Q4 2019 Earnings Call

Company Participants

- Dave Pahl, Vice President and Head of Investor Relations
- Rafael R. Lizardi, Senior Vice President, Chief Financial Officer and Chief Accounting Officer, Finance and Operations

Other Participants

- Ambrish Srivastava, Analyst
- Chris Danley, Analyst
- Harlan Sur, Analyst
- John Pitzer, Analyst
- Ross Seymore, Analyst
- Tore Svanberg, Analyst
- Toshiya Hari, Analyst

Presentation

Operator

Good day, and welcome to the Texas Instruments' Fourth Quarter 2019 and 2019 Year End Earnings Release Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

Dave Pahl {BIO 18870833 <GO>}

Good afternoon, and thank you for joining our fourth quarter and 2019 earnings conference call. Rafael Lizardi, TI's Chief Financial Officer is with me today. For any of you, who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through our website. A replay will be available through the web.

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. First, let me provide some information that's important for your calendars. We plan to hold a call to review our capital management strategy on February 4th at 10:00 AM Central Time. Similar to what we've done in the past, Rafael and I will provide insight into our strategy.

For today's call, let me start by summarizing what Rafael and I will be reviewing. I'll be covering the following topics. First, a high-level summary of the financial results for the fourth quarter. Second, I will provide some comments about what we're seeing with added insight by segment and end market, and explain why we would characterize the market that's showing signs of stabilizing. And finally, since this is the end of the calendar year, I'll provide a summary of our performance by end market for 2019. Rafael will then review profitability, capital management results and then the outlook after which we'll open the call for Q&A.

Starting with the high-level summary of the fourth quarter financial results. Revenue was $3.35 billion, a decrease of 10% from a year ago, and EPS was $1.12 per share including a $0.01 benefit not in our original guidance. Revenue came in above the midpoint of our guidance with the relative strength across all markets.

At the Company level, our year-on-year declines abated slightly from 11% in the third quarter to 10% in the fourth quarter. While this is only a marginal improvement, all end markets reduced their rate of decline substantially with the exception of communications equipment where the year-over-year decline increased about as expected, given the strength in this end market in the year-ago quarter.

In fourth quarter 2019, Analog revenue declined 5% and Embedded Processing revenue declined 20% compared with the same quarter a year ago. Analog's year-on-year rate of decline went from 8% in the third quarter to 5% in the fourth quarter, and Embedded's decline slightly increased from 19% to 20% over the same period.

When we look at the market, since 90 days ago, we moved from the third quarter were customers were increasingly cautious to the fourth quarter where results and behavior throughout the quarter reflected what we believe is best described is demand stabilizing. Based on history, this would imply that customer and channel inventory that built up during 2017 and '18 would now mostly be depleted. This suggests that demand this year will be more a function of our customers' end demand and therefore the macroeconomy which may continue to be uncertain.

Moving on, I'll now provide some details on the fourth quarter by segment and end market. From the year-ago quarter, Analog revenue declined 5% due to declines in Signal Chain, High Volume and Power. Embedded Processing revenue declined 20% from the year-ago quarter, primarily due to Processors, Connected Microcontrollers also declined. Our Other segment declined 24% from the year-ago quarter.

For the year in total, Analog declined 5%, and Embedded declined 17%. Analog and Embedded combined were 92% of revenue. From an end market perspective, in the fourth quarter, all markets declined year-on-year 3% to 4% with the exception of communications equipment. Communications equipment declined about 50% from the year-ago quarter, about as expected as all major customers, geographies and technologies declined.

Next, as we do at the end of each calendar year, I'll describe our revenue by end market for 2019. We break this into six categories, industrial, automotive, personal electronics, which includes products such as mobile phones, PCs, tablets and TVs, communications equipment, enterprise systems and other which is primarily calculators.

As a percentage of revenue for the year, industrial was 36%, automotive, 21%, personal electronics 23%, communications equipment 11%, enterprise systems 6%, and other was 3%. Looking at the changes versus 2018, automotive increased by 1 percentage point, enterprise systems decreased by 1 percentage point, and the remaining markets were unchanged. In 2019, industrial and automotive combined made up 57% of TI's revenue, up 1 percentage point from last year and up from 42% in 2013. We established momentum in these markets and we see great opportunity ahead.

Next, one of our competitive advantages is diversity and longevity which can be measured in multiple dimensions. From a diversity perspective, we have over 100,000 customers and tens of thousands of devices. In 2019, almost 2/3 of our revenue came from customers who bought $100 million or less of our products.

In 2019, our top 10 devices represented about 5% of our revenue, and the top 100 device was less than 1/10 of 1% of our revenue. From a longevity perspective, over 40% of our revenue came from devices that we've been producing for at least 10 years. Our investments are directed to continue to diversify our growth across products, markets, and customers, strengthening this competitive advantage.

Next, we are announcing today that we will be closing our last two 6-inch or 150-millimeter wafer fab, which are both more than 50 years old. This will be a multi-year plan and is expected to be completed no earlier than 2023 and no later than 2025. There are no charges in this quarter's results and we'll keep you updated as needed in the future.

Separately, our plans to build our next 300-millimeter factory in Richardson, Texas are underway, with dirt moving and cranes on site. We expect the building shell to be completed by the end of 2021 and ready to install tools when needed to meet market demand, which will allow us to continue to support growth and strengthen our manufacturing and technology competitive advantage.

So to wrap up, we remain focused on Analog and Embedded, the best products. We remain focused on the industrial and automotive markets, the best markets and still be the fastest-growing semiconductor markets as they have increasing semiconductor content and also provide diversity and longevity, all of this translates to a high terminal value of our portfolio.

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

Rafael R. Lizardi {BIO 20006334 <GO>}

Thanks, Dave, and good afternoon, everyone. Gross profit in the quarter was $2.1 billion or 63% of revenue. From a year ago, gross profit decreased primarily due to lower revenue. Gross profit margin decreased 220 basis points. Operating expenses in the quarter were $798 million, down 2% from a year ago and about as expected.

On a trailing 12 month basis, operating expenses were 22% of revenue. For the year, we have invested $1.5 billion in R&D, an important element of our capital allocation. We're pleased with our disciplined process of allocating capital to R&D which we believe will allow us to continue to grow our top line over the long term. Acquisition charges and non-cash expenses were $50 million. Acquisition charges will remain at about $50 million through the third quarter of 2021.

Operating profit was $1.2 billion or 37% of revenue. Operating profit was down 18% from the year-ago quarter. Operating margin for Analog was 42%, down from 47% a year ago. And for Embedded Processing was 25%, down from 30% a year ago. Our focused investments and the best sustainable growth opportunities with differentiated positions will enable both businesses to contribute nicely to free cash flow growth over time.

Other income and -- net income in the fourth quarter was $1.1 billion or $1.12 per share which included a $0.01 benefit for items that were not in our prior outlook as we have discussed.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was $1.8 billion in the quarter. Capital expenditures were $163 million in the quarter. Free cash flow on a trailing 12-month basis was $5.8 billion, down 4% from a year ago. In the quarter, we paid $841 million in dividends, an increase of 17% per share, marking our 16th year of a dividend increase.

We repurchased $489 million of our stock for a total return to owners of $1.3 billion. In total, we have returned $6 billion in the past 12 months, consistent with our strategy to return all free cash flow to our owners. Over the same period, our dividends represented 52% of free cash flow, underscoring their sustainability.

Our balance sheet remains strong with $5.4 billion of cash and short-term investments at the end of the fourth quarter. Total debt was $5.8 billion with a weighted average coupon of 2.99%. Inventory days were 144, down eight days from a year ago and up five days sequentially. We are pleased with our inventory and it is positioned to support growth.

Now, let's look at some of these results for the year. In 2019, cash flow from operations was $6.6 billion. Capital expenditures were $847 million or 6% of revenue. Free cash flow for 2019 was $5.8 billion or 40% of revenue. Our cash flow reflects the strength of our business model. As we have said, we believe free cash flow growth, especially on a per-share basis is most important to maximizing shareholder value in the long-term and will be valued only if it is productively invested in the business or return to shareholders.

We remain committed to return all free cash flow to owners. Over the last 12 months, we paid $3 billion in dividends and purchased $3 billion of our own shares, reducing outstanding share count by 1.4% in 2019 and by 46% since the end of 2004, when we initiated a program designed to reduce our share count.

Turning to our outlook for the first quarter, we expect TI revenue in the range of $3.12 billion to $3.38 billion, and earnings per share to be in the range of $0.96 to $1.14 which includes an estimated $20 million discrete tax benefit. We continue to expect our 2020 annual operating tax rate to be about 15%. As usual, details of our expectations for taxes can be found on our IR website under Financial Summary Data.

In closing, as Dave mentioned, we will stay focused in the areas that add value in the long-term. We continue to invest in our competitive advantages with our manufacturing and technology, portfolio breadth, market reach, and diverse and long-lived products. We will continue to strengthen these advantages through disciplined capital allocation and by focusing on the best products, Analog and Embedded Processing, and the best markets, industrial and automotive which we believe will enable us to continue to improve and deliver free cash flow per share growth over the long-term.

With that let me turn it back to Dave.

Dave Pahl {BIO 18870833 <GO>}

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 a question, please limit yourself to a single question. After our response, we'll provide you an opportunity for an additional follow-up. Operator?

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll take our first question from John Pitzer with Credit Suisse.

Q - John Pitzer {BIO 1541792 <GO>}

Hey, guys, congratulations on the solid results. I guess, Dave and Rafael, just relative to the March quarter guidance, at the midpoint, you're guiding down about 3% sequentially which is in line with kind of historic seasonality for the March quarter. But typically, off the bottom of the cycle, you can get some above seasonal, and at the midpoint, the year-over-year is just modestly getting better from December to March. So I'm just wondering what if there's anything specific in the March quarter as to why it's not a little bit better than seasonal, and specifically, anything around distribution strategy that might be a headwind in Q1? And then I have a follow-up.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. John, I'll take that and Rafael can add if he'd like. I think -- so the answer to the last part of that question, there is nothing in the sequential guidance that would suggest there's any headwinds from distribution. We've talked about before that we would expect -- as we make the transition and distribution, it will look similar, from a revenue headwind as we've seen with consignment. So there will be some there, but we've already got some of the headwinds from the transitions that we've made in consignment.

And I think the second part is, as we're seeing those signs of stabilization and we talked about that -- history would suggest that the growth is going to reflect the end demand of the customers and therefore the macroeconomy. So as we go through the year, that's what will be the driving force overall.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Yeah. The only other thing I would add is, as Dave mentioned during the prepared remarks, comms equipment was down year-on-year significantly as there was a tough compare a year ago. Well, 1Q '20 is going to have an even tougher compare on comms equipment, if you recall what was going on in 1Q '19 --

A - Dave Pahl {BIO 18870833 <GO>}

Right.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

-- on that front.

A - Dave Pahl {BIO 18870833 <GO>}

It was growing pretty significantly year-on-year.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Right.

A - Dave Pahl {BIO 18870833 <GO>}

Okay. John, you have follow on?

Q - John Pitzer {BIO 1541792 <GO>}

Yeah. And then my second question is just around the embedded business. I know that the SIA MCU [ph] date is not necessarily the best proxy for that business, but when you kind of compare your results to that data, up until this most recent correction, you guys were sort of consistently outgrowing the SIA MCU data. Your Embedded business has now gone through five or six quarters of kind of under-growing. And I'm just wondering if you could help us talk through maybe potential share loss. And I know you talked about CPUs specifically being weak within embedded. Is that specific to an end market like comms or how do we think about that?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So first, John, I think you're putting in a good context. And as you've stated, we believe share changes just need to be judged over long periods of time. And so if you look at revenue performance of Embedded over the last several years, we've had that significant outperformance as you pointed out in '17 and '18. Last year, we probably gave some of that back. So I just point out that in the most recent quarter at the TI level so Analog and Embedded, we saw that those signs of stabilization, but in every market, so behaving similarly except communications equipment.

So thank you, John. And we'll go to the next caller, please.

Operator

Thank you. We'll take our next question from Ross Seymore of Deutsche Bank.

Q - Ross Seymore {BIO 20902787 <GO>}

Hey guys, thanks, let me ask a question. Trying to get to the trajectory and maybe the stabilization. And in turn, Dave, I know you said it was pretty broad-based and how you upside the fourth quarter of last year. But can you give us what the sequential changes were by the end markets? I know you gave year-over-year typically, but if you could give that for the fourth quarter that'd be helpful.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, certainly, Ross. So these are all sequential compares. Industrial declined mid-single digits, automotive was about even, personal electronics declined high-single-digits, comms equipment declined about 20%, and enterprise systems grew in the low-single-digits. Do you have a follow-on, Ross?

Q - Ross Seymore {BIO 20902787 <GO>}

Yeah. I just wanted to think about the -- you talked about shutting down the two 6-inch fabs, you told us about starting up the 300-millimeter, so maybe a two-part or if I may. Can you talk about the utilization plans in the first quarter? And how do we think about CapEx? I know you said you're moving dirt, and you have cranes there, but how does that $600 million or $700 million costs that you said for the new 300-millimeter fab, how does that fold-in in 2020?

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Yeah. So -- Ross, you asked some -- a bunch of questions there. (inaudible) I'll answer the ones I remember. So first, let me emphasize, yes, we're closing two -- or two fabs that still have some 150-millimeter equipment, and they are over 50 years old and they'll be closed by as early as 2023 or as late as 2025, somewhere in that time frame.

We have about $1.5 billion of revenue that runs through those factories. And of course, we're moving most of that revenue, virtually all to 300-millimeter, so a significant cost advantage as we have talked about over the years. The new factory, so let me talk about the new factory, yeah, we got dirt-moving, cranes are there, plans are on their way. And we should have the building finished by the end of 2021. And at that point, we can put equipment as needed to support demand.

From a CapEx standpoint, you want to model that at 6% of revenue. We just finished 2019 with CapEx of 6% of revenue and you should model that going forward at about that same level.

A - Dave Pahl {BIO 18870833 <GO>}

Okay. Thank you, Ross. And we'll go to the next caller, please.

Operator

Thank you. Our next question comes from Chris Danley, Citigroup.

Q - Chris Danley {BIO 20435308 <GO>}

Hey, thanks, guys. I'm going to put the hindsight, this 2023 theory to the test year. So now that we've kind of gone through this dip and recovery, maybe just talk about why you think your sales and bookings fell off so sharply in late summer? And then what's -- why are the customers a little more, I guess, a little more optimistic right now? And then, do you feel better about your business now versus, let's call it six months ago over the summer?

A - Dave Pahl {BIO 18870833 <GO>}

Okay. Well, I'll start off and Rafael, if you want to add anything. I think -- as we go through any cycle, they are all similar in a lot of ways and different in others. And to put it in context, you'd have to go back to third quarter of '18, running up to that, we had 10 quarters of year-on-year growth. So you never know as you're going through that, or you are going to have 10 or 12 or 14 quarters of year-on-year growth, but you expect at some point that the industry have grown below. And so as we started that, we thought we were -- what we were seeing was mostly an inventory -- industry rather correction as we're working through that.

Certainly, trade tensions probably elongated that cycle and part of the reasons why we saw that other leg down later last year. And can you -- so -- and can you remind me the second part? Do we feel better about the business? I think that strategically, we felt that we continue to stay focused on improving our four competitive advantages. We haven't slowed down investments and we talked about our fabs underway. If you look at the OpEx investments that we have made, those have stayed steady, focused on areas of diversifying our growth in industrial and automotive. So I think we feel just as good today as we did about the business. The cycles will come and go.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Yeah. I'll just add. As Dave mentioned, strategically, we are well-positioned, have been that doesn't -- hasn't changed, so we continue to feel as good as ever on that front. And then operationally, we just -- we got to be ready for whatever the market throws at us. So if this was -- is going to last longer, we got to be ready for that if things are going to head south. But we also got to be ready if things turn around and then we're going to start seeing year-on-year growth. So our business model allows us to do that and we are well-positioned for it.

A - Dave Pahl {BIO 18870833 <GO>}

Right. Do you have a follow-on, Chris?

Q - Chris Danley {BIO 20435308 <GO>}

Yeah. Just a longer-term question on the Embedded Processing business. So if you look at the last couple of years, it has materially underground the overall business and we're still running it. I think it's about 10% lower margins than the corporate average. So what are you guys thinking about? What should we be thinking about sort of the long-term goals or aspirations for the Embedded business, just in terms of relative revenue growth or profits? Do we expect it to improve or not improve? And if it's not going to improve, is there anything you could do to change that?

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Yeah. I'll give you a few comments on that. As far as expectations, you mentioned margin, frankly, that's not -- Embedded has a lower margin than Analog but that is a non-issue. As long as the Embedded contributes to free cash flow growth, that's the measuring stick. Obviously, the top line has gone through some challenges here that Dave talked about earlier. But longer-term with their focus on auto and industrial in all our businesses, but that includes Embedded, we feel confident that, that business will grow longer-term.

A - Dave Pahl {BIO 18870833 <GO>}

Great. Thank you, Chris. We'll go to the next caller, please.

Operator

Thank you. We will take our next question from Toshiya Hari of Goldman Sachs.

Q - Toshiya Hari {BIO 6770302 <GO>}

Hi, guys, thanks a lot for taking the question. I was hoping to better understand what you're seeing in the comms business. I appreciate the year-ago quarter was a high compare, but the business was down 50% as Dave you noted. Curiously how big Huawei was as a percentage of that decline in Q4? And more importantly, how are you guys thinking about the trajectory for this business into 2020? And then I have a follow-up.

A - Dave Pahl {BIO 18870833 <GO>}

Sure. Yeah. So Huawei last year was 3% to 4% of our revenue, that's really unchanged from what it was the prior year. And I think if you look at comms equipment overall, if you just look at the shape of the growth curve, you had the year kind of balanced with strong growth in the first part and followed by very weak growth in the second half.

So the way that it's behaving, I don't think is -- isn't a surprise to us. As we are going through that very strong growth, we tried to remind everyone at the time that that market is a market that's just choppy, and it's -- that way primarily in early phases of technology deployments. I think longer-term, as we've talked about on our capital management presentation, we don't believe that, that will be a growth driver for us, or for the industry. And that's just based on the number of subscribers that are out in the market, and with the capital spending by operators will be longer-term. So we really think that growth in our industry will be driven by industrial and automotive, and hence why we've biased our investments into those areas.

Do you have a follow-on?

Q - Toshiya Hari {BIO 6770302 <GO>}

Yeah, great. And sort of related to that, Dave, it was encouraging to see R&D in terms of your R&D as a percentage of sales, pickup in 2019 versus 2018. And we had felt like R&D wasn't declined for a number of years, so it was good to see that pick up. Can you remind us which product areas, technologies, end markets that you guys are focused on? I realize it's going to be industrial and automotive, but if you can give a little bit more color within those two end markets, that will be helpful. Thank you.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

So -- of course, from an end market standpoint, as you said, there is industrial, automotive, that's where we're focusing. From a product standpoint is Embedded and Analog, but of course, inside of that, there is a bunch of pieces, so I'll mention a few. But -- I mean the highest level is -- in the case of Analog is Signal Chain and Power. Those are by far the biggest areas. But -- and underneath that, there's just a bunch of things. There is -- within Power, there's all kinds of power categories and then within Signal Chain. But Dave, do you want to?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. And I'll just say when we think of allocating capital to R&D, there's really three major buckets and the largest bucket is, it goes directly to product creation of new products. We release 300 to 400 new products a year. The other two is kind of a shared centralized R&D function that develops our process technologies, packaging, tools that our engineers use like SPICE models and those types of things. And then the third category is the Kilby Labs where longer-term higher-risk investments are made, new materials, new markets and those types of things. So that's where the R&D has been directed.

I describe R&D last year as steady and stable, and I think that even in a down market, keeping those investments stable, keeping focused on and investing in our four competitive advantages is really important overall.

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

Operator

Thank you. We will take our next question from Harlan Sur of J.P. Morgan.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon. Thanks for taking my question. It looks like the year-over-year declines improved quite a bit in auto and industrial, moving from down -- high single-digits year-over-year to down low-single-digits going from September to December. Of the 18 sub-segments within these two end markets or by geography, what do you guys see signs of improvement or was it pretty broad-based?

A - Dave Pahl {BIO 18870833 <GO>}

Yes. It is the latter. It's very broad-based which I think continues to be encouraging on that front. And again, just given the diversity of our customers as well as the diversity, the intention diversity of our investments to have that growth be broad-based, it's good to see that that's the way the business is performing.

Do you have a follow-up?

Q - Harlan Sur {BIO 6539622 <GO>}

Yeah, absolutely. As you guys mentioned, it looks like the team is now shipping to consumption. The guidance for this quarter is for a seasonal decline. But given the Q2 and Q3 are typically seasonally stronger quarters, do you guys anticipate increasing factory loadings here in the March quarter?

A - Rafael R. Lizardi {BIO 20006334 <GO>}

We only talk about utilization and factory loadings. When there is significant inflection points and in this particular comparison, fourth to first, we don't expect a significant inflection point. So we're not talking about it. Of course, wafer load utilization is always a function of what we expect for future growth.

Q - Harlan Sur {BIO 6539622 <GO>}

Yeah.

A - Dave Pahl {BIO 18870833 <GO>}

And we'll vary those based on order patterns and as we see demand coming from customers.

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

Operator

Thank you. We will take our next question from Ambrish Srivastava of Bank of Montreal.

Q - Ambrish Srivastava {BIO 4109276 <GO>}

I just wanted to peel back the comments on stabilization, both these businesses, industrials and autos, and specifically industrials, I forget, but I think these 12 to 13 sub-segments. So when you talk about stabilization, I'm assuming, -- well, you never had any channel inventory built. Your channel inventory was pretty normal through the cycle and your lead times never extended out. So can you just help us understand a little bit, what's the source of stabilization? Is it -- it can't be the channel, so it's the end customer? But then you -- we have thousands of end customers. So what's the right way to think to get the comfort that you are seeing stabilization in that business, specifically?

A - Rafael R. Lizardi {BIO 20006334 <GO>}

Well, Ambrish, yeah, it's reflected in -- the stabilization is reflected in the order patterns, the demands that we see through consignment and actually the results themselves. So we went from third quarter where those markets were declining high-single-digits, 8% 9%, some of them at 10%, so where all these markets were declining at 3%, 4%. So in those numbers that suggest that there is a bottoming process. And even though we're holding -- in consignment programs, we're holding that inventory on our balance sheet. Certainly, our customers have inventory of their products and then they have inventories that are down their channel. So just as (inaudible) effect would suggest that you have a small change in end demand is that moves its way back that magnify, so we can see the results of that beginning to abate.

Do you have a follow-on?

Q - Ambrish Srivastava {BIO 4109276 <GO>}

I do. Free cash flow margin, so you guys have powered through the 25%, 35% range you had given a couple of years ago and you just did 40% in revenues down, not getting the maths right, but somewhere in the high-single-digit and free cash flow was down 4%. So would it be fair to assume that, that target should be moved up when we hear you talk about capital allocation in a couple of weeks from now?

A - Rafael R. Lizardi {BIO 20006334 <GO>}

So let me take that. So thanks for the Q and also we do have the capital management call coming on February 4, so expect all of you to sign up for that and join us there. And we will talk about the various objectives there. But I'll give you a preview, we're not changing those objectives and specifically that one that you talked about, we're not. And the reason for that, yeah, we just finished at 40% free cash flow as a percent of revenue, but the focus is not that percent, right? The way we maximize value for the owners of the Company is growing their free cash flow per share for a long time to come. So we focus on that and that's how we grow value.

A - Dave Pahl {BIO 18870833 <GO>}

Okay. Thank you, Ambrish. And I believe we have time for one more caller, please.

Operator

Thank you. We will take our next question from Tore Svanberg of Stifel.

Q - Tore Svanberg {BIO 3658854 <GO>}

Yes. Thank you for sneaking me in. First of all, coming back to the sort of recovery question, I mean stabilization and eventual recovery. Are you starting to see backlog further out now, or do you think it's kind of more just in time and kind of just waiting for how macro unfolds throughout the year?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, Tore. Now, I just for those that aren't as familiar with us, I'll just remind everyone or just point out that 2/3 of our revenues are supported by consignment where we actually don't carry backlog, but we do get demand forecast and most of the time that -- at least six months of demand that we can see. So -- and then there is no inventory, as Ambrish was pointing out in his earlier call, there is no inventory between us and those manufacturing lines for those customers.

So that's actually the strongest signal that we will get when we're looking at future demand. But certainly, the backlog pays -- plays a part of that. So I just say that in general, that it's consistent with the outlook that we have. And our lead times haven't changed -- it hasn't really changed at all, so they have remained stable. So that allows customers to have confidence that they can get the product when they need it.

Do you have a follow-on?

Q - Tore Svanberg {BIO 3658854 <GO>}

Yeah. And I apologize for ending on this topic, but there is a lot of concerns about Chin insourcing, including Analog and Embedded Processing. I was just wondering what the Company's strategy is on that topic. I mean is it -- is sort of life is normal, or do you actually have a long-term strategy as it relates to that particular topic?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. I'll start and if Rafael wants to add anything. And certainly, as we've worked through the year with the trade tensions and as that has unfolded, we've certainly heard discussions that Chinese customers and them wanting to ensure that they have got alternatives. But in the end, our customers are just very pragmatic and they are looking for components with the highest performance, the lowest cost, the most dependable delivery, and those are all areas that we are very, very strong competitively in. So -- okay.

Q - Tore Svanberg {BIO 3658854 <GO>}

Okay.

A - Dave Pahl {BIO 18870833 <GO>}

With that, I'll turn it over to Rafael to wrap things up.

A - Rafael R. Lizardi {BIO 20006334 <GO>}

All right. So let me finish with a few comments on key items for you to remember. We will remain focused on Analog and Embedded, the best products and industrial and automotive, the best markets. Next, we will be disciplined in executing our capital management strategy and remain committed to returning free cash flow to the owners of the Company. And lastly, we believe growing free cash flow per share over the long-term is what will maximize value for the owners of the Company.

Okay. Thank you for joining us tonight. Good night.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.