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OVERVIEW:

Company Summary

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PRESENTATION

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Welcome to the Texas Instruments second quarter 2024 earnings conference call. I'm Dave Pahl, 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 for 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'll provide insight into second quarter revenue results, with some details of 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 the third quarter of 2024. With that, let me turn it over to Haviv.

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Thanks, Dave. Let me also start by welcoming everyone to the call. I'm looking forward to joining our quarterly earnings calls moving forward and sharing more details about our business strategy with the investment community. It is an opportunity for me to directly share more information about our results and our strategic progress.

With that, I'll start with a quick overview of the second quarter. Revenue in the quarter came in about as expected at $3.8 billion, an increase of 4% sequentially and a decrease of 16% year over year. Analog revenue declined 11% year over year, and Embedded Processing declined 31%. Our "Other" segment declined 22% from the year-ago quarter.

Now I'll provide some insight into our second quarter revenue by end market. Our results continued to reflect the asynchronous behavior across our end markets that we've seen throughout this cycle. Similar to last quarter, I'll focus on sequential performance, as it is more informative at this time.

First, the industrial market was down low-single digits.

The automotive market was down mid-single digits.

Personal electronics grew mid-teens, with broad-based growth, while demonstrating continued improvement compared to its low point in the first quarter of 2023.

Next, communication equipment was up mid-single digits.

And finally, enterprise systems was up about 20%.

Lastly, before I pass it on to Rafael, I'd like to share a few comments regarding our capacity investments. We and our customers remain pleased with our progress of the expansion of our 300mm manufacturing capacity. These investments reflect our confidence in the opportunity ahead, which remains high for several reasons. First, we have a high level of confidence in the secular growth of semiconductor content, particularly in industrial and automotive, where we have greater exposure and strong product positions. Second, geopolitically dependable low-cost 300mm capacity will be increasingly critical and valuable, and our investments enable us to support customer demand at scale.

To share more details on our progress, which we believe is helpful for all of our shareholders to understand, I plan to hold an off-cycle capital management call with Rafael and Dave on August 20. During the call, I will provide more granularity on our capacity investments along with a framework of revenue and free cash flow per share scenarios.

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

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Thanks, Haviv, and good afternoon, everyone. As Haviv mentioned, second quarter revenue was $3.8 billion. Gross profit in the quarter was $2.2 billion, or 58% of revenue. Sequentially, gross profit margin increased 60 basis points, primarily due to higher revenue as well as lower manufacturing unit costs due to increased factory loadings and more manufacturing internally, with more wafers on 300mm.

Operating expenses in the quarter were $963 million, up 3% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.7 billion, or 23% of revenue.

Operating profit was $1.2 billion in the quarter, or 33% of revenue, and was down 37% from the year ago quarter.

Net income in the second quarter was $1.1 billion, or $1.22 per share. Earnings per share included a 5-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 $1.6 billion in the quarter and $6.4 billion on a trailing 12-month basis. Capital expenditures were $1.1 billion in the quarter and $5 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $1.5 billion. As a reminder, free cash flow includes benefits from the CHIPS Act investment tax credit, which was $312 million for second quarter.

In the quarter, we paid $1.2 billion in dividends and repurchased $71 million of our stock. In total, we returned $4.9 billion to our owners in the past 12 months.

Our balance sheet remains strong with $9.7 billion of cash and short-term investments at the end of the second quarter. In the quarter, we repaid $300 million of debt. Total debt outstanding is now $14 billion with a weighted average coupon of 3.8%.

Inventory at the end of the quarter was $4.1 billion, up $23 million from the prior quarter, and days were 229, down 6 days sequentially.

For the third quarter, we expect TI revenue in the range of $3.94 billion to $4.26 billion and earnings per share to be in the range of $1.24 to $1.48.

We continue to expect our 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 Inc - Vice President, Head of Investor Relations*

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 will provide you an opportunity for a follow-up. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Timothy Arcuri, UBS.

Timothy Arcuri - *UBS Investment Bank - Analyst*

Thanks a lot. There were some comments from a geopolitical perspective. One of the candidates is talking about the China-Taiwan relationship, and I'm just asking how the geopolitical environment is sort of impacting your customers' buying decisions?

I think you said last call that even some of your Chinese customers who are exporting product want geopolitically dependable capacity. I think you talked about that being kind of an increasingly big factor in autos. Can you talk about that, and is that beginning to drive some share gains for you?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Thanks, Tim. I'll take that. It's Haviv. First, geopolitical dependable capacity is not a new thing for us. We have started to see these requests coming, I think, two or three years ago when tensions started to rise. But as we reflect on it, now three years in, it's obvious that there is more and more tension. Usually at the highest levels of our customers, I'm talking about leadership of CEO or chief purchasing officers, looking at their supply chain and making sure that they are going to be immune from whatever is thrown at them, part of it is geopolitical tension.

And this is where TI is a great answer. We are a very unique supplier in the sense of we can provide capacity at scale, meaning the amount of wafers and the size of the capacity that we are building is very high. It is a very affordable capacity, us building our parts on 300mm wafers allows for a lower cost per chip, and then building them internally in our assembly and test houses also provides a very good low cost structure.

And last but not least, is this geopolitically dependable capacity, meaning our fabs are being built in the U.S., mainly in Texas and in Lehi, Utah. And we provide capacity that is at scale, affordable and dependable.

And yes, every time there is some news out there, we are seeing more interest. We have seen that grown over the last several years. And in that sense, our discussions with our customers are providing us more opportunity to win positions in future platforms. I do believe we are taking a bigger share, and this is part of our confidence to continue with our investments to serve that opportunity moving forward.

Last but not least, you have touched China. Yes, you're right. If I take an example and just on the automotive side, our customers in China do care a lot about their export business. In that sense, our capacity is highly welcomed by them because we can compete at the market price with a very competitive offering, yet have that dependability to serve our customers, not only in China, but also outside of China for their export business.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Any follow-up Tim?

Timothy Arcuri - *UBS Investment Bank - Analyst*

I do, yes. Rafael, can you give us an update on CHIPS Act? Do you know how much you're getting yet, and can you kind of talk about that?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Yes, sure, Tim. So on the grants, frankly, we're still going through the process. So we submitted the application, and we're just working through the details with the CHIPS program office. But given your question, let me comment also on the ITC, the investment tax credit. To date, we have accrued about $1.8 billion in total, that's on the 25% ITC. This benefit already started flowing through the income statement as lower depreciation. In addition, in second quarter we received, as I said in the prepared remarks, $312 million of cash benefits, and that is reflected in operating and free cash flow, and we expect to receive another $200 million in 3Q, for a total of $1 billion for 2024.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Thank you, Tim. Next caller, please.

Operator

Stacy Rasgon, Bernstein Research.

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

Hey guys, thank you for taking my question. in Q2, it looked like the strength was primarily from personal electronics, given industrial and auto were down, and maybe calculators as well, I don't know, other was pretty strong. I was wondering if you could give us some color on where your expectations for the growth in Q3 sequentially is coming from. Is it still primarily at personal electronics? And I guess maybe, calculators or other stuff. How do I think about the end market trends as we go forward in the next quarter?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Thanks for the question, Stacy. I'll start, and I'll let Dave add some more color on Q2. So if I go back to the second quarter, yes, if you look at our results, industrial did decline at the low-single digits. Automotive continue to decline at mid-single digits. That was the third quarter in a row of that decline, although from a year-over-year perspective, it's still doing well, meaning less than 10% of a decline. It declined about 9% in Q2. Yes, there is strength in personal electronics, and I do see that market -- it went through the entire cycle. It troughed sometime in the first quarter of 2023, and we've seen that market strengthening. And again, it grew mid-teens sequentially, but close to 20% year over year. So there is definitely strength over there. And I would also say that on the enterprise market, again, a smaller revenue for us, but we are seeing a recovery over there, and I believe that inventory correction is behind us. Regarding the other business, it grew, thanks to our calculator business as you mentioned, but also our DLP business, which mainly serves the personal electronics market. And Dave, maybe you can add some more color on the sectors as we talk about Q2.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Yes. I think as we have seen, even inside of industrial, we've had sectors behave asynchronously. So when we first began to see weakness in industrial, which really began in the third quarter, that was the peak in third quarter '22, that was the peak in industrial. We talked about seeing about half of the sectors or so show weakness and those earlier stage sectors, some of them have found bottoms and begun to grow, and you can see some of that bottoming process taking place. The others, we're only three or so quarters in, and we've got several of them that are continuing to decline at double-digit rates. So again, as we've seen all of our markets behave asynchronously inside of the sectors, we've seen that in industrial as well. Do you have a follow-up, Stacy?

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

I do actually. Maybe to reask the same question, so you're guiding revenue sequentially up close to $300 million. How do we think about that $300 million growth parsing out across the end markets in Q3?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes, Stacy. Hey, I'm on the call, but still, we are not going to predict or to give a guidance by market for the third quarter. I mean, the midpoint of the range, we expect revenue to grow about 7%. But as you know, it's not unusual for us to see sequential growth in the third quarter. I mean, typically, this --

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

Is it PE is what I'm asking. Is it mostly PE?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Typically, Q3 is a quarter where if you go back to pre-COVID days, this is the quarter where customers are preparing their end equipment or the end product for the holiday season. So, it's usually a strong quarter for the company. And we are seeing that very similar behavior right now at the midpoint of our -- of the range of our forecast. I don't know, Dave, if you want to add anything.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

I think that's good. Thank you, Stacy.

Operator

Vivek Arya, Bank of America.

Vivek Arya - *BofA Securities - Analyst*

Thanks for taking my question. I wanted to ask about the China market, and what you're seeing in terms of not just the demand side, but are you seeing any incremental supply coming on that can create a concern from a pricing perspective? Because every time this question is asked to industries, and not just TI, the answer is always that, well, the IP is not there, they don't have product breath and whatnot, but they're still buying a lot of trailing edge equipment. So at what point, Haviv, does that start to become a concern from just a global capacity and global pricing perspective for Texas Instruments?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Thanks, Vivek. Let me start with the first part of your question on how the China market did because I think it was a good quarter for our China business. Our China headquarters business grew sequentially at about 20% versus the first quarter. And we've seen the momentum across all markets. I mean, all five markets grew sequentially, I think, 15% or 20%. So they all did well. And this is after seven quarters of sequential decline. So if you think about the way I look at the China market, and it was exposed to all end markets for TI, it took seven quarters for this asynchronous cycle to go through, starting with PE, personal electronics, then spreading to industrial and enterprise and just lately to automotive. But all of these have now corrected, and Q2 was a good quarter for our business. And I believe we are now shipping to end demand, meaning customers have stopped managing their inventories over there.

Now in terms of the competition in China, I don't think that's -- I mean, we've been very vocal about it. This is, first, not new, that competition has intensified over the past several years. And I think it's growing stronger. I think it's a mistake for us to think that these guys are only doing simple parts. These are very ambitious, highly educated competitors. And our job here in TI, and that's what I tried to teach the team, is to compete. And I will tell you that, yes, the market is more competitive in China, but we can compete and we can win business in very attractive margins. So we are going to continue to do that. Our goal, objective is to continue and gain market share in China.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Yes. Vivek, I'd just add one thing, Haviv, the growth in China that we saw was strong across all the markets, including automotive and industrial there. So I think that's an important point.

So Vivek, you have a follow-up?

Vivek Arya - *BofA Securities - Analyst*

Yes, thank you Dave. So I know for Q3, you're not giving specific end market commentary. But just from an industry perspective, how would you describe the supply-demand situation in industrial and automotive semis, just because we see such a broad range of data points. Do you think we are past the worst in terms of inventory adjustment and supply issues for those two end markets? And if you could describe the situation in those two markets separately, that will be really, really helpful. Thank you.

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Dave, I'll let you take this one.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Okay. Yes. I think what we can see, Vivek, of course we don't get any data feeds on customer inventory. We don't get any data feeds on customer shipments, but we can look into things like the order patterns, we can look at feeds that we get in consignment, we can see what's happening with our inventories and our positions. So as we've talked about, cancellations, as an example, as a measure, have continued to come down, our lead times, I described as very stable.

We've got immediate availability of almost all of our products, so that does drive lower visibility with backlog because customers can get product when they need it. And we do believe that some markets -- PE bottomed back in first quarter of '23 and has been more seasonal since then. We've seen some of the other markets that, as we've shared earlier, are beginning to grow, so there's likely a bottom forming within some of those markets. We've got industrial and automotive that have continued to decline. Now I'd say within industrial, I mentioned earlier, some of the sectors are forming a bottom, others are continuing to decline. And automotive, we've got three quarters behind us, right? So that's how, as we look into where we are positioned today, but we don't have a strong signal that can tell us exactly to be able to answer the question that you asked.

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes. The only one comment I will add, Vivek, in terms of the difference. So automotive, so far, at least just year to date, is down mid-single digits, and that is off of a very good 2023 for us, right? We grew about 17% in 2023. And I think it's just helped by the strong secular content growth that we see in automotive. And this is across both combustion engines, or ICE, and EVs. So that's maybe the slight difference I see between these two markets.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Thank you Vivek. We'll go to the next caller.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank AG - Analyst*

Hey, guys, thanks for letting me ask a question. Haviv, great to have you on the call. So I'll ask one for you and maybe Rafael would chime in as well. You guys have given -- at least Rafael -- in the past some mid-quarter updates or earnings call updates on CapEx and depreciation versus your pre-existing plan. So are you still planning to spend $5 billion a year? And does the depreciation ranges, Rafael, you gave before still apply, or are we going to have some more flexibility on those metrics going forward?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Okay. I'll start and Rafael, maybe you can provide some more color. So first, again, our strategy has not changed, and it continues to serve us well, as I said before. The secular growth in industrial and automotive and our position, our market position and our product portfolio position, gives us the confidence that there is a higher opportunity over there.

On top of it, as we said earlier, customers do want and value geopolitically dependable capacity. So we are pleased with our progress. Our CapEx strategy provides us both with capacity for growth and flexibility. And at the end of the day, CapEx supports revenue growth, and need to be prepared for different scenarios.

Now, we always continue to evaluate our plans and investments based on what we see on the demand environment, the dynamics, the growth opportunities in the market. And to talk more about it, as I said in my prepared remarks, we are going to have our off-cycle capital management call in a month, in four weeks. It's just an opportunity to share just additional insight. So we'll go through our investment plan with more granularity on what exactly we are doing per factory, and then we'll provide a framework of revenue scenarios and what would free cash flow per share and CapEx do versus each and every scenario.

And regarding depreciation, Rafael, I don't know if you want to add anything?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Yes. So I'll just comment on depreciation. Ross, I'm going to narrow that depreciation range a little bit, both for '24 and '25. So for 2024, we now expect depreciation to be between $1.5 billion and $1.6 billion. And for 2025, we now expect depreciation to be about $2 billion to $2.3 billion.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Do you have a follow-on, Ross?

Ross Seymore - *Deutsche Bank AG - Analyst*

I do, and thanks for all those details, Haviv and Rafael. So one for you, Rafael, if I heard you right on the gross margin rising in the second quarter, you mentioned that loadings increased. I thought that they were going to decrease to burn some inventory now that you have that at kind of the $4 billion target. So did something change there? And what's the expectations for utilization going forward?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Yes, no, so the loadings came in about as expected, but let me just tell you more about it. Second quarter loadings were up versus first quarter. And as you saw, we're essentially flat on inventory. So essentially, the ins and outs were pretty much offsetting.

When it comes to third quarter, we expect utilization -- or factory loadings to be flat to slightly up. And in our base case for the EPS guidance that we have, that's what we have in there. But of course, we have time during the quarter to adjust those loadings, depending on what we expect for fourth quarter.

On GPM specifically for third quarter, I would in that base case at the midpoint of our guidance, I would expect GPM percentage to be up versus second quarter.

Ross Seymore - *Deutsche Bank AG - Analyst*

Thank you guys.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Thank you, Ross. We'll take the next caller please.

Operator

Chris Danely, Citibank.

Christopher Danely - *Citigroup Inc. - Analyst*

Just a follow-up on Ross' question in terms of gross margin. So depreciation is going up like $100 million roughly per quarter for next year. But if utilization rates keep going up, i.e., if nothing gets any worse, do you think is it possible that your gross margins are bottoming now? Or is there anything else that could drive them lower or maybe provide a tailwind? Just give us maybe the mechanics around it for the next several quarters?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Sure. Sure. I'll be happy -- and I'll -- at the end of the day, yes, it is possible that is the case. It's all going to depend on revenue, of course. So the main driver is revenue. So in addition to revenue, as we bring more -- executing on our strategy to load more 300mm wafers and bringing more external loadings internal, the fall-through excluding depreciation would likely turn more in the range of 75% to 85% on a year-on-year basis.

Now of course, any one quarter, even any one year, you may have puts and takes that -- utilization or factory loadings is one of those, that sometimes it goes against you, sometimes it goes in favor. But in general, expect that fall through on 75% to 85%, not counting depreciation.

So, you do the math, whatever revenue assumptions you want to put over the next several quarters or years, do that fall-through, and you can very easily model where -- and I just gave you depreciation, right? So you can then model what gross margins can do over the next several years.

Christopher Danely - *Citigroup Inc. - Analyst*

Great. Thanks for the additional bread crumbs. They're very useful. My follow-up is just on bookings. I think last quarter, you said that bookings were increasing every month. Is that still true? And do you think that for the industrial automotive space we're at least getting close to the bottom there? Or do you feel any better about either of those end markets on a relative basis?

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Yes. So again, as you look at those things, revenue did increase as well as orders throughout the quarter, which is very typical that we would see in the second quarter. And certainly, as we've got growth at the midpoint, that would not be unexpected. Again, those other sides of lead times, really on all of our products having immediate availability, and stable lead times, cancellations continuing to decline. All those things, I think, point to supply and demand becoming more in balance and that availability. So -- and there is a second part of your question, Chris, that I'm not addressing, I'm not sure what it was. Could you just repeat it for me?

Christopher Danely - *Citigroup Inc. - Analyst*

Yes, it was just, our bookings are still increasing month over month. And then between the auto or the industrial end market, do you feel any better or worse about either of those?

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Well, yes, again, I think that we've got half of the sectors that, again, we can see forming a bottom inside of industrial. Overall, it's been elongated, but if you look at it sector by sector, it's probably a better view overall. And in auto, this is our third quarter of decline. We're down about 13% from where the revenue peaked. It's a pretty shallow decline compared to how the other markets had behaved so far. So that's what we see.

So thank you, Chris.

Operator

Toshiya Hari, Goldman Sachs.

Toshiya Hari - *Goldman Sachs Group Inc - Analyst*

Hi, good afternoon. Thank you so much for taking the question. Haviv, maybe one for you on CapEx and how you're thinking about long-term revenue growth. You've always had the slide in your capital management call deck where you show revenue supported. I think you have for '26, you had $30 billion; for 2030, you had $45 billion. I know you're constantly evaluating your plans, and you talked about presenting various scenarios on the August call. But I'm curious, is the $30 billion for '26 and $45 billion for 2030, are those still kind of the base case scenarios for you, or has there been any change post conversations with customers?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

So Toshiya, first, I do want to leave something for August. So I think it's going to be just a better environment to go provide this information. We'll also provide supporting materials, and we'll update the presentation, where you'll see, as I said, the different scenarios and how we see them. And to me, step-by-step, right now, when I think about how we establish our CapEx plan, we need to think about what the next peak wants to do. We'll discuss that. We'll discuss different scenarios of revenue leading to the next peak and what will CapEx do accordingly, and as a result, what free cash flow per share will be. Again, I don't want to give the whole pitch right now, but I think it's going to be important for investors to join and hear our latest update.

Toshiya Hari - *Goldman Sachs Group Inc - Analyst*

Understood, Haviv. Just a question on Embedded Processing. Revenue was down sequentially, and the year-over-year decline actually accelerated. Analog, we've seen some stabilization. So I'm just curious what you're seeing in the Embedded Processing side. Is this purely volume pressure, or is there a pricing or competitive component here as well? I think the operating margins for that business came in a little bit as well sequentially. So just curious, thank you.

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes. Let me start first on a high level. The Embedded business -- so when I look at the underneath beyond the numbers, it's getting stronger. Our product portfolio is improving, and when I look at this decade, just the opportunity for that business to be a major contributor for TI's growth of free cash flow per share is very high. So I'm very encouraged by the progress of the business.

Now regarding the cycle, first, Embedded has a little bit of a different structure compared to Analog. It's mainly composed of industrial and automotive, so it has less exposure into personal electronics, enterprise or communication equipment. And these two markets kind of peaked later, right? So if you look at the Embedded business versus Analog, it peaked a year after, kind of middle of 2023 versus the middle of '22 for the Analog business.

In addition to that, the Embedded business today -- although as Rafael mentioned it's being changed -- was mainly supported from foundry wafers during the upcycle, and we felt more limitation over there compared to our internal supply capacity. So now when these supply issues are resolved, we are seeing customers just adjusting their inventory. That's what I believe is happening, and therefore, Embedded is seeing that sharper correction. But again, when I look at it from the top, Embedded is strengthening, and I think will continue to serve us very well moving forward.

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Let me just add, on the operating profit question or angle that you had. Just as a reminder, as Haviv said, traditionally Embedded has relied on external wafers, but we now have -- we're bringing them in, and we have the Lehi factory as -- disproportionately will serve Embedded. And therefore, Embedded is taking a disproportionate amount of the fixed cost charges there. But just like that is a put right now, it will be a tailwind. It's a headwind now, it will be a tailwind in the future, as we qualify more and more parts -- Embedded parts as well as Analog -- at that Lehi factory.

Toshiya Hari - *Goldman Sachs Group Inc - Analyst*

Sure, thank you so much.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Have a great day. Next caller please.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Yeah. Thank you for taking my question and great to have you on the call, Haviv. Maybe to follow up on the Embedded question, right, because this business grew 3% last year versus your Analog business, which was down 15%. Yes, year to date, it's down about as much as your peers or, I would argue, slightly better. You've articulated the positive strategy changes previously like more catalog, broad market focus. So bottom line, again, over the past few years, it seems like you've made good improvements in this business.

So as the team moves Embedded more to internal manufacturing, combined with the strategy shift, maybe Haviv, can you just comment on the design win momentum? What areas are you particularly doing well in, and I'm not sure Rafael, how should we think about the improvements in Embedded margins as you move what was once mostly outsourced to internal manufacturing?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes. Let me start, and I'll let Rafael add some more color. But again, as you mentioned, the Embedded business has gone through change in the last four or five years, and Amichai has done a great job to position the business such that it benefits our competitive advantages.

Think about manufacturing and technology, so shifting really from almost like 80% external to when done, maybe the opposite, 80% internal. Building a higher breadth of products, so not less concentration of revenue per socket and us expanding our product portfolio. Utilizing the reach of our market channels, think about the large sales team of TI, think about TI.com, the more catalog is the product, the better fit to our strategy. So in that sense, that is moving well.

In terms of design-in momentum, again, it's mainly an industrial and automotive business, so very high visibility on the automotive side. But as you also know, it takes time. So I'm encouraged with the design-in momentum. Our funnel increased tremendously when I compare it to the Analog side because every funnel of every supplier grows, but we've seen a disproportional growth of our design-in momentum for Embedded versus previous year and also versus Analog just in terms of the rates.

And I will give some examples. We see good momentum in real-time control. Think about EVs, onboard chargers, think about traction inverters. Very good momentum in connectivity, automotive and beyond. Think about car entries, tire pressure monitoring and other body-related opportunities in the automotive market. I can continue with kind of more application-specific products like our radar systems. We have great position and growing position in radar, winning a lot of new business, both with the Tier 1s and the OEMs. This is from imaging radar for the front to the corner radar to even parking assist and also in-cabin sensing, that radar is taking a bigger and bigger part in the automotive market.

And many other examples on the industrial side. Here the number of end equipment is really vast, hundreds of end equipments. But this is where our catalog MCUs, that we are really reviving the presence of TI and building a new portfolio based on our MSP family, is doing very well in winning new business across the board, across the market, utilizing our channel advantage.

So I can go on and on here. But again, just the evidence of my excitement of what this business can do for us in the second half of this decade. Rafael?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

Yes, I'll just add on your question on fall-throughs for Embedded. Of course we don't give guidance separate for the segments. So the 75% to 85% gross margin fall-through ex depreciation that I talked about earlier applies to both. Outside of -- if we didn't have Lehi, and I'll address that in a second, but we didn't have that, I would say, generally Analog would be at the higher end of that range; Embedded would be at the lower end. But for the next year or two or three -- because Lehi, all those fixed costs are already there, including people -- we're going to have some nice tailwind, and a good portion of that will go to Embedded. But over the longer time frame, 75% to 85% ex depreciation is a good guide to use.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Do you have a follow-on, Harlan?

Harlan Sur - *JPMorgan Chase & Co - Analyst*

Yes. In terms of channel reach, right, we haven't heard you guys talk about TI.com in quite some time. I think the last data point we got was it about $2 billion in sales in calendar '22 and it sort of has this additional benefit from a business planning perspective, being a really good sort of leading indicator of demand inflection. As you sort of potentially pass the bottom of sort of the current cycle here, wondering if there's been any notable movement or trends in TI.com? And maybe from a longer term perspective, like what initiatives has the team put in place to sort of further improve the customer pull to TI.com from a mid to longer term perspective?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes. Let me start more in the mid to longer term, and I'll let Dave add some more color on how it looks versus the cycle. So in terms of the investments in TI.com, yes, they are continuing. These are very strategic and important investments for us. We believe there is a huge opportunity to digitize what we call the last mile, or that interface between us and the customers. There are many, many customers, still a long tail of customers, that we can't see today, but as they move to TI.com, we can supply them with more information. We can even provide opportunity to place backlog electronically, directly to TI. And in that sense, the importance for us is to just know our customers better, understand the end equipment and provide the relevant product portfolio to serve their growth and win market share, right? So that data is to us, very, very important, and the direct connectivity with the customer is important. To do just that, we are investing in IT systems. We are investing in warehouses, or, if you will, logistics to serve these customers just in time, as they need it. And that is part of the way customers would opt to TI and just connect directly to us.

Now in terms of the short term, Dave, maybe you can talk a little bit about what we're seeing there through the cycle?

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Yes. And as we would have expected, orders that are placed through TI.com are down significantly from its peak, just I think, just telling of where we are with availability of product. But the great thing with TI.com is customers connect through APIs and put their planning systems on that. When they do have a shortage, they can look into our inventory, they can see it -- some have even automated that process and have products shipped, in many cases, the same day. So we think the long-term strategic value of TI.com is much higher than the transactions that will cross it here in the short term.

So thank you, Harlan. We will go to the next caller please.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

Great. Thank you. I wonder just as you kind of think about this longer term strategy, you've got well over 200 days of inventory, you have relatively low factory utilization. Like do you think this means we won't have shortages down the road, that people can look at the capacity that you have, the inventory that you have, and they won't have the need to accumulate inventory? Is that part of the thinking? Or do you think it's just inevitable that we'll get back to that at some point?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Again, the investment first in capacity ahead of the demand and then in inventory is done to really improve customer service, right? And we believe it's important to keep that not only now when it's kind of easy and we have a market cycle that you can call it at a low point. The test for our company would be at the next upcycle, okay? Not only an upcycle, you can model, Joe, any upcycle that you want, but we want to be supporting our customers at the highest level, even if the cycle looks like a very steep one. And we model, for example, the COVID cycle as a similar one, and that's what drives our investments. I think it's very, very important to serve your customers ahead of the competition at times like that because that's the opportunity to gain share, and we are going to be prepared for that opportunity. Having said that, all that is done in a very thoughtful way. Inventory is being built at the right part, where we have this diversity and longevity position such that we don't risk the scrap of the inventory. And I'm pleased with the progress we have made, but the test will come, and I'm sure it will come one day at the next upcycle. I don't know if you want to add anything, Dave.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

I think that's good. Joe, do you have a follow-up?

Joseph Moore - *Morgan Stanley - Analyst*

Yes. I mean just to follow up on that, to the extent that your competition is doing things more the way they traditionally have, and probably will see boom/bust cycles, what happens in the next upturn if they can't get parts from three of your competitors? Is there a way you can keep them from accumulating inventory of TI components, even though they shouldn't need to. I mean that seems like it's part of kind of the industry behavior in the past. Just how focused are you on trying to dampen that?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Again, I think our capacity and the inventory level that we have built are such that we can to provide good or very high customer service levels, right? So our intention is to maintain lead times through the cycle. It depends what cycle you throw at us. There is always going to be that one cycle or that steep cycle that maybe we won't be able to do it. But we have modeled the company in such a way that in most demand situation, we would be able to maintain a good customer -- or high customer service levels through the cycle, which hopefully will keep the lead time short and which I'm pretty sure will encourage customers not to hoard inventory. That has to be proven, but that's the way we want to prepare for the future.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

And just to add one thing, I'd just say that I spent eight years in sales, I joke I never once took a double order. And so trying to control customer behavior, when things get short, people want to build more inventory, right? And so that's just the behavior that I think that will be in our industry for the foreseeable future, but we can gain share in those periods of time, and that's the advantage of having the capacity in place.

So that said, we'll go to the next and last caller, please.

Operator

Chris Caso, Wolfe Research.

Christopher Caso - *Wolfe Research, LLC - Analyst*

Yes, thanks. Good evening. The question is on your earlier comments on China. It sounds like that rebounded fairly robustly in the first quarter. Could you give some more color on what you were seeing within China? And then do you think -- do you feel that the Chinese customers are still burning through inventory? Are you still undershipping demand there?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes, thanks for the question. First, I would say that in China, it's -- there is a very distinct signal that customers have worked down their inventories. And we've seen that spreading through time with the market. If you think about the asynchronous behavior that we have described of the different markets, we saw the same in China. The personal electronics business peaked in China somewhere in 2021, enterprise and industrial sometime in '22 and then automotive peaked sometime in '23. So you saw that peak spread over three years, which I think is the reason we saw such elongated decline of seven quarters in a row. And we went backwards to our history, and it's been one of the longest, if not the longest, cycle we have seen. But I can see clearly that it's mainly played out. Of course, you will always find pockets and a few sectors in the industrial market that are still going through that. But it's very clear that once you start to shift to end demand, you will see such behavior of, in our case, 20% sequential growth. And that momentum is being built across the markets. All markets did very well in China, growing between 15% to 20-something percent, okay? So very robust, coherent, and that's like a recovery looks like. Now we haven't seen that across the other markets. I will even tell you that the areas like Europe and Japan are in an early phase. And hopefully, it doesn't take seven quarters per geography, but China was kind of the first into the upcycle, the beginning of COVID, the first one to correct on the down. And now, to me, the first one kind of raising a very strong sequential growth with momentum. So that's the way I would summarize it without trying to imply that we'll see the same behavior in each and every other market.

Dave Pahl - *Texas Instruments Inc - Vice President, Head of Investor Relations*

Do you have a follow-up, Chris?

Christopher Caso - *Wolfe Research, LLC - Analyst*

I do, thanks. And just a quick follow-up, and I'm sure this is another thing you'll address on the August call, but you narrowed the range for depreciation next year down a little bit. Last quarter, you talked about CapEx kind of being around this $5 million level per year. It was down sequentially in the second quarter. Is $5 billion still a reasonable way of looking at CapEx this year?

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

Yes. There is no news here strategically, but Rafael, maybe you want to guide on CapEx?

Rafael Lizardi - *Texas Instruments Inc - Chief Financial Officer*

No, this year, $5 billion. What you saw in second quarter is just little puts and takes on a quarterly basis, but for 2024, $5 billion of CapEx, and the depreciation numbers I gave are reflective of that.

Haviv Ilan - *Texas Instruments Inc - President and Chief Executive Officer*

So let me wrap up with what we've said previously. At our core, we are engineers. Our technology is the foundation of our company. But ultimately, our objective and the best metric to measure progress and generate value for owners is the long-term growth of free cash flow per share. While we strive to achieve our objective, we'll continue to pursue our three ambitions. First, 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 are personally proud to be part of and we would want as our neighbor. When we are successful, our employees, customers, communities and owners all benefit.

Thank you, and have a good evening.

Operator

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