Operator

Good day, and welcome to the Texas Instruments' Q1 2019 Earnings Release Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Thank you. Good afternoon, and thank you for joining our first quarter 2019 earnings conference call. Rafael Lizardi, TI's chief financial officer, is with me today.

For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through our website. A replay will be available through the web as well.

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.

For today's call, let me start by summarizing what Rafael and I will be reviewing. I'll be covering the following topics: first, a high-level summary of the financial results for the first quarter; second, I'll provide some details of the first quarter by segment and end market; and third, I'll include some additional color in light of the market weakness we're currently experiencing. Rafael will then review profitability, capital management results, a brief comment on the status of our next 300-millimeter fab, and then the outlook. Then we'll open the call for Q&A.

Now, starting with the high-level summary of our first quarter financial results: The weakness in demand that began in the second half of 2018 continued into the first quarter. The weakness was across all markets, with the exception of communications equipment.

In our core businesses, Analog revenue declined 2% and Embedded Processing revenue declined 14% compared to the same quarter a year ago. Both businesses' year-on-year growth decelerated as we expected at this point in the cycle. Similar to the fourth quarter, Embedded remained weaker than Analog, primarily because it didn't benefit from increasing content in 5G. Operating margins decreased in both businesses. Reduced factory loadings affected both businesses, but the impact was greater in Analog since more of its supply comes from internal manufacturing.

Overall, revenue in the first quarter decreased 5% from a year ago and earnings per share were $1.26, including a $0.04 discrete tax benefit not in our original guidance.

With that backdrop, I'll now provide details on our performance, which we believe continues to be representative of the ongoing strength of our business model.
In the first quarter, our cash flow from operations was $1.1 billion. As we note each quarter, we believe that free cash flow growth, especially on a per share basis, is most important to maximizing shareholder value in the long term. We remain committed to returning all of our free cash flow to owners.

Free cash flow for the trailing 12-month period was $6 billion, up 22% from a year ago. Free cash flow margin for the same period was 38.4% of revenue, up from 32.1% a year ago. We continue to benefit from the quality of our product portfolio that's long-lived and diverse, and the efficiency of our manufacturing strategy, the latter of which includes our growing 300-millimeter Analog output.

We believe that free cash flow will be valued only if it's productively invested in the business or returned to owners. For the trailing 12-month period, we returned $8 billion of cash to owners through a combination of dividends and stock repurchases, demonstrating our confidence in our business model and our commitment to return all of our free cash flow to owners.

Moving on, I'll now provide some details of the first quarter by segment and end market, and then offer some additional color on the market.

From a year-ago quarter, Analog revenue declined 2% due to High Volume and Power, partially offset by growth in Signal Chain. I'll note that the strength in communications equipment minimized Analog's decline.

Embedded Processing revenue declined by 14% from a year ago due to declines in both product lines -- Processors and Connected Microcontrollers.

In our Other segment, revenue declined 6% from a year ago.

Now given the current weaker market environment, I wanted to provide some additional color on the quarter. As I mentioned earlier, the weakness in demand for our products that began in the second half of 2018 continued into the first quarter. Demand came in mostly as expected, although communications equipment was stronger-than-expected due to shipments of products that support 5G.

Next, I'll provide some insight into this quarter's performance by end market versus a year ago.

Industrial and automotive declined mid-single digits due to broad-based weakness. We continue to focus our investments across 13 sectors in industrial and 5 sectors in automotive. Despite this near-term weakness, we continue to believe these investments will deliver broad-based and diverse revenue growth over the long term.

Personal electronics declined low-double digits due to broad-based weakness, including mobile phones and PCs.

In contrast, communications equipment grew about 30% year on year, and as we mentioned earlier, benefiting both from 5G shipments as well as an easy compare due to weakness in the year-ago period. History would suggest that we should expect this market to be choppy in the future.

And then lastly, Enterprise Systems declined.

Looking at these end markets on a regional basis, generally, all the regions performed consistently, excluding the positive effects of communications equipment.

So in summary, we continue to focus our strategy on the industrial and automotive markets, where we've been allocating our capital and driving initiatives to strengthen our position. This is based on the belief that industrial and automotive will be the fastest growing semiconductor markets. They have increasing semiconductor content and they also provide diversity and longevity. All of this translates to a high terminal value of our portfolio.

Rafael will now review profitability, capital management and our outlook.
Rafael R. Lizardi  Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Thanks, Dave. And good afternoon, everyone. Gross profit in the quarter was $2.26 billion, or 62.9% of revenue. From a year ago, gross profit decreased due to lower revenue and reduced factory loadings. Gross profit margin decreased 170 basis points.

Operating expenses in the quarter were $803 million, down about 2% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were 20.7% of revenue, within our range of expectations. Over the last 12 months, we have invested $1.56 billion in R&D, an important element of our capital allocation. We are pleased with our disciplined process of allocating capital to R&D, which we believe will allow us to continue to grow our top line over the long-term.

Acquisition charges, a noncash expense, were $79 million. Acquisition charges will be about $80 million per quarter through the third quarter of this year, then decline to about $50 million per quarter for 2 remaining years.

Operating profit was $1.38 billion or 38.4% of revenue. Operating profit was down 11% from the year ago quarter. Operating margin for Analog was 43.2%, down from 45.4% a year ago, and for Embedded Processing, was 31.3%, down from 35.4% a year ago. Our focused investments on the best sustainable growth opportunities with differentiated positions will enable both businesses to continue to contribute nicely to free cash flow growth over time.

Net income in the first quarter was $1.22 billion or $1.26 per share, which included a $0.04 discrete tax benefit not in our prior outlook as we have discussed.

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

Cash flow from operations was $1.11 billion in the quarter. Capital expenditures were $251 million in the quarter. Free cash flow on a trailing 12-month basis was $5.99 billion.

In the first quarter, we paid $724 million in dividends and repurchased $1.15 billion of our stock for a total return to owners of $1.88 billion. In total, we have returned $8.05 billion in the past 12 months, consistent with our strategy to return all of our free cash flow. Over the same period, our dividends represented 45% of free cash flow, underscoring their sustainability.

Our balance sheet remains strong with $4.09 billion of cash and short-term investments at the end of the first quarter. Total debt is $5.8 billion with a weighted average coupon of 2.91%.

Inventory days were 144, up 8 days from a year ago and down 8 days sequentially. We are pleased with the progress we have made replenishing inventory of low volume devices and implementing the next phase of our consignment programs with our distributors. Work in both of these areas will continue in the second quarter. We believe there is strategic value in owning and controlling our inventory and we'll manage it with our long-term objectives in mind.

Next, as we mentioned earlier, we want to update you on our next 300-millimeter wafer fab. As you may have seen, we have chosen Richardson, Texas, as the site for our next wafer fab. The new building will be on our existing site in Richardson. We have not announced a specific construction timetable yet. But as we indicated during the February Capital Management Call, we would expect to get started in the next few years.

Turning to our outlook for the second quarter, we expect TI's revenue in the range of $3.46 billion to $3.74 billion, and earnings per share to be in the range of $1.12 to $1.32, which includes an estimated $10 million discrete tax benefit. We continue to expect our annual operating tax rate to be about 16% in 2019.

In closing, as we said last quarter, we believe that after 10 quarters of year-on-year growth, the weakness we are seeing is primarily due to the semiconductor cycle. We have just completed our second quarter of year-on-year declines for TI. If you look at history, cycles are always different, but typically, the industry would have 4 to 5 quarters of year-on-year declines before year-on-year growth resumes. We
are not trying to forecast the cycle, but simply offer some historical perspective.

Given our experience, we will stay focused on making TI stronger for the long term, while remaining diligent in the short term. We continue to invest in our competitive advantages, which are technology and manufacturing, portfolio breadth, market reach, and diverse and long-lived products. We will continue to strengthen these advantages through disciplined capital allocation and by focusing on the best products, Analog and Embedded Processing, and the best markets, industrial and automotive, which I believe will enable us to continue to improve and deliver free cash flow per share growth for a long time to come.

With that, let me turn it back to Dave.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Thanks, Rafael. Operator, you can now open up the lines for questions. (Operator Instructions) Operator?

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) We'll go first to Vivek Arya with Bank of America Merrill Lynch.

Vivek Arya BofA Merrill Lynch, Research Division - Director
I'm trying to think of how to interpret your Q2 outlook. One interpretation is that you're not really seeing much recovery off of Q1, right? But just kind of surprising when we hear of China PMI improving and all the optimism about some signs of recovery. The other interpretation is that maybe Q1, you saw the extra benefit from comm equipment. So if I exclude that, then you are seeing some modest pickup going into Q2. So I'm just curious, how are you thinking about your Q2 outlook versus seasonally, which is supposed to be up 7%, 8% sequentially?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Yes. Vivek, I'd say, certainly, I can confirm the first part of the question, that in first quarter, we did get a benefit from comms equipment. That's just in the numbers. I think when we look at our second quarter outlook and we put that together, again, we base that on the orders that we get from customers as well as the demand feeds that we get through our consignment programs. And just as a reminder, about 2/3 of our revenue come through those consignment programs. And for OEMs, we'll typically get 6 months of visibility and there's no inventory that sits in front of us in that manufacturing line. So it really is one of the best signals that we can get.

And I also would caution that, that doesn't mean that, that signal can't change very quickly. But -- so that's how we're basing the guidance for the second quarter and I'll leave the further interpretation to you. Do you have a follow-up?

Vivek Arya BofA Merrill Lynch, Research Division - Director
Yes. So maybe if I ask the question if a different way. Have you seen any pickup in orders over the last few weeks, versus, let's say, the first few weeks of the year?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Well, I would say that orders behaved normally in the quarter. And again, 2/3 of our revenue is coming through on consignment. So we'll get an order. When that product is due to ship, that happens instantaneously. So orders are probably less of the strongest signal that we'll get than versus that demand -- those demand signals that we get from orders.

Operator
We'll go next to John Pitzer with Credit Suisse.
John William Pitzer Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

Rafael, I was wondering, can you talk a little about some of the utilization actions you are taking? How much of a hit were they to the calendar first quarter gross margins? And I guess more importantly, I know it takes time for utilization actions to kind of go through the P&L. But have utilization rates now bottomed? And how do you think about utilization relative to Q2 gross margins and going throughout the remainder of the year?

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

Yes. Thanks for the question. Let me try to frame that for you a little bit. Over the last couple of quarters, we have talked about how we were going to decrease our wafer starts to adjust to the expectations of revenue. While at the same time, we're going to increase the portion -- or dedicate a portion of those wafers to building our low-volume industrial consignment or industrial buffer parts and also the transition to consignment. So we did those things. And our operating plan did reduce and we did take a hit to gross margins in the process. And that's what you're seeing in our P&L.

Now what I would sort of take you back to is look at it from a free cash flow standpoint. Because ultimately, that's what matters, right? What you're seeing from a utilization charges standpoint is a noncash expense. At the end of the day, what we're focused on is allocating capital and allocating cash, right? So by decreasing those wafer starts, what we did was dedicating less cash to that. So in fact, leaving out more cash for the owners of the company. But generating enough inventory or the right amount of inventory to be prepared for the revenue that we want to meet in the future. And also to build those buffer inventory stocks so that we're prepared for future quarters and have that, the ability to meet customer expectations and customer satisfaction, which ultimately is what we're trying to do with that inventory so that it helps us position ourselves to meet those customer demands and help with our goal of continuing to grow the top line for a long time to come.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And just a number on that. I think if you look at our first quarter trailing 12-month free cash flows at 38.4%, that was the same that we had last quarter. So it didn't change much. Do you have a follow-on, John?

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

Yes, Dave. Just going back to the revenue guidance for the calendar second quarter. If you look at how the business has historically performed, I think I need to go back to 2001, to see a calendar second quarter that was down sequentially. And that was sort of in the wake of the tech bubble. Again, I'm just trying to get a sense of what you're seeing in the bottoms-up business to potentially have a scenario when they're of down sequential revenue? And I guess you mentioned in your prepared comments that the comms business can be lumpy historically. Is Embedded in the Q2 guidance still good lumpiness? Or would you expect bad lumpiness in the comms sector?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. So I'd say, first, if you look over, and you know this very well, John, if you look over 10, 15, 25 years of the comms equipment market, that business is lumpy. It's lumpy because of the way that operators put out tenders and then place the orders and the OEMs, our customers, have to build to those. So history just says that you should be mindful of that and that doesn't make it a bad business, it's just an attribute of it. And so I think in second quarter, I'd remind you that we just completed the second quarter of year-on-year declines for TI. It's not -- it's likely that cycles, as we mentioned in the prepared remarks, can last 4 or 5 quarters. Sometimes they can be shorter and sometimes they can be longer than that. But we're 2 quarters into that. So -- and per our practice, if there was something significant or unusual going on in our guidance, either by end markets or a particular customer, we would make those things clear to help you understand it.

Operator

We'll go next to Stacy Rasgon with Bernstein Research.

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

Again, I want to push on the comm point a little bit. I know Analog and Embedded have diverged, partially because of this. If it wasn't for the upside on comm and Analog though, do you think you'd be seeing similar year-over-year trends without the strength in comm?
Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. Stacy, they'd be...

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

As you see in embedded?

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. They would be much closer. I think there's still some differences. But directionally, all the end markets are the same and they'd be much closer from a year-over-year decline standpoint. Do you have a follow-up?

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

I do. And I want to follow up, still, on comm. So we're seeing very strong ups. I mean, I guess is the first part of it is, is it fair to say that -- and I think you mentioned this, that the upside versus guidance in the quarter that was all comms? So the rest of business came in as expected? And I guess just secondly, how concerned are you with the possibility that the current strength we're seeing in comm is not actually matched to anything? I know people have been worried about like order pull forwards and that sort of thing from some of the larger customers? Like, what are you seeing around those lines, around the sustainability of the upside that we're seeing in comm? I guess, I'll give you (inaudible).

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. So I'd say the upside that we saw was almost all from comms. I think that the rest of the markets and businesses, if you looked at it from that way, performed about as we expected. And the comments on what the future of that looks like, I'd just go back to the statements that we made before and just staring at history of that market, it tends to be choppy. So would we expect it to be choppy in the future? We would. That's not a comment on second quarter, or the third or fourth. It's just the comment of looking at history, that market just tends to be choppy.

Operator

We'll go next to Mark Lipacis with Jefferies.

Mark John Lipacis  Jefferies LLC, Research Division - Senior Equity Research Analyst

The first question is, will inventory -- will your factory loadings go up sequentially in this quarter versus last quarter? Or are they going to be going down? I'm trying to understand if you believe inventories are going to be a source or use of cash this quarter?

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

Yes. Last quarter, we characterized that because it was more relevant at the time given the inflection point on our revenue. Now that the midpoint of our revenue is about the same as first quarter, I think it's time to just not focus on that and focus on the other things that we think are more important longer term, which is our ability to continue to grow the top line as we focus on Analog and Embedded, and industrial and automotive. And with that, as we focus on growing free cash flow for the long term, as Dave mentioned earlier and we mentioned on the call, despite the drop in gross margin and the drop in utilization, our free cash flow on the trailing 12 months was essentially unchanged from 90 days ago. And as a percent of revenue, was 38.4%, right?

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

And I think that just speaks to the quality of the business model that top line can change quite a bit, but if you look at that trailing 12-month free cash flow, it just tends to be much more stable. And that just speaks to the quality of the model. Mark, do you have a follow-on?

Mark John Lipacis  Jefferies LLC, Research Division - Senior Equity Research Analyst

Yes. Dave, in your script, you said, I may have misunderstood this. But you said that, regionally, the business trends were consistent except for communications equipment. I don't think I really quite understand that. I'm hoping you can just spell that statement out for me.
Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Yes. So that -- you can -- there are -- you can think of the largest manufacturers of communications equipment. We try not to go by customer of who those are. But there are only a couple of regions in which they exist and so you can imagine that you could connect those 2 pieces of information together. So hopefully that helps.

Operator

We'll go next to Toshiya Hari with Goldman Sachs.

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

I had a follow-up on the comms segment. Dave, you talked about the business being up 30% year-over-year. What was embedded in your original guide for the first quarter?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Well, again, I think that overall, our revenue came within the range of our expected guidance. It was in the upper half, primarily, because of the strength that we saw in comms equipment.

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

Okay. Got it. And then as a quick follow-up for Rafael. I wanted to get an update on your thoughts on capital return. Your stock is back up to not quite your 52-week high, but pretty close. How should we think about buybacks versus dividends versus other uses of cash going forward?

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

Yes. No, I'm happy to address that, Toshi. First, let me take everybody back to our capital management strategy. The objectives that we talked about and when it comes to cash return, our objective is to return all free cash flow to the owners of the company via buybacks and dividends. And within that, we recognize that sometimes you strategically build cash, sometimes you strategically drain cash, right? So then you can actually return more than 100% of free cash flow. As frankly, we've done for the last few years. But on the 2 pieces of dividends -- and buybacks and dividends, the goal is to provide a sustainable and growing dividend and we target to be somewhere between 40% to 60% of free cash flow. At the moment, on the trailing 12-month basis, we're 45%. And then on the repurchases, it's the accretive capture of future free cash flow for the long-term owners.

So -- but that essentially means -- so let me dive a little deeper on repurchases because that's, I think, that's where your question is going. We use reasonable assumptions, not aggressive, not conservative, but reasonable assumptions of our expected growth of free cash flow per share for the company for a long time to come. And then based on that, we develop our assessment on valuation, of intrinsic value of the company and then we compare that to the market price. And depending on the divergence of those, we buy back. So as long as it's below their intrinsic and higher than market price, we'll be buying back shares. And how much, it depends on the divergence, right? So you can see our history, the last 1.5 years or so. We have been returning significantly more than 100% of free cash flow as we do that assessment. But as long as the intrinsic value is higher than the market price, we will buy back shares in the open market. Was that -- do you have a follow-up?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

No. That was his follow-up.

Operator

We'll go next to Chris Danely with Citigroup.

Christopher Brett Danely Citigroup Inc, Research Division - MD

My question is on trends over in China. Can you just comment on how the order trends have gone over there over the last 3 months? Have you seen any stabilization? And then, any words you can give us on distribution of inventory as well?
Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. Chris, I would say that as we said in the prepared remarks that really, all the regions prepared -- or performed similarly. With the exception of comms equipment that we talked about, all of the markets were pretty consistent this quarter. Distributor inventories were up a little more than a day, sequentially, and to just a little over 4.5 weeks. Do you have a follow-on, Chris?

Christopher Brett Danely  Citigroup Inc, Research Division - MD

Yes. I do. So a bit of a longer-term question, I'll break with form on the call. If we look at your "other revenue", it's like 8% of sales now, and the operating margin has been sort of steadily trending down over the last few years. And I think the most recent quarter was 15%. So it was about 25% below the corporate average. A, why is that operating margin so low? What's going on there? And then, B, why not just start shutting down or ending life those products?

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

Yes. A couple of things on that. Recently, we -- in this last quarter, we did have a decrease inside of that business, within our DLP business but a lot of that was due to this consignment transition that we have talked about. So that's part of what drove kind of the short-term and also maybe some of what the margin issue that you're attributing to. I would also remind you of some of our -- the acquisition charges, for example, restructuring charges, that's all in that other piece. Remember, especially on the acquisition charges, that's noncash. So that's where -- that represents cash that went out the door about 8 years ago. So if you adjust for that, that maybe gives you a better picture. And lastly, we do have the custom ASIC piece there, a couple of hundred million still left per year there. And over the next 3, 4 -- 2, 3, 4 years that will trend to 0. The rest of the business should be fairly steady and inside of others.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. And the other comment that I would make, Chris, that you can see the seasonality of calculator, not only in the revenues, but you can see it in the operating margins. So almost all of those revenues come for back-to-school. So we'll see that at the end of the second quarter and the beginning of third. But obviously, the expenses for that business carry out throughout the whole year. So you'll see, always, you'll see, because that revenue comes in, in that short period of time, the operating margins in those 2 quarters look much nicer. But -- and the last comment I'll make, and we kind of joke about, we should have come up with a more creative name for other, like other good stuff or something like that. So those businesses generate lots of cash for us and they don't take a lot of resources to maintain them. So that's why they remain in the family.

Operator

We'll go next to Joe Moore with Morgan Stanley.

Joseph Lawrence Moore  Morgan Stanley, Research Division - Executive Director

I just had a question on the genesis of some of the inventory-related weakness you're seeing. We saw, last year, some of the tightness of things that TI doesn't sell, like MLCC capacitors and things like that, where the lead times got really inflated. And clearly, that's corrected now. I guess as you look back on that, do you think that, that triggered inventory of TI components to get built? And where do you think we are in sort of that cycle playing its way through in terms of shortages of other components that TI can't control?

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes. I think, Joe, that's -- as you're describing it, that's kind of what drives semiconductor cycles, right? I think that's -- if you think of a customer, wherever they are in the world, and they start to get notified from their suppliers and our peers that their lead times are going out, and even though ours aren't going out, they may decide to proactively take their inventory position from 6 weeks to 9 weeks over a 90-day period. And that will drive strength in the business overall. And 90 days later, they decide to go from 9 to 12 weeks of inventory because things look like they're going to get even tighter. And then once they get comfortable, it moves back in the other way. So as you watch that play out, we had 10 quarters of very strong growth. Most of that was double digit. I think most people, when they looked at that, would describe that as above trend. And what follows 10 quarters of running above trend is a few quarters that will run below. So do you have a follow-on, Joe?

Joseph Lawrence Moore  Morgan Stanley, Research Division - Executive Director

Yes. And I guess you may have touched on this and I missed it, but any change in your own lead times over the last 3 months?
Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Generally, our lead times have remained stable. Even through this -- through the period of very strong demand, our lead times have remained stable. I think that you can always find pockets, just as you can today, where we work with customers very aggressively to close. And I think another important metric that we track, Joe, is on-time delivery. And those have remained very, very high. Other customer service metrics remained very high. So meaning that if someone does come and order products that, at lead time, are we shipping them to the commitments that we've got, and those remained high through that whole cycle. So -- and some of the things that we're doing, like building inventory of low-volume parts during this peak period of weaker demand, we're doing that to ensure that we can continue to deliver product consistently to customers. That's really what's driving that. And that and the visibility that we get through programs like consignment, kind of, the combination of those things, we're actually doing other things around inventory positions in order entry, and we've summarized that as really the belief that there's strategic value in owning and controlling that inventory and keeping it on our balance sheet.

So with that, I will turn it over to Rafael to wrap things up for us.

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

All right. Thanks, Dave. Let me finish with a few comments on key items for you to remember. First, as we mentioned last quarter, we will stay focused on what will make us stronger long-term and diligent in the short term. Second, we will remain focused on Analog and Embedded, the best products, and industrial and automotive, the best markets. And third, we will continue to be disciplined in executing our capital management strategy and remain committed to returning free cash flow to the owners of the company.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Thank you, and good night.

Operator

That does conclude today's conference. We thank you for your participation.