EDITED TRANSCRIPT
Q3 2022 Texas Instruments Inc Earnings Call

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PRESENTATION

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Welcome to the Texas Instruments third quarter 2022 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 you'll be able to get it 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, I'll start with a quick overview of the quarter. Next, I'll provide insight into third quarter's revenue results, with some details of what we're seeing with respect to our customers and markets. And lastly, Rafael will cover the financial results and our guidance for the fourth quarter of 2022.

Starting with a quick overview of the third quarter: Revenue in the quarter came in about as expected at $5.2 billion, an increase of 1% sequentially and 13% year over year. Analog revenue grew 13%. Embedded Processing grew 11%, and our "Other" segment grew 20% from the year-ago quarter.

Now I'll provide some insight into third quarter revenue by market. This quarter, I'll focus on our sequential performance as it's more informative at this time.

First, personal electronics declined mid-teens as we continued to see the weakness we described in the second quarter.

Industrial was about even sequentially as we saw weakness begin to broaden in the industrial market.

The automotive market remained strong and was about 10%.

Next, communications equipment was up high-single digits.

And finally, enterprise systems was up mid-single digits.

Turning to our expectations for the fourth quarter we expect that most of our end markets will decline sequentially, with the exception of the automotive market.
Lastly, we and our customers remain pleased with the progress of our expansion of our manufacturing capacity, which was outlined in our February capital management call and will support the long-term secular trend of increased semiconductor content per system. Customers especially value the geopolitically dependable footprint of our manufacturing additions. We are now in production in RFAB2 and expect production in LFAB later this year. In addition, construction of SM1 and SM2 in Sherman, Texas, continues as planned.

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, third quarter revenue was $5.2 billion, up 13% from a year ago. Gross profit in the quarter was $3.6 billion, or 69% of revenue. From a year ago, gross profit margin increased 110 basis points.

Operating expenses in the quarter were $862 million, up 8% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.3 billion, or 16% of revenue.

Restructuring charges were $77 million in the third quarter and are associated with the LFAB factory that we purchased in October of last year. These charges will move to cost of revenue as we start production. The assets associated with the acquisition of the factory will begin to depreciate at the same time.

Moving on, operating profit was $2.7 billion in the quarter, or 51% of revenue. Operating profit was up 16% from the year-ago quarter.

Net income in the third quarter was $2.3 billion, or $2.47 per share. Earnings per share included a 2-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 $2.8 billion in the quarter. Capital expenditures were $790 million in the quarter and $3.1 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $5.9 billion.

In the quarter, we paid $1.1 billion in dividends and repurchased $1 billion of our stock. In total, we have returned $7.1 billion in the past 12 months. In September, we announced we would increase our dividend by 8%, marking our 19th consecutive year of dividend increases. We also increased our share repurchase authorizations by $15 billion. These actions reflect our commitment to return our free cash flow to our owners.

Our balance sheet remains strong with $9.1 billion of cash and short-term investments at the end of the third quarter. In the quarter, we issued $700 million in debt. Total debt outstanding was $8 billion with a weighted average coupon of 2.8%.

Inventory dollars were up $205 million from the prior quarter to $2.4 billion, and days were 133, up 8 days sequentially and below desired levels.

For the fourth quarter, we expect TI revenue in the range of $4.4 billion to $4.8 billion and earnings per share to be in the range of $1.83 to $2.11. This outlook comprehends the market conditions that Dave previously mentioned.

We continue to expect our 2022 effective tax rate to be about 14%. As you are looking at your models for 2023, without additional changes to tax law, we would expect our effective tax rate to remain about what it is in 2022, with a similar quarterly profile.

Let me now make a few comments on the CHIPS Act that was recently signed-into law. The combination of the investment tax credit, the grant, as well as funding for research and development, will help make the U.S. semiconductor industry more competitive.
We accrued about $50 million on the balance sheet in third quarter due to the 25% investment tax credit for investments in our U.S. factories. This will eventually flow some statement as lower depreciation, and we will receive the associated cash benefit in the future.

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 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. (Operator Instructions) Operator?

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) We will take the first question from Timothy Arcuri from UBS.

Timothy Michael Arcuri UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment
Dave, I wonder if you can sort of go into any detail within distribution versus consignment? Maybe what I'm trying to get at is sort of any differences in demand pull as measured by bookings inside distribution or demand pull from the consignment segment. Is one better than the other? And also, is there any cancellations inside of -- into distribution?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Yes. So on the first part, Tim, we didn't see really anything different between the direct business or that going through distribution. As you know, we have had an effort over the past few years to have direct -- closer direct relationships with our customers. So the amount of revenue going through distribution is much lower today. So probably only about 30% of our revenue actually goes through distribution. We did see cancellations increased in the quarter just as customers worked to align the backlog to their needs.

Do you have a follow-up?

Operator
(inaudible) So we will take the next question from Vivek Arya, Bank of America Securities.

Vivek Arya BofA Securities, Research Division - MD in Equity Research & Research Analyst
So the first one, it seems like consumer electronics is your biggest area of headwinds in Q3. I think you said down mid-teens. And I imagine about the same kind of double-digit down in Q4. Do you think are we past the worst of the consumer? Or should we be expecting the seasonal decline again for consumer in Q1? I know it's a little bit further out, but I just wanted to check what you're seeing in terms of consumer right now. And I guess the bigger picture question there is, is TI more exposed to the cyclical downturn versus your peers because you have the highest consumer exposure? And if that is the case, do you need to do something different, given that mix headwind?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Yes. Vivek, thanks for that question and the opportunity to clarify. So, personal electronics last year was 24% of our revenue. If you look at the market overall, personal electronics, a little more than 50% of the semiconductor market without memory. So we have less than half of the exposure there.

If you look at industrial and automotive, that makes up 62% of our revenues. And inside of the market, that's 26% of the market. So we're
really highly exposed to both industrial and automotive, and that's not by accident. Probably more than a decade ago, we began allocating more of our resources to automotive and industrial and the emphasis there. So we're very pleased with our exposure. And we believe that, that will be there, just will be more content added into those systems.

Now that said, there's great opportunities inside of personal electronics, communications equipment and enterprise systems in the decades ahead. But we'll just have those secular tailwinds more than average inside of industrial and automotive.

Do you have a follow-on, Vivek.

Vivek Arya BofA Securities, Research Division - MD in Equity Research & Research Analyst

Yes. So kind of a similar question, but on automotive, which you suggested grew 10% sequential in Q3. And interestingly, you're suggesting it can grow again in Q4. What's your sense of kind of the supply-demand balance in automotive among your Tier 1 and then the auto OEM customers? Many investors are concerned that this kind of rolling correction that we are seeing in semi is going to eventually hit automotive, which has been a very strong area over the last one to two years. So what's your sense of what kind of the supply-demand balance is in this automotive end market?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. I'd say first, I think when you look at the secular trends inside of automotive, I think all of us know that it will be a great grower for us, and we're investing very broadly. So we're just thrilled with the position.

If you look at second quarter of 2020, our growth there has, off the bottom been very, very strong. Will that market eventually roll over? It will. I mean that's just what happens. And we're not trying to predict when that will happen, we'll continue to ship product to customers as they request it. And we're really focused on making sure we've got capacity in place for them over the long term. So we're not really trying to worry about when that will happen.

So thank you, Vivek, and we'll go to the next caller, please.

Operator

Next question from Joshua Buchalter from Cowen.

Joshua Louis Buchalter Cowen and Company, LLC, Research Division - VP

I wanted to double-click on the industrial market. Did anything change materially through the quarter? Anything you can give us on linearity or by geography. As we think about what's baked into the guide, is it more, I guess, conservatism on the macro? Or was there really a material change in your customers' order patterns?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, Josh, thanks for that question. I would say if you look at the third quarter results across the board and also inclusive of industrial, the quarter came in as we expected. If you look at -- an even sequential is not unusual inside of industrial. That's about what we were expecting.

But as we described it, the weakness began to broaden into that. So there wasn't one place that we could put the finger on to say it was one thing or one group of customers, but we did see just different signals inside of there that is leading us to that conclusion that it is -- that weakness is broadening. And in fact, we expect that weakness to broaden into most of the other markets as well as we move into fourth quarter, of course with the exception of auto.

So that's really what we're seeing. It's order rates. If you look at order rates quarter-to-date, they are, of course, consistent with our outlook, but they are weak quarter-to-date. And so it's those types of signals that are leading to the outlook. And really, those are the types of signals that really best inform what our shipments in the quarter and in the short term are going to be.

Do you have a follow-up, Joshua?
Joshua Louis Buchalter  Cowen and Company, LLC, Research Division - VP

Yes. That's very helpful. I also wanted to clarify the comments on the CHIPS Act. You mentioned $50 million was accrued on the balance sheet. Was that from the investment tax credit only? Because I know there's a second bucket for manufacturing incentives. And if not, when should -- when would you expect to, I guess, get more clarity on how much you'll be able to accrue for the manufacturing incentive portion of the CHIPS Act?

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

Yes. So first, let me step back. Big picture, the combination of the investment tax credit, the grant, as well as the funding for research and development, will help make U.S. semiconductor more competitive. We accrued the $50 million that we talked about in the prepared remarks that you referred to -- that was for the 25% investment tax credit -- that is for manufacturing assets that will go into service in 2023 and beyond. And that is -- that was for $200 million. So a quarter of that is what we accrued that we will receive from the government at some point in the future as lower taxes.

But in the P&L, it flows. It will flow through lower depreciation. I think maybe what you're referring to when you talk about manufacturing is the grant portion. Is that what you're referring to?

Well, maybe we lost him. But if you are talking about the grant, that is part of the CHIPS Act, but it's separate from the investment tax credit, that remains to be seen, that's more uncertain. We will apply for those, the application window doesn't open until February. So we will apply for those. And as we learn more, we'll let you know. And big picture, when we get to February, the next capital management call, we will talk about the CHIPS Act, the overall investment, we'll try to quantify that and what benefit we'll get.

At the same time, since the last capital management call, our confidence around the long-term growth prospects in our industry, the secular trends that Dave talked about earlier, that confidence has only grown, so we feel really good about that. So we'll tell you about the net impact between those two, the benefits of the CHIPS Act and the growing confidence at the next capital management call and any changes to our numbers based on that. So I think you dropped off.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

We'll go to the next caller please.

Operator

Will take the follow-up question from Timothy Arcuri, UBS.

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

So my follow-up was on China. And I'm wondering if you can talk about your business there. Are you seeing any signs of pull-ins or push-outs as a result of some of these bans? Are you seeing any changes sort of in the linearity around the bans getting announced? And I think also, you had talked about China being like high-teens of consumption of your product. Is that still where you see it?

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

So -- and Rafael, maybe you want to add to it. But on the bans, that the recent changes in some of the bans, there were companies added to the entities list overall. We don't expect that there's really much, if any, impact due to those changes really to that or in any of the restrictions from -- overall from that. Anything to add on that?

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

Yes, correct. 99% of our parts fall on the very lowest category of restrictions, just given the nature of the types of parts that we sell. So we don't have restrictions on those. Of course, there are restrictions specific to entities. There's the entity list that you hear about, the FDPR, that's another list. And we, of course, follow all the regulations when it comes to that. So when an entity goes -- listed in there -- we take that into account and restrict shipments as according to the law. But given how that works, we don't expect any meaningful or significant impact to our revenue with those export laws.
Yes. And that was the first part of your question, Tim. The second part you had mentioned high-teens, it's actually about 25% of our revenue comes from customers that are based in China. So that's the number. We'll go to the next caller, please.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

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

So my first one, I just wanted to verify, are there any changes to the trajectory of the near- to medium-term CapEx plan, just given changes in the current environment? And I guess related to that, the Lehi headwinds that are coming, do you have any of those embedded in Q4? Because you said it's coming online starting in Q4. And I'm getting implied gross margins down a few hundred basis points sequentially.

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

Yes. So let me answer the first one -- the last one first. So you see on our P&L, about $77 million of restructuring charges in third quarter. That is all because of -- those are the Lehi costs that we chosen to put in there before it qualifies. Once it qualifies, that cost will move to cost of revenue. So it will move to gross margin.

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

Is that in Q4, though? Does that happen in Q4 or Q1?

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

Well, it will happen during Q4. Of course, not changing. It doesn't affect EPS. So it's just going to move -- and we don't guide the specific lines, right? But if it qualifies December 1, a third of that will go into COR and then all of it will be there for first quarter, right? If it qualifies December 31, then all of it will be in restructuring in fourth quarter, and then all of it will move in first quarter.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Just to clarify, that's already in operating profit. In third quarter, it's been there. It's just moving above the lines into the gross profit.

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

Into gross profit. It's been in profit from operations the entire time all of this year. The first part of your question, big picture, we will give you an update in about four months at the capital management with all the puts and takes. But what I would tell you is that -- well, short-term, we expect our change -- our CapEx expectation for 2022 have not changed. That is $2.6 billion to $2.8 billion for this year; depreciation, about $1 billion for this year. I'm talking 2022.

Bigger picture, as I said earlier, the CHIPS Act, great legislation. We're very excited about that. That is going to decrease on a net basis, our investment because we're going to get a 25% reduction from the investments that qualified, the manufacturing investments in the United States. But on the other hand, as I alluded to earlier, our confidence surrounding our long-term growth prospects have only grown over the last six to 12 months based on the secular trends, based on input from our customers. So we feel really excited about that. The net effect of those two and whatever that does to our CapEx plans, we'll tell you about that in February.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

You have a follow-on, Stacy?

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

I do. I wanted to ask about OpEx. So it's been running in the $800 million range, plus or minus, for quite a while. And frankly, people are wondering how you've been keeping it there in such an inflationary environment. It is now ticking up, but it's ticking up as revenues are falling.

I guess why is it increasing now whereas it didn't increase before, and what happens going forward? Because if I would just hold it flat on
the revenue guide going forward to do something like 19% of revenue, so it is still below your kind of what you've talked about in terms of long-term targets for OpEx. So how do we think about that? Why is it growing now versus before? And how do we think about where the range might go going forward?

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

Yes. So here's how we think about it. Step back, for the last 5.5 years, really, we've been running OpEx on a trailing 12-month basis, which is how I prefer to look at it, at $3.2 billion. Pretty consistently, with a really steady hand over that time. Our hiring has been very consistent during that time. And that is underpinned by our long-term expectations on growth.

And inside of that, R&D has actually moved up. SG&A has moved down inside of that $3.2 billion, but it's been really consistent on that. This last quarter for the first time, it ticked up to $3.3 billion on a trailing 12-month basis. And I would expect that to continue ticking up over the next many quarters and years as we continue stepping up our investments. And that is a) driven by the higher investments, but b) inflation is playing a factor. It's clearly wage inflation. We're not immune to that. So that is also affecting and will continue to affect those trends.

Operator

We have Blayne Curtis from Barclays.

Blayne Peter Curtis  Barclays Bank PLC, Research Division - Director & Senior Research Analyst

I had two. Maybe just a clarification, though, on Stacy's question, because you said net effect, but I didn't hear anything negative to net off of two positives. So I'm just kind of curious, and I guess we'll see what March brings, and I'm happy if you want to comment on that. But it seems like at least personal electronics is back to where you were in '19/'20. It seems like industrial is going to kind of get back there. And at that point, you're building inventories. You had more capacity than demand. So if we do go back to those levels and you're adding more capacity, I'm just trying to understand is still the view that you'll build inventory like you do in '19 and '20 and still roll out the capacity for the long term.

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

Let me try and answer that. Frankly, I didn't fully understand. You threw in several premises there. But let me just address it the best way I can.

Inventory levels and capacity. So capacity, we've been adding capacity incrementally for a number of quarters. Now RFAB2 is in production. Lehi is about to start production within a few months. So clearly, our incremental capacity is going up. At the same time, we've been increasing inventory very slowly. And now more recently, we added $200 million of inventory in this last quarter, but we are still below desired levels.

Okay. Keep in mind, our business model is such where we are targeting -- the vast major of our parts sell to many, many customers. So they're very broad in nature. The product life cycles of the parts is decades in many times. The products themselves last 10 years in inventory, most of them. So the risk of obsolescence for the inventory is very, very low. The potential upside of having that inventory ready is very high. So that's why we prefer to have more, than less, inventory.

So I would not be uncomfortable, as I said before, adding another $1 billion, $1.5 billion of inventory over the next several quarters to get us well positioned for the next upturn that invariably comes at some point.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

You have a follow-on, Blayne?

Blayne Peter Curtis  Barclays Bank PLC, Research Division - Director & Senior Research Analyst

And I just want to ask you specifically on the auto segment. You said that's the only one that's not down. And obviously, it's very well known that it's been so tight. But just any more comments on why that market is taking a bit longer than, say, industrial to correct?
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Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. I think -- it's well documented -- I think as we went through the pandemic, it had the deepest correction from a starting point standpoint. The mix of auto manufacturers to the high end, you've got EVs that are inside of those mix that are all adding to that to those secular trends.

So I think that we're well positioned as we make investments across our businesses. We're investing in powertrain, which would include electric vehicles and hybrid. We're investing in ADAS systems. We're investing in infotainment systems. We're investing in body and lighting. That doesn't get talked about a lot on conference calls, but we get as excited about turn signals as we do about BMS systems. And then we also invest in safety systems.

So we're growing very broadly. We've got close to 1,000 different automotive OEMs that we service. And we really believe that we've got probably decades of growth ahead of us that we're preparing for.

Operator

We have Ross Seymour from Deutsche Bank.

Ross Clark Seymour Deutsche Bank AG, Research Division - MD

A high-level one on your Analog business. Year-to-date, I think it's up about 15% year-over-year. With the midpoint-ish of your guidance, it seems like this year might be up about 10%. That's roughly half of what the broader market is running at. Can you guys explain a little bit about why you would be undergrowing the market as defined by SIA? And if you are, is that something that you expect to mean revert? Because you don't -- lose this amount of share in a year unless there's something unique going on. So any help in explaining that would be great.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, sure. I think that whenever I'm asked that question -- and it's always a lot more comfortable to be answering it when we're up twice the rate of the market -- you really need to look at it over a longer period of time. So look at the rate of growth of us versus the industry from fourth quarter of '19. I just picked that because it's a pre-pandemic number. And we look very, very good against those numbers.

So we were, as you remember, as we went into the pandemic, we continued to build inventory. So the numbers initially looked very, very strong as customers pulled product from us. So when you look, some of those sequentials were harder, and that's not making excuses. But when you look at our manufacturing footprint and how we're positioned, you look at the customer excitement around that manufacturing footprint, and customers look at where that addition is coming and the geopolitical dependable locations of where that footprint is coming on, we are very confident in where the trajectory of our market share is going longer term.

So you got a follow-up, Ross?

Ross Clark Seymour Deutsche Bank AG, Research Division - MD

I do. I just want to revisit the gross margin side. Not going into whether the Lehi charges are moving into COGS or not. But are there any other moving parts? Because it appears at the midpoint of your revenue guide and your earnings guide if OpEx is roughly the same sequentially that the gross margin would have to go down, the better part of two or three points. I just wanted to know if there's any other unique aspects implied in that guidance.

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

Yes. No, I would tell you, we're very pleased with our gross margin performance. On a year-on-year basis, the third quarter that we just finished is -- the fall-through was close to 80%, and that is actually higher than the guidance that we've given on 70% to 75%.

What I would point you to is, as you can see in the cash flow statement, depreciation is increasing sequentially -- has increased sequentially actually for a number of quarters. So this last quarter, $20-some million. Of course, that is a direct result of the CapEx
investments that we're making. And so you should expect depreciation to continue ticking up. I said earlier in the call, we expect this year to be close to $1 billion. So you can obviously then do the math and get fourth quarter depreciation there. But clearly, that is ticking up, and the bulk of that depreciation goes into cost of revenue.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

We'll go to next caller please.

Operator

Next one is Joe Moore from Morgan Stanley.

Joseph Lawrence Moore Morgan Stanley, Research Division - Executive Director

I wonder if you could talk about if the lead time environment has changed? I know you've talked about there being hot spots in the past few quarters. Has that gone now? Are delinquencies kind of back to below normal levels? Or where are you out with that?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. So we still do have hot spots -- in any market environment we've got hot spots, but we still do have them probably still most pronounced inside of automotive. Lead times didn't change much second quarter to third quarter. And at the same time, as we've talked about before, customers can get immediate availability of products on TI.com. So you have kind of all those dynamics going on.

Do you have a follow-up, Joe.

Joseph Lawrence Moore Morgan Stanley, Research Division - Executive Director

Yes. We're hearing from some of your industrial and automotive customers, the desire to hold higher safety stock than what companies have historically held. Is that something that you guys see? Is that -- I mean, do you think it might affect TI? And just how do you think about that going forward? Do you think that's a normal state of affairs.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. We've seen and heard and been in those discussions before. We know that there are some customers that are really taking a hard look at their supply chains, where their product is coming from, what technologies they're being built on, ensuring that they've got supply of those technologies. That's part of the reason why, when they look at product being built and the capacity we're putting in place at the 45 to 130 nanometer, they know they need that capacity for decades to come, so they get excited about that when they see that capacity overall.

But to change supply -- the supply chains -- is really hard work. It will take a long time to be able to do it. And it's not oftentimes just as simple as carrying more inventory on the balance sheet. So there probably will be some of those customers that do that hard work and restructure the supply chains. And there probably will be some that once we get supply and demand in balance, they just kind of fall back into normal practices. So I think time will tell as that plays out.

And Rafael, do you have...

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

Yes. No, I'll just add. At the end of the day, customers will do what they want to do, right? And of course, if they want to hold more inventory, they're welcome to do that. What we believe is that for us to hold more inventory, we're in a great position to do that, given the nature of that inventory, that it's catalog in nature that can sell to many, many customers. So we're all better off, and our customers will be better off when we hold more of that inventory, and we can direct it where it's most needed.

So that's why, as I said earlier, we -- our goal is to continue growing inventory. We're still below desired levels, and we will add significantly more inventory over the quarters to come, be ready for the next upside.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

We'll go to the next caller please.
Operator
William Stein from Truist Security.

William Stein Truist Securities, Inc., Research Division - MD
I wanted to ask about TI.com. In past quarters, I think maybe even a quarter ago, you talked about how percent of revenue from that channel had gone from less than 1% of sales to over 10%. I think that occurred in about a one-year time frame. You just mentioned a moment ago, Dave, that this is the channel where customers can go for nearly immediate availability. So I would assume that they get that availability at a price and that when things start softening, as you’re alluding to on this call, that perhaps that channel sees a more precipitous decline. Did we see that during the quarter? And do you anticipate that to happen in the coming quarter or two?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Yes, yes. And we did see a decline there. And we'll finish up the year and provide an update in our capital management on how it did for the year, won't be something that we'll be reporting out on a quarterly basis, but there was a decline there, and not that it was unexpected. So...

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations
Now longer term, it's a fantastic channel to engage customers on a number of levels, and customers are very pleased. So there will be fluctuations quarter-to-quarter, maybe even year-to-year. But over the long term, we're very pleased with that channel and what it's doing to get us even more directly engaged with customers.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Absolutely. Do you have a follow-on, Will?

William Stein Truist Securities, Inc., Research Division - MD
Yes. Sort of along the same lines, there has been some speculation in the press, for example, that this has been a channel for companies that you might call brokers or some people call it the gray market of distribution to get their hands on TI product, and that perhaps there is still inventory that was acquired by such parties that is still sort of floating around and waiting to be sold on to end customers. I wonder whether you’ve found a better reason to maybe track that and measure it, and any observations you’ve made with regard to that?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
Yes. And well, as you know, I spent eight years of my career in sales, and there have always been brokers in our market. And as Rafael talked about, we've long believed that owning and controlling our inventory is a strategic advantage. So in having policies of like non-cancelable orders and things like that, as customers take product that they don't need, that's typically the source of that product going out the back door for brokers. So can brokers go onto TI.com and get products? They can. But that's pretty minimal in comparison to other sources that they might be able to get it. So overall, the majority of customers that we service are customers that we have large engagements with directly. And we'll go to the next caller please.

Operator
We'll take C.J. Muse from Evercore.

Christopher James Muse Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst
I guess a question on end markets into December. If I adjust the down 12% sequential for the strength in auto, it looks like all your other businesses are tracking at least down kind of mid-teens. So curious what parts of the market are down seasonally? I would think the other -- the calculators would be one. And what are -- what's maybe more down cyclically in terms of the correction that you're seeing?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP
And C.J., just to clarify, you're talking about the fourth quarter guidance?
Christopher James Muse  Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Yes, yes.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

Yes, yes. So again, we're not trying to provide guidance by quarter or by each market inside of that. We are expecting, obviously, with the guide overall, it is a weaker fourth quarter than a typical fourth quarter. So with the exception of auto, as we've talked about, that we'll continue to see weakness inside of personal electronics, but we will see the other markets weaken as well. So we're not trying to get specific on that. So we'll finish up the quarter and report that out. But we do expect the weakness to broaden across those markets.

Do you have a follow-on?

Christopher James Muse  Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Yes, please. I guess as a follow-on question to China, and obviously, you talked about very little impact from the embargo on your business. But curious as you contemplate China's ability to invest in the lagging edge, and I'm assuming it will take years, if not decades, to try to compete in high-performance analog. But just curious how your thoughts are evolving for China as a competitor to you in the coming decades?

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

Yes, I'll start. Dave, you want to chime in. But I would tell you, at the end of the day, it all comes down to our competitor advantages, right? And it starts with the broad portfolio that we have in the Analog and Embedded space. You need a huge portfolio to compete effectively, particularly in industrial and automotive. And we have 80,000 or so parts that we sell to 100,000 different customers. So you need that type of diversity.

Then second is manufacturing and technology. These investments that are positioned in 300-millimeter, first, but then all the investments that we're making are just building on that, right? So we have RFAB2 coming, that just came online. Our new factory in Lehi and the mega site that we just broke ground in Sherman that's going to have four factories, each one the size of RFAB2. So that really puts us in a in a very strong position to compete against anywhere, whether it's in the United States or in China, okay.

Dave Pahl  Texas Instruments Incorporated - Head of IR & VP

With that, we'll wrap it up, and Rafael?

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

Yes. So let me wrap it up. At our core, we are engineers, and technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

While we strive to achieve our objective, we will continue to pursue our three ambitions: We will act like owners who will own the company for decades, we will adapt and succeed in a world that's ever changing, and we will be a company that we're personally proud to be a part of and would want as our neighbor. When we're successful, our employees, customers, communities and owners all benefit.

Thank you, and have a good evening.

Operator

That concludes today's event. Thank you for your participation. You may now disconnect.