we're seeing. We are not different than the rest of the market, I believe. And we'll just have to continue to let it play out. So that would be my answer to your question, Will.

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

Do you have a follow-up?

William Stein - *Truist Securities - Analyst*

Yeah. If I can follow-up one area that I hope might be a little bit more optimistic. In enterprise, I think you had a good quarter. And I'm wondering if you can remind us, or update us as to your current and maybe future anticipated exposure to the rapid growth AI markets? Thank you.

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

Yeah. Very well. Our enterprise market is mainly -- I think the largest sector over there for us is data center. Data center is compute. But it's not only data center. We also have, for example, large printers or enterprise printers over there and also projection devices. So we probably want to clarify that over time.

But if I just focus on data center, and it's mainly today inside the enterprise market for TI, but also a little bit of the optical communication inside comms. When I cut out and I look at our data center story, that's behaving very well this year. It's growing very nicely. It's a very high level, above that 50% that I've mentioned before. And the future has a large opportunity for TI because we are seeing ourselves playing in more sockets over time.

Currently, our footprint on the data center side is more with our general-purpose parts. We have a large share over there. But we're also working closely with some key customers to expand our positions there to more application-specific opportunities. This is based on our new technology that is ramping right now in Sherman, Texas. We already have samples, and we are competing to win share over there. That's more of a tailwind, a potential tailwind for us in 2026 and beyond. So that's our data center story. And thanks for that question, Will.

William Stein - *Truist Securities - Analyst*

Thank you.

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

Okay. So 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 to owners is the long-term growth of free cash flow per share.

With that, thank you, and have a good evening.

Operator

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