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TXN.OQ - Q1 2026 Texas Instruments Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

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

Welcome to the Texas Instruments first quarter 2026 earnings conference call. I'm Mike Beckman, head of Investor Relations, and I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Rafael 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.

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

With that, let me turn it over to Haviv.

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

Thanks, Mike.

Before I go into the results, I want to highlight that in the first quarter, we announced an agreement for TI to acquire Silicon Labs. This transaction enhances our global leadership in embedded wireless connectivity, expands TI's portfolio, and leverages TI's internally owned technology and manufacturing and reach of market channels. We expect the transaction to close in the first half of 2027, subject to necessary approvals.

Now let me provide a quick overview of the first quarter. Revenue was $4.8 billion, an increase of 9% sequentially and an increase of 19% year over year. Analog and Embedded both grew sequentially and year on year. Analog revenue grew 22% year on year, and Embedded Processing grew 12%. Our “Other” segment declined 16% from the year-ago quarter.

Let me provide a few comments about the current market environment. In the first quarter, revenue came in above the top of the range, as we saw continued acceleration in industrial and data center. The overall semiconductor market recovery is continuing, and we remain well positioned with inventory and capacity that allows us to support our customers with competitive lead times through the cycle.

Now, I'll share some additional insights into first quarter revenue by end market.

First, industrial increased more than 30% year on year and was up more than 20% sequentially, growing broadly across all sectors and regions.

Automotive increased mid-single digits year on year and was about flat sequentially.

Data center grew about 90% year on year and grew more than 25% sequentially.

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

And lastly, communications equipment grew about 25% year on year and grew more than 30% sequentially.

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

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

Thanks, Haviv, and good afternoon, everyone.

As Haviv mentioned, first quarter revenue was $4.8 billion. Gross profit in the quarter was $2.8 billion, or 58% of revenue. Sequentially, gross profit margin increased 210 basis points.

Operating expenses in the quarter were $974 million, about as expected. On a trailing 12-month basis, operating expenses were $3.9 billion, or 21% of revenue.

Operating profit was $1.8 billion in the quarter, or 37% of revenue, and was up 37% from the year-ago quarter.

Net income in the quarter was $1.5 billion, or $1.68 per share. Earnings per share included a 5-cent benefit for items not in our original guidance, primarily due to discrete tax benefits.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operation was $1.5 billion in the quarter and $7.8 billion on a trailing 12-month basis. Capital expenditures were $676 million in the quarter and $4.1 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $4.4 billion, up from $1.7 billion in the first quarter of 2025, trending up as growth returns and CapEx begins to moderate. Free cash flow in the trailing 12 months includes $965 million of CHIPS Act incentives. This includes a $555 million payment received in the first quarter as part of our direct funding agreement, related to the start of production at our newest 300mm wafer fab in Sherman, Texas.

In the quarter, we paid $1.3 billion in dividends and repurchased $158 million of our stock. In total, we returned $6 billion to our owners in the past 12 months.

Our balance sheet remains strong with $5.1 billion of cash and short-term investments at the end of the first quarter. Total debt outstanding is $14 billion with a weighted average coupon of 4%.

Inventory at the end of the quarter was $4.7 billion, down $109 million from the prior quarter, and days were 209, down 13 days sequentially.

Turning to our outlook for the second quarter, we expect TI's revenue in the range of $5 billion to $5.4 billion and earnings per share to be in the range of $1.77 to $2.05. We expect our effective tax rate to be about 13% in the second quarter.

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

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

With that, let me turn it back to Mike.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim Arcuri, UBS.

Timothy Arcuri - *UBS AG - Analyst*

Thanks a lot. Haviv, I wonder if you can comment just on the behavior of customers. I know you're guiding up a little better than seasonal off of the number in March that was very strong. So it sounds like it's mostly industrial, but can you comment kind of on, are there rush orders? I know we're seeing signs of price increases and things like that. So is this impacting the customers' behavior?

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

Yeah, thanks, Tim. In general, I think Q1 was a continuation of what we saw in Q4; very similar behavior, meaning growth coming from two main areas, led by industrial, as you mentioned. And also supported by the data center market that we've seen the secular growth over there for the last couple of years. This was the eighth quarter of sequential growth, just off of a higher number, so that also helps the overall growth of the company.

I will say that the industrial signal was a little bit broader this time. So I would say all sectors, all geographies grew sequentially, and it continued to accelerate through the quarter. So if you think about January, February, and then you always want to see how the exit from the Lunar or the Chinese New Year break is going to look like, but it continued in March.

So, just a continuation. I would say it's now five or six months of continued growth in industrial. We want to keep watching it, but I would say that's what guides our forecast into the second quarter. Mike, anything to add on that?

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

I just want to be mindful to just the overall macro backdrop and want to see how sustainable the growth is, and that was factored into the guide.

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

Tim, do you have a follow-up?

Timothy Arcuri - *UBS AG - Analyst*

I do, yeah. Mike, maybe you can comment on -- I know typically you don't break the guidance down by segment, but just given how different it was in March and given that we're hearing some choppiness in autos, particularly in China, I mean, I would think that most of the sequential growth will be in industrial, but can you give any comments for what is being thought of in the June guidance for those two?

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

Let me take that, Tim. I think I can help you a little bit on the automotive side. But first, I think, as you said, we are not seeing a change from the previous quarter. So I expect growth to be led by industrial and data center. I won't break it out between the two, but we see strength in both.

Regarding automotive, you're right that Q1 was -- it's always the same in Q1 in China. China was -- the overall quarter was flat sequentially. But China was down, the rest of the world was up. I want to see automotive and see how it develops in Q2. It's too soon to call it.

I will remind us, though, that during the COVID cycle even, automotive was the last to join in, also the last to peak, right? So I'm not surprised by the behavior of this market.

I will say that secular growth in automotive continues for the foreseeable future, and that is my encouragement. We are seeing cars adding features. We are seeing more content added to vehicles across the powertrains, whether it's BEV or ICE or the hybrids.

Anything to add on that, Mike, in terms of the guide?

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

No, I think you've characterized it well. And as you know, auto has been steady, at an elevated level for some time. It didn't really have that steep correction that we saw on the other end markets. So I think as Haviv called it out, these markets have been, in the past, have been transitioning out of phase. I don't think it's unrealistic to assume that could happen again. So we'll have to see how it plays out.

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

Yeah, I think it's an important point that Mike said. Q1 was a flat quarter, but very close to peak levels, maybe a point or two below its peak. So it's holding very nicely at the high level.

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

All right, we'll move on to our next caller.

Operator

Vivek Arya, Bank of America.

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

Thanks for taking my question. On this industrial growth up 30%, I think you said, year-on-year. This is obviously well above the long-term trend line. Could you help us dissect which applications, which end markets are driving this? Is this still inventory replenishment? Is this pricing? Is it share gains? Just what kind of checks and balances do you have in place that this isn't any kind of double ordering or hoarding of your product?

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

No, I don't see that. At least I don't have the evidence to show that, Vivek. But remember, industrial, you said, yes, for one quarter, that's a lot of growth. But if you look at the long-term trend line, we are still below the trend line. If I just did the math, in Q1, our industrial, we had a very good quarter in industrial, growing at the rate that you've mentioned, but still 15% lower than the peak that was back in 2022. And as I say many times, there is a secular growth continuing in industrial, so we deserve a higher peak, right, four years later. So I think there is a lot of room to grow.

The encouragement I will have on industrial this time is that I see it at a broader application, so all of them, not only the data center-related energy infrastructure or power delivery. Not only aerospace and defense, and we know the geopolitical tensions in the market is establishing new peaks every quarter. I saw it across all sectors in industrial and also across all customers in terms of regions, but also the size of customers. It's the first quarter where we saw the broad market, as we call it, the tail, starting to wake up again after a long hibernation period, I would call it.

So I am encouraged about the fact that we are seeing growth over there, but I think there is -- I mean, I would like to see secular growth in industrial continuing and then higher peaks establishing in 2026, or later, versus the 2022 peaks. So in that sense, trend line are suggesting we still have room to go. Hopefully, that helps.

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

So last year, we saw the overall analog industry do very well in the first half, and then there were some level of deceleration in the second half. I realize every year is different, and I know you're not guiding to the second half. But from what you see today, what are the puts and takes as you look at the second half versus the first half? Is there anything that could be different just given, right, all the macro trends, memory, price, inflation and whatnot. And as part of that, if Rafael could also help chime in with how you are managing fab loadings as you look toward the rest of the year. Thank you.

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

Yes. Let me start, and Rafael will follow. So first, Vivek, you're spot on, right? We had a similar, let's say, strong beginning of the year last year. Maybe the year-over-year growth last year was a little lower, but it was still in the teens, and it looks like it was getting stronger. But it was, whatever you want to call it, a head fake, a false start or whatever. We had a good year in analog, but it did not accelerate in second half. It actually slowed down a little bit, right? So I think we need to be cautious. I think Mike mentioned it. There is geopolitics. There is a macro that we are watching.

On the other hand, there is secular growth in our market. So in the long term, I'm still very optimistic. We want to play it quarter by quarter. That's part of the way we have guided $5.2 billion in the midpoint. Let's 2Q play out, and we'll call it as we see it.

I remind you that the way we support our customers with the way we go to market, we go -- we serve our customers direct. We have very friendly customer terms. So we see the buildup of demand as we go almost real time. And I want to see -- let 2Q play out and see if this growth is sustainable. That's the biggest question I have for myself for the second half.

But at least the fact that industrial is still trending below previous peaks and the secular growth in data center and, of course, the content growth in automotive makes me feel optimistic about the long term.

Rafael, can you comment about loadings?

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

I'll just add that we have the capacity and the inventory that we're well positioned on both of those to handle a wide range of scenarios in this upturn.

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

All right. Vivek, thank you so much for the questions. I'll move on to our next caller.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

Great, thank you. Yeah, on the topic of fab loading, can you talk about what's going to happen with inventory over the course of Q2? Are you seeing incremental gross margins off of Q1 that are sort of better than normal, worse the normal, just normal? Just what are the dynamics around that transition?

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

Yes. Again, we're well positioned on inventory. The objective of inventory is to maintain high level of customer service, keep lead times short and stable, and we are accomplishing that. So we feel very good as to where those are, and we'll continue to determine what makes sense from a loadings and inventory standpoint throughout the quarter to handle any range of scenarios.

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

And Joe, just to add on that, you and I talked a month ago. We saw a rapid growth in Q1, and inventory served us well, right? We've depleted some of it. We've served our customers real time according to their demand. And we just uh want to see how sustainable that would be.

But as Rafael said, if the market wants to have a very rapid growth and maybe catch up to trend line even quicker, we are well positioned. Of course, we are in this Phase 3 on the fabs, and we can modulate more starts there; we have the capacity. We may make some incremental investments on the ATs because we are seeing on the assembly and test side, a little bit of a tighter environment, at least externally. So as you know, we've brought most of our supply internally, and we have that knob as well. We are very excited about the fact that we are prepared. If the market wants to grow at the same rate of Q1, we mentioned 19% year over year, we are ready. If it wants to accelerate, we are already as well.

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

All right. Joe, you have a follow-up?

Joseph Moore - *Morgan Stanley - Analyst*

Well, just on the -- just my question was also on the gross margin aspect. Is the incremental gross margin going to look normal? Or is there some part of inventory management that makes it less or more?

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

Yes. No, the fall-through that you should expect is in the 75% to 85% that we have guided. That's excluding depreciation over a long term. But on a year-on-year basis, if you look at our midpoint on EPS and revenue and make the right assumptions on OpEx and other lines, you should get to a good -- a reasonable assumption on gross margins, and it's -- and it will be in that fall-through that we have guided.

Operator

Stacy Rasgon, Bernstein Research.

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

Hi, guys. Thanks for taking my question. Maybe just to dig into that gross margin point, if I sort of -- I mean, I typically think of your OpEx up, what, a couple of points in Q2. I come up with a gross margin implicit of the guidance, maybe low to mid 59%, up from 58%, and it's up, I don't know, 100 bps or 150 bps year over year on a pretty material revenue growth. Like part of me would almost expect it -- the incremental gross margin to be higher given the revenue growth. But maybe is the differential just like the increase in depreciation? Or like how should I be thinking about the different drivers of gross margin into Q2 -- qualitatively, not quantitatively, if you don't want to give us a quantitative.

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

Yes. So Stacy, to help you out a little bit, your OpEx assumption was not a bad one. So you should expect some growth in OpEx first to second. Maybe what you're missing is the acquisition charges line; you should expect to continue to have charges there every quarter at the tune of what we just reported in first quarter. We should continue -- we'll continue having those there every quarter until we close, at which time, they'll be a lot higher at close, and then they'll be steady after that for a number of years. But for now, for second quarter, just assume somewhere in the range of what we just reported on the acquisition line. When you do that, you'll get a gross margin assumption that should make sense.

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

All right, do you have a follow up?

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

I do. Thanks. Maybe to ask about the acquisition itself, not the deals, but I know you've talked about it being accretive. You guys are like one of the few, if not maybe the only, company in my coverage certainly that still does a pure GAAP earnings. And I even remember when you bought Nat Semi, you did pro forma for a little while and kind of said, this is stupid, we're going back to GAAP, you guys make whatever adjustments you want to make. What are your intentions for how you're going to report once you do close SLAB, because I have a hard time getting it accretive on a GAAP basis. Are you going to be going to a pro forma? Or how should we be thinking about that?

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

You know I'm thinking right now is we will do GAAP, but we'll give you all the pieces that you need to do your own non-GAAP in whichever way you want to do that. So we'll have the acquisition charges line, for example. You can take that out, if you like, and not count it. Once we're on a run-rate basis, all those will be noncash. But initially, there are actually -- some of those are cash charges, right? The charges to cost to the bankers, the lawyers, the regulatory fees, et cetera. There'll be other things like the first quarter will have some weird transitions in gross margins and inventory as we write up the inventory that we're buying. So we'll give you all those pieces; that way you can do the non-GAAP analysis result.

Timothy Arcuri - *UBS AG - Analyst*

Moving on to our next caller, please.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank AG - Research Analyst*

Hi, guys. Thanks for letting me ask a couple of questions. I guess the first one is, given the strength that you saw, I guess, what was the biggest surprise versus the midpoint of your guide in the first quarter? And was pricing part of the strength in either the quarter or the guide?

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

Yes. Let me start maybe with pricing, then we can chat a little bit more about what happened in the quarter. I think we answered it, but I'll repeat the same messages.

The -- in terms of pricing, I think we said in the last quarter, we don't expect pricing to help the growth, at least not sequential or year over year, and that was the case. But it was better than our model. Like usually, Q1 pricing is a couple of points down, call it, low-single digits down year over year and also sequentially, because usually the price agreements, they kick in in the beginning of the year. So the quarter behaved a little better. We had -- pricing was stable, flat, if you will, like-for-like, both sequentially, Q4 to Q1, and also year on year, 1Q '26 versus 1Q '25. So that helped a little bit.

And I expect Q2 to be very similar, Ross. Just the way we work with our customers, these are discussions that are not happening immediately. We serve them direct. And I will mention that as I look at the year, if demand -- and right now the demand signals are strong -- if demand continues to be strong, and we are monitoring the market price, and there is definitely at least an average price increase in the last several months across the analog market. I think it's likely that prices may go up in the second half of the year. Again, this is going to be a case-by-case discussion in our case, but that's the pricing environment as I see it right now. And again, it's always a function of supply and demand, and the unknown for me right now is the sustainability of demand. So I want to see it playing out one more quarter, and then we'll figure out for the second half. So high level, not immediate support on growth, both sequentially and year over year on pricing.

Now what we have seen is just breadth of demand, right, what I said before, multiple sectors, or all sectors, all regions, all type of customers, small, large, and supported by a data center market where we do pretty well. I think our portfolio is growing. I believe we are fulfilling customer demand at the highest level. We have no shortages. And it allows us, I believe, to over time at least, take market share over there.

So that's, I think, what drove Q1. I expect a similar behavior in Q2, and the second half of the year is still unknown. We are seeing, as I mentioned before, a higher tension on the analog side. I think we see strength over there. And I think we are unique in the setup in the sense that we have the capacity, we have the inventory, and we are well positioned to support customers at the highest level.

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

Do you have a follow-up, Ross?

Ross Seymore - *Deutsche Bank AG - Research Analyst*

Yes, I do. One of the concerns people have -- and it doesn't sound like in the strong reporting guide that you guys are seeing it -- but one of the concerns people had was more consumer-oriented end markets seeing demand destruction with higher memory costs, memory availability, those sorts of things. Are you seeing any evidence of that? Your personal electronics segment seemed like it was well better than normal seasonal in the first quarter. I suspect that's where it would arise if it were to arise. And so I just wondered if you guys have seen any evidence of that across your business.

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

High level, we have not, although customers are very aware of it, but I think they are doing well preparing themselves. And I'll let Mike comment about the personal electronics market.

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

Yes. I think it's also important to remember that fourth quarter last year was a pretty easy compare for the sequential transition for PE. And on a year on year, it's about flat. So again, if that was happening, I don't know if you could point to those results as evidence of that. But again, you can't rule that out.

Actually, I think moving on to our next caller. Thank you, Ross.

Operator

Tore Svanberg, Stifel.

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

Yes, thank you, and congrats on the strong results. Haviv, I was hoping to zoom in on data center and specifically power. It's a great market, great opportunity. It's also very competitive. And I'm just wondering if you could talk a little bit more about some of the moats here as we go into the next few years that TI has. I do assume your manufacturing footprint will be an important element of that. But any other color you could add on TI's positioning in power semis, especially with data center in the next two years?

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

Yes. Tore, I think, look, power in general is very important to data centers, as we know, and specifically power density. And we talk about both the -- just think about the amount of power or the energy you have to drive into these systems. You need a lot of silicon to withstand it, right? So that implies on the importance of power electronics, and TI is well positioned.

What I like about our position is this combination. And that's, by the way, it's true for every market. But in data center, I think there is a lot of attention to the -- what I call application-specific sockets, you can call it Stage 1, Stage 2, the VRN, the last -- the Vcore that these GPUs, they need power delivery at the highest level, very complex parts, multiphase power delivery, et cetera. And there is also a lot, a lot of general-purpose parts in a rack. I would say, tens of thousands of them, lots of different SKUs. And this is where our general-purpose portfolio is amazing. We can fulfill, I would say, almost every analog socket on these racks. And I think we are very unique in that point, not only because of the breadth of the portfolio; also because of our ability to supply. I think we have seen cases where our customers needed help because they had supply shortages from their other suppliers, and we come in and solve the problem. I think that's part of the reason our growth has been so high. I mentioned 90% year-over-year.

And I'm very excited about the future there. So that combination of a broad portfolio and the ability to support customers with capacity and inventory is unique.

The second point, which I think I've touched upon in many calls or conferences, we are also investing more and more R&D in data center, and we are going to be one of the competitors on the application-specific socket, whether it's VRM in Stage 2, whether it's high-voltage 800 to 12 or 6 at Stage 1. And we are well positioned there as well, both with the GaN technologies that we've invested in in the past 15 years, but also on our very advanced BCD nodes that not only has the capacity needed, but also it's built in North America here in Texas, and customers care a lot about it.

So I think that combination of broad portfolio, both on general purpose and ASSPs, ability to support the rack, not only the board, and ability to supply at scale with the tonnage if you will, or the volume, that this market demands is very, very unique. Not to mention it has come from a geopolitically dependable location. So all of that is a unique combination. And that's part of what we like to talk about our competitive advantages. Maybe one of them is easy to replicate, but trying to replicate all in this case, all three, is not easy. And this is why I'm very encouraged about our opportunity to continue to grow in this market.

I will just add that our application-specific sockets are seeing momentum as well on the design-in phase right now. And I do expect that they'll kick in more in the second half of the year and into 2027, so my bar for the team and my expectations are high here.

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

Do you have a follow-up?

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

Yes, that's great color. And then as my follow-up, just thinking about, obviously now we're in another new upcycle in analog and just comparing this to the last one. I mean the last one, capacity got tight pretty quickly. Lead times started extending pretty quickly. I know it's a different cycle, right? But I'm just curious now that you've made all the CapEx investments, you've got the big manufacturing footprint, are you starting to see share gains sort of pop up in your design wins, since you are much better positioned with capacity now versus back then?

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

I believe we are, yes. And we have gained share, of course, in analog in 2025, but I think we have a lot of room to go. We are still below previous peaks. And to me, the question, Tore, is can we do it quickly, meaning the demand -- or does the strong demand continue, or it's going to take us more time? From our perspective, we hope the demand continues.

We have the answer to customers. And in many cases, we are unique. I gave a minute ago the data center example, but we are starting to see other areas where our supply, our availability, is allowing us to win back market share. So I mentioned pricing before. We are -- our pricing is very competitive. I think we have an opportunity there as well for the second half of the year.

So it all depends on the sustainability of demand. I think Vivek mentioned before, we had a very unique 2025 where it started stronger, and then it took a breather. I want to see it playing out in 2026. Obviously, if it continues, our opportunity just grows.

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

Maybe I'll just add that we've spent the last several years preparing with capacity and inventory, as you know, and our lead times have been stable over the last several years and especially the last several months. Really happy with the delivery performance. And so as we look at what the future holds here, want to make sure we can service our customers' needs, also their growth as well, across a broad customer base. And we're really happy with the systems we have in place to allow that.

Operator

Matthew Prisco, Cantor Fitzgerald.

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

Hey, guys. Thanks for taking the question. So you previously talked about spending about $2 billion to $3 billion CapEx in 2026. First, is that still the right number? And as we think about the modular buildouts within its ongoing recovery, can you maybe help walk us through when you would need to start to add the incremental equipment? And how you're thinking of strategically about your capacity today as we're starting to see some foundry capacity, custom mature nodes and now Tier 2 foundry pricing increases?

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

Yes, I'll start. First, the answer to your question is yes. We're looking at $2 billion to $3 billion of CapEx for this year. And in that number, there are -- there's capacity for what we call Phase 3, which is incremental capacity that maybe you're alluding to. That's both for the -- in the fab side, but also in the assembly test side. And that is where a growing proportion of our CapEx is going to, in the assembly test side to address growth.

Beyond that, what I would tell you for CapEx beyond '26 is think of the 1.2 times rate that we have talked about before for the long-term needs, the long-term CapEx intensity. So for example, if you -- to make a number easy, 5% growth would translate into 6% CapEx as a percent of revenue, and that's how you would want to model it.

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

Matthew, just one more point. I think Rafael touched upon it. So again, two to three very valid. But remember, we gave a framework that is still very valid. I think it was a couple of years back during capital management on kind of revenue scenarios and CapEx. I think these are also very, very valid.

I will say that, as Rafael alluded to, we are seeing right now, even at the midpoint of the second quarter, and again, I want to see how it plays out. But we're looking at this, I don't know, 17%, 18% growth year over year for the first half of the year. That's stronger than last year. So of course, we want to be prepared in case it continues.

We -- no one tells us what the future will be. We just have to support a range of scenarios. So in that sense, we are taking the opportunity to divert some of the -- because we have enough -- the thing about wafer capacity, I think we are well positioned with our 300mm wafer fabs. We have the brick and mortar. We have the installed equipment. But on the AT side, I think there is an opportunity, and we are very happy that we've internalized our supply, because we are seeing more and more bottlenecks in the market that are popping up. And the fact that we control our destiny here and we can move more stuff internally is a benefit. So some of this $2 billion to $3 billion of CapEx that you're seeing this year, some of that is going to support faster internalization of our backend into our own assembly and test, and that allows us to support customers at a higher level.

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

Do you have a follow-up, Matt?

Matthew Prisco - *Cantor Fitzgerald LP - Analyst*

Yes, it's helpful. I guess the follow-up for me, is there any update to your messaging around depreciation expectations versus three months ago? And then maybe how to think about timing of when TI will remain -- will receive the remaining CHIPS Act direct funding? Thanks.

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

Yes. I'll take that. No change to depreciation expectations for this year, 2.2 to 2.4. And then for 2027, continued upward pressure, but likely at a slower -- at a slower rate.

On the CHIPS Act, first, I will tell you the more interesting one is ITC. We've been talking about that one. That's the one that's going to give us more money over the long term, and that's 35% of qualified manufacturing investments. We have been getting that ITC, and then we'll continue to get ITC. But on the direct funding, we just received over $500 million. In total, what we received in fourth quarter is $630 million out of the up to $1.6 billion of direct funding. And the remaining, we should get that over the coming years as we continue fulfilling the various milestones stipulated in the contract.

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

Thanks, Matt. Move on to our next caller, please.

Operator

Joe Quatrochi, Wells Fargo.

Joe Quatrochi - *Wells Fargo Securities LLC - Analyst*

Yes, thanks for taking the question. I was curious if you could maybe just help us understand, given the resegmentation of revenue, especially on the industrial side, what is normal seasonality now for the June quarter?

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

So if you can probably look back and model out what our revenue has done over history, and I don't have a buy end market specific, what the percentage is. But overall, what you'll typically see is the second and third quarter are stronger quarters, and fourth and first are typically lower compared to second and third.

Do you have a follow-up?

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

I'll just add on that, just on seasonality. Look, our guide is -- I would describe it as a little bit above seasonal, right? I think we guided at what 8% sequential. So that's a little bit. And again, the combination of the market is changing. Data center, as we know, is now a bigger part of our revenue. But overall, my view on 2Q is it's slightly above-seasonal guide. Hopefully, that helps.

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

Joe, do you have a follow-up?

Joe Quatrochi - *Wells Fargo Securities LLC - Analyst*

Yes, as a follow-up, you had a really strong quarter in the first quarter out of the gate for free cash flow and just even cash flow from operations. Just any update on just how to think about free cash flow per share for this year? Any change there?

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

Yes. I think I mentioned, Joe, during the capital management call, that as long as revenue is growing mid- to high-single digits, that $8 free cash flow per share is very probable, highly probable, okay? Now as I said before, first half of the year at the midpoint is somewhere between 15% and 20% growth, right? So there's definitely an upside. I'm not going to say what the number is, but go back to our framework that we provided back in the capital management call. You'll see, I think, I think at $20 billion we had in $8 to $9 and at 22, we had $9 to $10. So it gives you kind of how every extra $1 billion of revenue is doing what -- how it helps free cash flow per share. It gives you a very high-level framework. But right now, assuming we don't have another false start, I think there is a very high -- very likely, we will beat that -- will easily beat that $8 free cash per share for 2026. Again, we need to see how the year continues, but I would say the probability is probably high.

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

Thank you, Joe. Let's move on to our last caller.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research LLC - Analyst*

Yes, thank you. First question will be about fab loadings. And given what appears to be a strong start to the year, what are your plans for fab loadings? And what do you expect to do with inventory as we go through the year? I know you've been building inventory in order to be responsive to customers. Do you expect to keep inventories at these levels or might that dip a bit?

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

Yes. So we feel very comfortable with our position with both capacity and inventory. And inventory is there to support customer satisfaction, keep lead times short and stable. So we'll continue to do that, and we'll adjust loadings throughout the quarter to handle whatever comes at us in a number of scenarios in this upturn.

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

Just to add on that, Chris, we talked about all these phases of our investment, right, Phase 1, Phase 2, Phase 3. So right now, the surge of demand is in analog, right? And in analog, we are in Phase 3. So we are modulating starts. We have the capacity. We are modulating starts real time. We are just looking at the daily consumption, if you will, and this is where Rafael guides the team of how to start wafers. So of course, we have the opportunity.

Now in terms of inventory, it all depends on the rate of consumption. Meaning, if demand continues to be very, very strong, we'll continue to deplete inventory. Obviously, it takes time to build these parts, right? Some of the parts get built in three months, but some of them can take six to nine months. So overall, that's why we have inventory. Inventory allows us a quick surge of customer support if they have strong demand. That's what happened in Q1. We have a strong guide for Q2 in the midpoint. It's 8% sequential. It's above seasonal, as I mentioned. So I think inventory will play a role there. But then the machine catches up.

So to me, all these questions are related to what the second half of the year of demand will do. And based on the macroenvironment and based on what happened last year in terms of the market was jittery, as I called it before, I want to see it play out. The good news is that we are prepared for every scenario that will be presented to us.

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

Yes, let me just add a -- taking a longer picture and just the next quarter, when you think of our range of inventory days 150 to 250, during an upturn, we should be draining that number. It should be -- right now, we're at 209 -- should shift the drift towards the lower end. And then during the downturn, that's when we build inventory. And then it moves upward, right? So high level in an ideal scenario, that's what you would see in terms of days of inventory.

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

Chris, do you have a follow-up?

Chris Caso - *Wolfe Research LLC - Analyst*

I do. And for my follow-up, I want to return to some of your comments about pricing. And we've heard from some others in the space who were a little more explicit on what they were doing with pricing. And is TI simply following the market right now on what's happened with your comments of potentially some better pricing in the second half?

And then as a follow-on to that, to what extent are your customers -- what percentage of your customers would be on sort of annual price contracts such that if there was a reset in pricing, that would more likely happen towards the end of the year into next year?

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

Yes. I think, Chris, I think it's a good question. And I think we touched most of it. Just to clarify, the -- TI follows, yes, because we want to see sustainability, right? We don't want to be changing prices every quarter. Of course, prices go up and down every quarter. It depends on the portfolio and where our customers need more demand and where supply is, et cetera.

But let's look at 2025. In 2025, our pricing behaved as we expected. It was down this low-single-digit number. That was the actual number in 2025.

In the first quarter of '26, it was stable. It was a good start of the year. I think if demand continues to behave like that and we see stronger and stronger requests from our customers, that opens up a discussion, and that's what we are going through right now. We are definitely seeing -- if you go back to the -- you said the supply agreements or price agreements we've done, they were agreed upon last year somewhere in Q4. The demand environment was very different then. We are seeing higher numbers in terms of demand. We will have to invest in our capacity. I mentioned backend capacity investment to support all of that. There is a tightness on the OSAT world. So of course, it's a discussion. And I think customers are very thoughtful and most important for them is not to have a 30-cent part stopping their production. They need to have a high level of customer support, and that's what we are -- that's what we are offering. So not only supporting the part we promise them but also sometimes solving problems they have with other suppliers. That's the opportunity we have in 2026. But again, it all depends on the sustainability of the demand signal. So we'll continue to watch it. We are discussing with our customers as we speak. And we'll report back during the July call.

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

Thanks, Chris. Haviv, do you want to close this out?

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

Yes. So let me wrap up with what we've said previously. At our core, we are engineers, and technology is the foundation of our company. But ultimately, our objective and the best metric to measure progress and generate value to owners is the long-term growth of free cash flow per share. Thank you all, and have a good evening.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you again for your participation.
