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OVERVIEW:

Company Summary

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PRESENTATION

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

Welcome to the Texas Instruments fourth quarter 2023 earnings release conference call. I'm Dave Pahl, head of Investor Relations, and I'm joined by our Chief Financial Officer Rafael Lizardi.

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.

I'd like to provide some information that's important for your calendars. Next week, on Thursday, February 1, at 10 a.m. Central time, we'll have our capital management call. Similar to what we've done in the past, Rafael and I will summarize our progress and provide some insight into our business and our approach to capital allocation as we prepare for the opportunity ahead.

Moving on, today, we'll provide the following updates. First, I'll start with a quick overview of the quarter. Next, I'll provide insight into fourth quarter revenue results with some details of what we're seeing with respect to our end markets. I'll then provide an annual summary of revenue breakout by end market. And lastly, Rafael will cover the financial results and our guidance for the first quarter of 2024.

Starting with a quick overview of the quarter:

Revenue was $4.1 billion, a decrease of 10% sequentially and 13% from the same quarter a year ago. Analog revenue declined 12% year over year, and Embedded Processing declined 10%. Our "Other" segment declined 25% from the year-ago quarter.

Now I'll provide some insight into our fourth quarter revenue by end market. Our results reflect increasing weakness in industrial and a sequential decline in automotive, as customers work to reduce their inventory levels.

Similar to last quarter, I'll focus on sequential performance, as it's more informative at this time.

First, the industrial market was down mid-teens as we saw that increasing weakness.

The automotive market was down mid-single digits after three and a half years of very strong growth.

Personal electronics was about flat.

And next, communications equipment was down low-single digits.

And lastly, enterprise systems grew low-single digits.

In addition, as we do at the end of each calendar year, I'll describe our revenue by end market. As a percentage of revenue for 2023, industrial was 40%, automotive was 34%, personal electronics 15%, communications equipment 5%, enterprise systems 4%, and other was 2%.

In 2023, industrial and automotive combined made up 74% of TI's revenue, up about nine percentage points from 2022 and up from 42% in 2013. We see good opportunities in all of our markets, but we place additional strategic emphasis on industrial and automotive. Our industrial and automotive customers are increasingly turning to analog and embedded technologies to make their end products more reliable, more affordable and lower in power. These trends have resulted and will continue to result in growing chip content per application, which will drive faster growth compared to our other markets.

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

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

Thanks, Dave, and good afternoon, everyone.

As Dave mentioned, fourth quarter revenue was $4.1 billion.

Gross profit in the quarter was $2.4 billion, or 60% of revenue. From a year ago, gross profit decreased primarily due to lower revenue, higher manufacturing costs associated with planned capacity expansions, and reduced factory loadings. Gross profit margin decreased 650 basis points.

Operating expenses in the quarter were $898 million, up 4% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.7 billion, or 21% of revenue.

Operating profit was $1.5 billion in the quarter, or 38% of revenue. Operating profit was down 30% from the year-ago quarter.

Net income in the fourth quarter was $1.4 billion, or $1.49 per share. Earnings per share included a 3-cent benefit for items that were 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. Capital expenditures were $1.1 billion in the quarter.

In the quarter, we paid $1.2 billion in dividends and repurchased $65 million of our stock. We also increased our dividend per share by 5% in the fourth quarter, marking our 20th consecutive year of dividend increases. In total, we have returned $4.9 billion in the past 12 months to owners.

Our balance sheet remains strong with $8.6 billion of cash and short-term investments at the end of the fourth quarter. Total debt outstanding was $11.3 billion with a weighted average coupon of 3.5%.

Inventory at the end of the quarter was $4 billion, up $91 million from the prior quarter, and days were 219, up 14 days sequentially.

Now let's look at some of these results for the year.

In 2023, cash flow from operations was $6.4 billion. Capital expenditures were $5.1 billion. Free cash flow for 2023 was $1.3 billion, or 8% of revenue. Our free cash flow reflects the strength of our business model as well as our decisions to invest in 300mm manufacturing assets and inventory to support our overall objective to maximize long-term free cash flow per share, which we believe is the primary driver of long-term value.

Turning to our outlook for the first quarter, we expect TI revenue in the range of $3.45 billion to $3.75 billion and earnings per share to be in the range of $0.96 to $1.16.

We now expect our 2024 effective tax rate to be about 13%.

In closing, we will stay focused in the areas that add value in the long term. We continue to invest in our competitive advantages, which are manufacturing and technology, a broad product portfolio, reach of our channels, and diverse and long-lived positions.

We will continue to strengthen these advantages through disciplined capital allocation and by focusing on the best opportunities, which we believe will enable us to continue to deliver free cash flow per share growth over the long term.

With that, let me turn it back to Dave.

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

Thanks, Rafael. Operator, you can now open the lines 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). Our first question comes from the line of Toshiya Hari with Goldman Sachs.

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

My first question is on your Q1 outlook. I think at the midpoint, you're guiding revenue down 12% or so, which is clearly well below what we consider to be typical seasonality. Any end markets or regions or device types that you can call out that's driving that view? Or is it broad-based weakness across all applications?

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

Yes, I'll take that, Toshiya. Thanks for the question. In fourth quarter, we did see weakness in industrial -- increasing weakness there. We saw the sequential decline in automotive. And as the guide would suggest, we believe that we'll just continue to operate in a weak environment and one where customers are continuing to rebalance their inventories overall. So -- but nothing specific to comment on. Do you have a follow-up?

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

I do. Just on gross margins, I think you guys did a good job in explaining what's driving it. Still, I'm a little bit surprised with the year-over-year kind of drop through, if you will, gross margin dollars essentially dropping as much as your revenue. I understand the underutilization, the increase in depreciation. But what are you seeing from a pricing perspective? Is it more pricing than volume that's driving the revenue decline and the decline in gross margins? Or if you can kind of speak to your strategy from a pricing perspective, what you're seeing in the marketplace, that would be helpful.

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

Yes. Toshiya, and I'll remind everyone else, I know you know the industry well, but pricing just doesn't move quickly in our markets overall, and nor is it the primary reason why a customer chooses our products. So -- and as we've mentioned before, our pricing strategy hasn't changed, and of course, we're always regularly monitoring the market and pricing our products appropriately. And as we've talked about now for I think a couple of quarters, as we expected supply and demand to come more in balance, that we would expect pricing to revert back to how it's behaved over the last 10 or 20 years. And over the last six months or so, that's what we've seen. So somewhat of a low single-digit decline is what we're expecting out in time, and I wouldn't describe that as unusual.

Operator

Our next question comes from the line of Timothy Arcuri with UBS.

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

I wanted to ask about factory loadings. Dave, gross margin was down maybe 250 basis points. It's kind of implied to be down 250 basis points. Even if I strip out depreciation, it's down about 100 basis points from March. So it seems like utilization is coming down a bit. And CapEx also came in a little bit lower too for December. So the first question on that is, can you talk about loadings. Is March going to be the bottom in loadings and we should see inventory begin to come down also in March? And then I had a follow-up on that, too.

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

Yes. So thanks for the question. So step back in third quarter, at the end of the third quarter, we talked about this. As we have neared our inventory levels, then we have adjusted our factory loadings accordingly. So in third quarter, we did some of that, and that had an impact on gross margins and underutilization. Fourth quarter adjustment was bigger than third quarter. And now going into first quarter, we're taking that adjustment further. So the first quarter adjustment on underutilization will be -- will be bigger. But we continue to have an upward bias on inventory as we continue to build the right buffers for the right parts to be ready on the other side of the cycle. Do you have a follow-up?

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

I did. Yes. So then on CapEx, can you talk about that? It was a little lower. It's running actually quite a bit below the $5 billion run rate now. So are you actually cutting CapEx now with -- since you're bringing on factory loadings?

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

No, we're not. In fact, CapEx came in as expected, $5.1 billion, and we've been talking about $5 billion per year. So it was right on target. And you should expect and we expect to continue running at about $5 billion per year through 2026 as we complete the investment plans that we've been talking about.

Operator

Our next question comes from the line of Chris Danely with Citibank.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Just a follow-up on the utilization rates. So is the target, I guess, inventory level, has that not changed for you guys? And so do you expect utilization rates to bottom in Q1? Or do you think you might have some more inventory adjustments going into Q2 for TI?

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

Yes. No, thanks, Chris. So our -- broadly speaking, our inventory targets have not changed over the last six, nine months through this cycle. So we still have some ways to go -- clearly less than we did six months ago. But we will still have some ways to go on that front. At one point, I talked about $4 billion to $4.5 billion worth of inventory. So that's in the ballpark. And we just finished just shy of $4 billion. But as far as when underutilization bottoms, that's going to depend on revenue expectations, and at this point, we're only -- as always, we only give one quarter at a time. So we'll see where we are 90 days from now, and we'll tell you about that.

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

Maybe I'll just add that our target inventory is set really by device. It's -- we look at things like how many customers are buying the product, what the buying patterns look like, how long it takes us to manufacture the product. So it's really a bottoms-up plan built on that very, very specifically. So that's what drives that target overall, and we want to have inventory positioned to support growth over the long term. Just as a side comment. So you have a follow-on, Chris?

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes. I guess just a little bit of color on the end market commentary. Thanks for that. On the industrial side, it sounds like most of the downside is due to excess inventory, not demand. I was hoping you could confirm that. And then with automotive weakening, is there any reason why automotive wouldn't fall under the same issues that the industrial end markets/inventory would as well?

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

Yes. So I'll start and then Rafael, if you want to add anything. I would say that the demand signals that we get from customers are orders that they place, whether that's either directly or through consignment feeds. So that's the data that we can see. We actually can't see their inventory levels. We can anecdotally -- as we see a market like personal electronics is down 30%, 40%, we know handsets and PCs, that market hasn't gone down as much as that, so we know anecdotally that we're shipping below demand. So we believe that, that's what's going on in industrial. We have customers who have told us that they have built inventory and plan to correct that. So having a real clear picture of what their demand looks like and their channel inventories look like isn't something that we can see directly overall.

So -- and the comment on automotive. We know that customers there did want to build inventory. And we believe that they're in a good position now. So it wasn't surprising that we saw a sequential decline there. So thanks, Chris. We will go to our next caller please.

Operator

Our next question comes from the line of Tom O'Malley with Barclays.

Thomas James O'Malley - *Barclays Bank PLC, Research Division - Research Analyst*

I just wanted to understand the linearity of the industrial and automotive declines. When you set out in the quarter, baked into your expectations, were you kind of looking at these two businesses both a little bit better than they came in, or was one a bit worse than the other versus your expectations? And then just in terms of the timing of the quarter, it looks like your finished goods inventory went up a bit more than your other buckets. And I just wanted to understand, is that just because later in the quarter, customers were signaling some weaker trends? Or is there any reason behind the dynamic there?

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

Let me start with the second part of the question. And Dave, do you want to take the first one, better. Second part, that's just a reflection of our ability to build those inventory buffers that we're talking about. And what you're seeing there is on the finished goods side. That's one, as Dave alluded to earlier, that's one set of targets that we have. That's at the finished goods level. Remember, we have 100,000 different parts. And the vast majority of those are what we call catalog, which means they sell to many, many customers. So we want to build certain finished good level for each one of those parts. But we're also building at the chip level. Think of a chip can go into two, three, 10 different finished goods. So it works out well to have some chip level inventory operationally. But you also have -- want to have finished goods. So that's what - that's what you saw there.

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

Yes. And by end markets, Tom, our guidance, as you saw where our revenues came in, we were, I think, less than 1% from the midpoint of the guidance range. So the business came in about as we expected and nothing unusual in -- versus our expectation in industrial or automotive overall. So do you have a follow-up?

Operator

Our next question comes from the line of Ross Seymore with Deutsche Bank.

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

I just wanted to ask about the product side, the Analog versus Embedded. Embedded had a significantly better year, dropping 3% versus the Analog down 15. I know there's very different end market exposures for those. But were there other competitive dynamics, pricing dynamics, strategic focus dynamics, anything else to explain the difference between the performance of those two segments?

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

Yes, Ross, I think your instincts are spot on that the first lens to look at things is through the end markets, and Embedded has heavied up in industrial and automotive. So revenues there were stronger for a longer period of time. The second consideration is that Embedded relies on foundry wafer supply more heavily. Most of our Analog business is done internally. So there, the constraints lasted longer and have now been resolved and are behind us. So that created some of the lag between there as well. So -- and as you know, our CapEx plans and spend will have more of our wafers overall built internally, which is inclusive of Embedded. Do you have a follow-on?

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

Yes, I do. And it's kind of a cyclical question. You guys are astute students of cyclicality of this whole industry. I think this is going to be, including your guide, the sixth quarter of negative year-over-year comps. Do you see anything that's TI-specific that's different this cycle? Pricing just got so good before; now it's a bigger headwind. You kind of addressed the pricing dynamic a little bit before. But what's making this duration so much longer? And is any of it TI-specific?

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

Ross, I think I'll make a comment, and Rafael, if you want to add anything. All cycles are the same, and they're all different, right, as we've all studied them over time. What's clearly different this time is how the markets have behaved in the bifurcation. We saw personal electronics begin to weaken the second quarter a year ago. And automotive just we saw a sequential decline this last quarter. So in the other markets, somewhere in between. So -- and then in addition, I think that we've had lots of other noise that's inside of the system, whether that's been pricing, as you mentioned, we've had noncancelable non-reschedulable orders and other longer-term contracts that have required customers to take product that they don't need, whether companies are using distributors more heavily than others. So all of that adds noise into it. So I think we just need to let that noise wring itself out over the cycle. And what we're focused on, of course, is investing in our competitive advantages, getting stronger, we believe that we're in a great position to continue to gain share over the long term.

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

Yes. I just want to clarify for those who may be new on the call, when Dave talked about noncancelable, non-returnable orders, that's not -- we don't do that. Many of our competitors have done that. So that, in our view, distorts the market. That wasn't the case with us.

And the second point, distributors, same thing. Our distributor footprint is much smaller than with many of our competitors. We're down to 25% or so of our revenue through distribution; so 75% direct, whereas many of our competitors are the opposite.

Operator

Our next question comes from the line of Joe Moore with Morgan Stanley.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

I wonder if you could talk about the CHIPS Act, how that's kind of flowing through both the investment tax credit and then any thoughts you may have on timing of kind of grant issuances or things like that?

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

Yes. No, happy to talk about that. So first, let me address the ITC first, and then I'll go to the grant. So the ITC investment tax credit, 25% credit on CapEx for manufacturing in the United States, we have accrued to date over the last 1.5 years or so, $1.4 billion. We expect to get about $500 million of that later this year, probably in the fourth quarter as far as the current law and regulations stipulate. And we'll get the rest further down the road, mostly the following year and then after that. And we'll continue to accrue that benefit, just again, 25% on anything we spend in the United States for manufacturing. That's the cash side and the balance sheet.

On the P&L, you're already -- we're already seeing the benefit of lower depreciation. And that tends to be -- that benefit tends to be small, has been small so far because, for example, some of that is for buildings that haven't even started to depreciate. But it will build up over time on that front. So that's the ITC.

The grants, we submitted our application for those in December. And at this point, we will wait to hear from the Department of Commerce and see what happens there.

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

You have a follow-on Joe?

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes, I did. So I think, obviously, that stuff will help the cash flow down the road, but your free cash flow is below the level of the dividend right now. I assume it's pretty important to keep paying the dividend. Where does that leave you in terms of share repurchases and other uses of cash?

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

Yes. First, I would point you to our operating cash. Our business model is very strong. And our operating cash flow is very strong, and it supports our investment for growth through the cycle. So clearly, with the levels of CapEx that we have right now, that hits the free cash flow. But big picture, understand and look at the operating cash. Even in a depressed environment with the revenue depressed, the operating cash flow is very strong. We also have a very strong balance sheet, and we just finished the year at $8.6 billion.

When it comes to repurchases, I would take you to our objectives on capital management for cash return. And our objective is to return all free cash flow via dividends and repurchases. Each one of those has different objectives on dividends and repurchases. But we have a really good track record over many years of doing both of those.

Operator

Our next question comes from the line of Harlan Sur with JPMorgan.

Harlan L. Sur - *JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment*

Up through Q3 of last year, the team had seen numerous consecutive quarters of increasing cancellations and pushouts, right, typical customer behavior in a weak demand environment. I assume given your commentary that the team continues to see cancellations, pushouts activity expanding into the December quarter. You're almost a month into March. Are you still seeing cancellations and pushouts expanding or starting to maybe see some signs of stabilization?

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

Yes, Harlan. As you would expect, we have seen cancellations in the quarter, and fourth quarter had remained elevated. I wouldn't describe them as increasing, but just at higher levels. And we're still early inside of the quarter. I would say all of what's going on with cancellations and the backlog that we see is all comprehended in our guidance and our outlook.

Harlan L. Sur - *JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment*

Perfect. And then yes, from a geographical perspective, China-headquartered shipments been about 20% of your sales through the October quarter of last year. This geography has experienced the most significant decline during this downturn, when it's down about 33% year-to-date up through Q3 of last year, your total business was down 13%, right? Is this geography continuing to contribute to the weakness stepping into this year? Or is the weakness more U.S.- and European-based?

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

Yes. I would say when you look regionally this quarter from a -- just from a dollar standpoint, you've got -- sequentially, all the regions were down with the exception of the rest of Asia. So nothing unusual with China going on specifically there overall. So again, when we look at our business, I think most of that is explained by the end markets. And certainly, we hadn't seen a recovery inside of China that I think most of us were expecting.

Operator

Our next question comes from the line of Joshua Buchalter with TD Cowen & Company.

Joshua Louis Buchalter - *TD Cowen, Research Division - Director*

I wanted to ask about how you're thinking about OpEx given the extended softness. Any thoughts on getting more defensive with OpEx as the weakness lasts longer than expected? Or you grew OpEx 8% in 2023? Is that sort of the right level that you think you need to be investing in the business for the long-term growth?

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

Yes. Big picture, we have a disciplined process of allocating capital to R&D and SG&A to the best opportunities. And we've held a steady hand throughout a number of years, prepandemic, during the pandemic, post pandemic, where we managed OpEx very well during that time and didn't get ahead of our skis. So we will continue with that disciplined process. Remember, of course, these investments, particularly industrial/automotive, which is where we're biasing our investments, they're very long term in nature. You're not going to -- what you save now is going to -- would hurt your long-term revenue growth. So we're not going to do that. So we're going to maintain those investments for the long term.

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

You have a follow-on, Josh?

Joshua Louis Buchalter - *TD Cowen, Research Division - Director*

Yes. I guess I wanted to ask about your fixed cost leverage. I mean, in the past, you've talked about, I think, 75% gross margin fall-through on incremental revenue. Is that still the right metric we should be using, given revenues, a good amount lower and depreciation is larger. I'd just be curious to hear if anything in the mechanics of that math has changed. And basically, when can the incremental 300mm capacity start flowing through to gross margin and be margin accretive?

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

Yes. So the math is still the same. The fall-through you should use is 70% to 75%. That is still a reasonable starting point. You then have to adjust for depreciation, as you alluded to. And our depreciation, I gave you an update on that 90 days ago, but I'll reinforce that in a second. But you have to adjust for that. And then there are always puts and takes on any given quarter. Like right now, it's underutilization, but at some point, that goes the other way.

Throughout this time, as you pointed out, we will continue to benefit increasingly from 300mm -- more 300mm wafers, which have a cost advantage.

So let me go back to depreciation, just to make sure everybody has the right numbers. It's the same as what I said 90 days ago. For 2024, expect $1.5 billion to $1.8 billion, and for 2025, expect $2 billion to $2.5 billion.

Operator

Our next question comes from the line of CJ Muse with Cantor Fitzgerald.

CJ Muse - *Cantor Fitzgerald - Senior MD*

I guess first question, your revenue outlook for March basically gets us back to kind of pre-Covid first half 2020 levels. Yet at the same time, your inventory is roughly double. And so curious, how are you thinking about kind of normalized inventory over time? And also, how are you thinking about coming out of the trough, what kind of a gross margin recovery will look like, given where your inventory levels are today?

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

So that's a multipart question, has many angles to that. What I would tell you, high level, we're very comfortable with our inventory level. Right now, we're just shy of $4 billion. As I said earlier on the call, we have a continued upward bias for at least one more quarter, probably a couple of quarters at least, an upward bias on that. But that is good inventory for catalog parts that sell to many customers that last a long time. So I feel really good about that. But we'll see how things play out on the other side of the cycle and depending on demand and different things. But I would expect to continue holding relatively high levels of inventory.

We are just in a different position than we were even three or four years ago in terms of how much of our revenue and our parts are in industrial/automotive, in catalog type of parts that last a long time. So our strategy is such that it makes sense to have, to have that inventory. Our order fulfillment processes have also improved. We have TI.com and different tools that we can leverage to go direct to market. We have a much higher percent of our revenue, now 75%, is direct. So all those factors play into having more inventory as a real leverage point that we can use to serve our customers even better.

CJ Muse - *Cantor Fitzgerald - Senior MD*

A quick follow-up to a prior question. I know you can't share too much, but your application clearly in for the CHIPS Act. I guess, we should hear results between now and the summer. I guess, is there anything you can share on that front and perhaps how it's kind of impacting your thoughts on the capacity you're bringing on line?

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

Yes. No. Unfortunately, no, there's nothing we can share. It's really up to the Department of Commerce. We sent our application, and we'll see where that goes. What I would say just -- just like I said I've said before, is when we decided about a year ago to take our CapEx up from $3.5 billion per year to $5 billion per year, and this tremendous plan to build more fabs in the United States, we comprehended CHIPS grant in that decision. So that was part of our thinking there. But at this point, yes, that's all we can share on that front.

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

And I think we've got time for one more call, please.

Operator

Our last question comes from the line of Chris Caso with Wolfe Research.

Christopher Caso - *Wolfe Research, LLC - MD*

Just trying to understand a little bit about why the customers may have reacted as they did, because we know your lead times have normalized well in advance of the rest of the industry. Do you think this is just simply a function of end markets took another leg down here? Do you think perhaps some of your customers were delaying their inventory adjustments until they saw lead times for the rest of the industry come down, because we know that's also some of your competitors lagged your lead time normalization. Perhaps that was a factor here.

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

Yes, Chris, as you know, you can't pin it on one thing, especially we've got well over 100,000 customers and 80,000 products that we're managing. As Rafael was talking about building inventory, we've got essentially all of our catalog products or almost all of our catalog products are now immediately available on TI.com. And our objective with inventory and the capacity we're putting in place is to have our customer service metrics remain high, which means keeping time lead times stable.

So I think in some markets, we've seen customers that have told us that they were planning and have built their capacity and their inventories to grow at 25% in the coming year. And they showed up, and their plans change, and they're only going to grow 10%, right? So they told us they won't be ordering product for some time as they equalize those numbers. They're still going to have healthy growth, but it's hard to put that across all of those 100,000 customers into one short concise statement. Do you have a follow-on?

Christopher Caso - *Wolfe Research, LLC - MD*

Yes. Fair enough. And if you could help us with the impact of the underutilization. Right now how much of a headwind is that providing, right now on a cost of sales basis? And then on the other side of this, when we finally get to a recovery, what will be the right way to model this? Will there be a bigger snapback as some of the underutilization comes off? Or do we just kind of go back to sort of those mid-70s incremental margins on the way back up?

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

Yes. So what I would tell you, first, we don't quantify underutilization, but you can fairly reasonably back into it, just looking at our numbers, our midpoint -- or our range, our midpoint and then consider the depreciation -- expected depreciation increase. And it'd be relatively straightforward for you to back into something reasonable for first quarter on the underutilization impact there. Now after that, it's all going to depend on revenue and revenue expectations because, of course, depending what those are in the second half of the year, let's say, 90 days from now, then that will be a big factor in determining how the factories will run.

But the bigger picture is all deployment of CapEx that we're doing is all on 300mm, which has a 40% cost advantage versus 200mm. As several questions people asked earlier, it has ITC benefits on that. So the -- is coming in at 25% discount on the ITC, and we'll see how much we get on grants. So the fall-through on those investments for many, many years will be very positive, I would say. So with that, Dave?

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

Yes. Thanks, Rafael. Thank you all for joining us. We look forward to sharing our capital management update next Thursday, February 1, at 10 a.m. Central time, as I mentioned earlier, and a replay of this call will be available shortly on our website. Good evening.

Operator

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