

## Q3 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 & Operations

### Other Participants

- CJ Muse, Analyst
- Joe Moore, Analyst
- John Pitzer, Analyst
- Ross Seymore, Analyst
- Stacy Rasgon, Analyst
- Timothy Arcuri, Analyst
- Tore Svanberg, Analyst
- Vivek Arya, Analyst

### Presentation

#### Operator

Good day, and welcome to the Texas Instruments 3Q '19 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 third quarter 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](https://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.

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 third quarter. Second, given the additional weakness we've seen, I'll provide some comments about what we're seeing with added insight by segment and end market. 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 our third quarter financial results. Revenue decreased 11% from a year ago and came in below the midpoint of our guidance as we saw most end markets continued to weaken further. In our core businesses, analog revenue declined 8% and Embedded Processing revenue declined 19% compared with the same quarter a year ago. Both businesses year-on-year growth decelerated. Earnings per share were \$1.49, including a \$0.09 benefit for items not in our original guidance due to discrete tax benefits.

With that backdrop, I'll now provide details on our performance. In the third quarter, our cash flow from operations was \$2 billion. As we know each quarter, we believe that free cash flow grow, especially on a per share basis is most important to maximizing shareholder value in the long term. We remain committed to returning all of our free cash flow to owners. Free cash flow for the trailing 12-month period was \$6 billion, up 2% from a year ago. Free cash flow margin, for the same period was 41% of revenue. We continue to benefit from the quality of our product portfolio that is long-lived and diverse, and the efficiency of our manufacturing strategy, the latter of which includes our growing 300 millimeter analog output.

We believe that free cash flow will be valued only if it's productively invested in the business or if it's returned to owners. For the trailing 12-month period, we returned \$7.4 billion of cash to owners through a combination of dividends and stock repurchases, demonstrating our confidence in the business model and our commitment to return all of our free cash flow to owners.

Moving on, I'll now provide some details on the third quarter by segment and end market. For the year ago quarter, Analog revenue declined 8% due to declines in power, signal chain, and high volume. Embedded Processing revenue declined 19% from the year ago quarter due to declines in both product lines Processors and Connected Microcontrollers. All markets declined across embedded, but the declines were most pronounced in the automotive and communications equipment markets. Other declined by 19% from the year ago quarter, due to DLP and custom ASIC.

Next, I'll provide some comments on what we're seeing in the market and insight into this quarter's performance by end market versus a year ago. As we've said, when you look at 30 years of history, semiconductor cycles can vary widely, but typically experienced four to five quarters of year-on-year declines before returning to positive growth. We've also said, that the current trade tensions could impact the depth and duration of the cycle. We've provided these comments as context, not as a prediction about the current cycle. With the end of this current quarter, we've now experienced our fourth consecutive quarter of negative year-on-year growth.

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There is an increasing number of reports of macroeconomic weakness with trade tensions as the primary contributor. Consistent with this the weakness we've seen in the third quarter was broad-based across all markets and most sectors. Industrial, automotive and personal electronics all declined upper single digits from the year ago as almost all 28 sectors within these markets declined. In communications equipment revenue declined about 35% from the year ago and 20% sequentially. We saw weakness across all major customers, regions and technologies. And lastly, enterprise systems declined from the year ago quarter.

We've learned over the years that staying focused on building the company stronger, especially in the face of a weak market provides great long-term rewards. We continue to invest in and leverage our competitive advantages. The breadth of our product portfolio and channels to market including our direct sales and applications team as well as ti.com provides us the broadest reach to our customer base, a unique advantage. We've been evolving our distribution network over the years and continue to do so today as we build stronger, direct relationships with our customers.

We remain focused on analog and embedded the best products. We remain focused on industrial and automotive, the best markets, that'll be the fastest growing semiconductor market as they have increasing semiconductor content and also provide diversity and longevity. All of this translate to a high terminal value of our portfolio.

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

### **Rafael R. Lizardi** {BIO 20006334 <GO>}

Thanks, Dave, and good afternoon everyone. Gross profit in the quarter was \$2.45 billion or 65% of revenue. From a year ago, gross profit decreased due to lower revenue. Gross profit margin decreased 90 basis points. Operating expenses in the quarter were \$778 million about even from a year ago and about as expected. On a trailing 12 month basis, operating expenses were 22% of revenue. Over the last 12 months, we have invested \$1.56 billion in R&D, an important element of our capital allocation. We are 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 expense were \$79 million. Acquisition charges will decline to about \$50 million in the fourth quarter and will remain at that level through the third quarter of 2021. Operating profit was \$1.59 billion or 42% of revenue. Operating profit was down 18% from the year ago quarter. Operating margin for analog was 46% down from 50% a year ago and for embedded processing was 32% down from 35% a year ago. Despite current weakness, our focus investments on the best sustainable growth opportunity with differentiated positions will enable both businesses to contribute nicely to free cash flow growth over time.

Other income and expense was -- was a \$34 million benefit up \$11 million from a year ago. Net income in the third quarter was \$1.43 billion or \$1.49 per share, which included a \$0.09 benefit for items that were not in our prior outlook as we have discussed.

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Let me now comment on our capital management results starting with our cash generation. Cash flow from operations was \$1.99 billion in the quarter. Capital expenditures were \$149 million in the quarter. Free cash flow on a trailing 12-month basis was \$6.03 billion. In September, we announced we would increase our quarterly dividend by 17% marking our 16th year of dividend increases. In the quarter, we paid \$721 million in dividends and repurchased \$456 million of our stock for a total return to owners of \$1.18 billion. In total, we have returned \$7.38 billion in the past 12 months, consistent with our strategy to return all free cash flow. Over the same period, our dividends represented 48% of free cash flow underscoring their sustainability.

Our balance sheet remains strong with \$5.07 billion of cash and short-term investments at the end of the third quarter. In the quarter, we repaid \$750 million of debt and issued \$750 million of debt with a coupon of 2.25%, due in 10 years. This results in total debt of \$5.8 billion with a weighted average coupon of 2.99%.

Inventory days were 139, up eight days from a year ago and down four days sequentially. We are pleased with the progress we have made replenishing inventory of low-volume devices and implement in the next phase of our consignment programs. Work in both of these areas is mostly complete. Given the weaker environment, we have reduced wafer starts to align with demands.

Turning to our outlook for the fourth quarter. We expect TI revenue in the range of \$3.07 billion to \$3.33 billion, and earnings per share to be in the range of \$0.91 to \$1.09, which includes an estimated \$5 million discrete tax benefit. We continue to expect our annual operating tax rate to be about 16% for 2019. As a reminder, acquisition charges will decline to about \$50 million in the fourth quarter and remain at that level through the third quarter of 2021.

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, which are technology and manufacturing, 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 time.

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 Vivek Arya of Bank of America. Please go ahead.

### Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question. The first one is on the Q4 outlook. How do we get confidence that this isn't company specific, or share loss because when we looked at some of the SIA data for July and August, it was more positive. So is there anything that is company specific in Q4 because the guidance is substantially below, we understand macro environment is not that great. But is there anything one-off company specific that is impacting your guidance. Is there any share loss issue, any other color that you could provide would be very helpful?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah. Vivek, I'll take that. I'd say -- state the obvious -- obviously the SIA numbers are more backward looking versus looking into in the fourth quarter. And I think when you judge share and we've talked about this when -- in the past that you really need to judge it over multiple quarters. You look at the diversity of our revenue, we talk about one of our competitive advantages being diversity and longevity our last -- our biggest product last year is an example. It was about 0.8% of our total revenue. So, it's just that diversity I think will -- has served us well and will continue to serve us well. You have a follow on?

### Q - Vivek Arya {BIO 6781604 <GO>}

Yeah, thanks, Dave. Somewhat more longer-term, there is a lot of discussion of a parallel technology and SMEs ecosystem developing in China, as it ties to get more self-sufficient. How well is TI placed from a competitive perspective, do you think there are substitutes for your kind of analog and embedded products from Chinese vendors over some intermediate timeframe and what would TI need to do different as a company to react to this new ecosystem?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah, I'll start off. I think if you look at the analog and the embedded markets they've got many natural competitive notes that fit around the marketplace overall. I think that, we've certainly heard discussions of Chinese customers wanting to ensure that they have alternatives, but it's really different than being designed out. So our customers overall a very pragmatic they're looking for components with the highest performance, the lowest cost and the most dependable delivery. So, I think we'll continue to focus on those things and they have served us well in the past and we believe will continue to serve us well in the future. Thank you, Vivek. We'll go to the next caller please.

## Operator

(Operator Instructions) Our next question comes from Stacy Rasgon of Bernstein Research. Please go ahead.

**Q - Stacy Rasgon** {BIO 16423886 <GO>}

Hi, guys. Thanks for taking my question. I just wanted to follow up on that a little bit on Q4. We've been in this environment for a while. I think you add your first guide forecast actually on this call a year ago, but even on that call, you had guided Q4, '18 down about 12% sequentially, which was already above seasonal [ph] where a year later, we've had a number of rounds of cuts, so that the base is even lower, now you're guiding Q4, '19 down by 15% sequentially. So it's even worse. On a sequential basis that we saw in the year ago quarter when we started. I guess it's -- and again it's not like things have -- things have been weak all along. I guess if you could give us some sort of an indication, maybe what -- get immediately worse is this hallway [ph] pull forward working off. Is this something going on because your distribution strategy is different from your competitors? I guess, anything you can give us around the tactical near-term environment driving the Q4 guide would be helpful, just given what we've seen over the last year or so -- in those trends?

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

Yeah, Stacy. Thanks for the question. Let me take a shot at that and then Dave will follow up with other comments, but in our sense is that customers are just far more cautious than they were certainly a year ago, but even 90 days ago, and many of them when talk about the caution, they mentioned the trade tensions that we now [ph] have been happening and have been kind of accumulating over the last three or four quarters. And the consistency of that breadth of weakness supports that this is a macro situation that is driving the further weakness that we're seeing. Do you have a follow-on?

**Q - Stacy Rasgon** {BIO 16423886 <GO>}

I do. So you've talked about evolving your distribution strategy and relationships. Do you think it's possible, though that any of those activities as you disintermediate more of them maybe having with the near-term negative impact on your revenue outlook, because you can rely on them less to do things like demand generation and the like. Is there -- I guess, just any change you've made recently, you think could be having any sort of impact on the near-term horizon?

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

Yes. Simply in a word I'd just say, no, Stacy. I think, establishing a more direct relationship with our customer just yields more of rewards than it does the risk and it gives us greater access to those customers. And you've seen us evolve that over the last several years and we've made investments in order to provide very high levels of service for our customers, especially as we move to a more direct business model and these investments include the things that you've heard us talk about a new capabilities and some cases improve capabilities to our website, e-commerce enhancements for demand creation inventory consignment programs that we've talked about on the last few calls and other things like order fulfillment services.

So these improved capabilities combined with our sales and applications organization which by the way, is the largest in the semiconductor industry. Just help us provide great

products and great support to our customers. And that's really what we've been focused on. So, thank you. And we'll go to the next caller please.

## Operator

Our next question comes from John Pitzer of Credit Suisse. Please go ahead.

### Q - John Pitzer {BIO 1541792 <GO>}

Yeah, thanks guys. Thanks for allowing me to ask question. Do you guys want to go back to the embedded kind of when I look at how your analog business is trending it's about in line with kind of our expectations and quite frankly what your peer group is doing. But when I look at embedded, it seems to be demonstrably worse, in fact if Q4 is down sequentially equally across all segments you'll be down, peak to trough this cycle and embedded more so than you were in the '09 [ph] financial crisis when financial markets weren't working properly and companies couldn't actually get funding for inventory. So I just want to kind of go back and kind of understand why you think the embedded business is doing so poorly relative to overall kind of industry trends, is that really where the comps weakness comes in, or if you can help me understand that a little bit that would be helpful.

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah, and John, you know to put it in context that we talked about at the company level so including analog and embedded that all the markets for a week that when we saw the sectors that make up those markets, but most of them were weak. But that weakness was just more pronounced it's directionally the same, but just more pronounced in embedded. And we did see and if you look -- just inside of embedded, we saw more pronounced weakness in automotive and in communications. So again, I think that those types of things that need to be measured over longer periods of time. And so I wouldn't judge that business on any one quarter results overall. You have a follow-on John?

### Q - John Pitzer {BIO 1541792 <GO>}

Yeah, just as the follow-up just going back to the comps part of the business. I'm just kind of curious, not that the macro is all that strong. But to what extent can you quantify if at all the impact from bands is this while we have been ordered a lot more inventory throughout the year than you thought is just a certain company or region. Just on the comp side any color you can give on the weakness would be helpful?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah, I think we can't rule out obviously customers having built the inventory and preparations for build [ph] to our concerns with the trade tensions. But the weakness that we saw -- wasn't limited to any region. So it was very broad based, when we look at the largest customers in cytokines equipment that was across the largest customers. And again, it was -- we talk about that it was across the technology. So really broad based weakness, so not just one customer and not just one technology or not just one region. So hopefully that color helps. Thank you, John. We will go to the next caller please.

## Operator

Our next question comes from Ross Seymore of Deutsche Bank. Please go ahead.

### Q - Ross Seymore {BIO 20902787 <GO>}

Dave you gave the year-over-year comments and then the sequential for the com (inaudible) equipment, but I think we're all trying to solve the main problem of -- kind of why is your guidance so weak in the fourth quarter. To the extent it provides any clues. Could you give us what the quarter-over-quarter sequentials were by the end markets outside of the comps which already gave?

### A - Dave Pahl {BIO 18870833 <GO>}

Sure. Industrial and Automotive declined low single digits Ross personal electronics grew mid-teens and that was based on really just seasonal growth that we would expect to see we already commented on comps equipment declining about 20% and then enterprise systems growth in this quarter. You have follow-on?

### Q - Ross Seymore {BIO 20902787 <GO>}

Yeah. I guess one on the cash return side of things. I know one quarter doesn't necessarily make a trend, but you guys have been ridiculously consistent on positive way, with your buyback over time. I know you raised the dividend in this last quarter, but I think the share repurchase, was the lowest since, I believe the second quarter of 2012, if my model is right and the aggregate of the two the dividend and the buyback were meaningfully less than the free cash flow in the quarter. I know it's not just one quarter. But is there anything that explains why the buyback was significantly lower than it's been in any time in recent history?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah, what I would tell you on that is taking back to our capital management strategy and our objective to return off free cash flow to the owners of the company. And as you pointed out, we do that through buybacks and dividends. And on a trailing 12-month basis, which is a better way to look at all these things to give you just a better trend of what's going on. We have returned \$7.4 billion of cash and our free cash flow has been \$6 billion during that time. So we've returned 122% of free cash flow during that time. So pretty healthy amount. And in the last quarter we returned or we bought back \$456 million as long as the stock price is below our assessment of intrinsic we will be buying back shares and we did (inaudible) by -- a healthy amount in third quarter.

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

Yeah, I'll just add to that. It's Rafael. As said, if I (inaudible) look at the free cash flow metrics on a trailing 12 month basis. As there is seasonality third and fourth quarters tend to be stronger than first and second on that. So that usually provides better insight. Thank you, Ross. And we'll go to the next caller please.

## Operator



Our next question comes from Joe Moore of Morgan Stanley. Please go ahead.

**Q - Joe Moore** {BIO 17644779 <GO>}

Yes, I wonder, if you could give us more color I mean you've talked about your customers being more cautious, but to what degree do you think that's demand being softer that's different inventory behavior. And I guess on the flip side, and it doesn't seem like you're seeing a lot of inventory accumulation around the tariff activities. But just could you just generally comment on the state of your customers' inventories as you move through the last quarter? Thanks.

**A - Dave Pahl** {BIO 18870833 <GO>}

Yeah, Joe, I'll make a comment and if Rafael wants to add something to it, certainly jump in Rafael. But when we look at -- when we look at inventory in the channel it was actually down a little bit sequentially still at about 4.5 weeks. So really not changing much overall, we still have about two-thirds of our revenue supported by consignment overall. So we know that inventory remains at zero because of those consignment program, so continue to be in a very healthy state. The rest of that we can see into our customers' inventories and down channel. So our visibility really ends at that point. Rafael?

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

Yeah, the only thing I would add, I can sense that you collectively are unsatisfied with our answers and I understand that we have close to 100,000 different customers, then we saw about 100,000 different products is difficult to pinpoint any one thing, but the sense we get talking to those customers getting input from them from our salespeople and all the touch points that we have is that the weakness is broad base is due to macro events and specifically their trade tensions. And if you think about when their tensions in trade and obstacles to trade what do businesses do they become more cautious and they pull back. And we are at the very end of our long supply chain and when the ones that the very front pullback it becomes a traffic jam (inaudible) our sense is that -- it's that is what's happen in the marketplace, but we will see what other companies will report over time and we'll get a clear picture over the next several weeks and really quarters because this thing we've been any for now four quarters and it's going to be longer than that.

**A - Dave Pahl** {BIO 18870833 <GO>}

You have follow-on Joe?

**Q - Joe Moore** {BIO 17644779 <GO>}

Yeah. And thanks for the color. I do appreciate you guys clarifying what's going on. In terms of the wafer start reduction in the fourth quarter. Can you just talk about, I guess normally, you've talked about a 70% incremental gross margin in both directions anything kind of different as you think about Q4, because of the fact that wafer start comment that you made?

**A - Dave Pahl** {BIO 18870833 <GO>}

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Yeah. Actually, no, not any different in the -- to the largest degree. We've talked about 70% to 75% fall through. And that's a guide, it could be a little less a little more. So that's probably how do you -- how you want to think about it on a year-on-year basis for fourth quarter. We are -- we did lower wafer starts in third quarter inside of the quarter and we have -- we are lowering those further into fourth quarter and that's a capital allocation decision when we do that we save cash right. And we have a largest degree built the buffer strategy that we had -- we have talked about. So we will save cash as we do that, and that makes sense for the owners of the company -- this cash is freed up further other purposes. That does take -- that does hit -- that will hit the GPM line, but it will do so about as expected. So as I say you've seen a -- fall through that we have talked about in the big scheme of things.

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

Okay. Thank, Joe. We will go to the next caller please.

## Operator

Our next question comes from Timothy Arcuri of UBS. Please go ahead .

**Q - Timothy Arcuri** {BIO 3824613 <GO>}

Hi, thanks. Q4 OpEx is usually down low to-mid singles. I'm just trying to see if that's the right number for December, that's (inaudible) guidance?

**A - Dave Pahl** {BIO 18870833 <GO>}

No OpEx. We -- we'll first remember objective of OpEx is to fuel our long-term growth and these are long-term investments that pay off over many, many years in many cases decades. So that's how we think about it is not we're -- in this environment we're cautious and we want to be prudent, but we're not cutting back on those long-term investments. On a trailing 12 month basis OpEx has been running pretty steady at about \$3.2 billion for at least a year or so. If you look at trailing 12 month at the end of every quarter for the last three or four quarters. And it is overall it's down about a percent versus a year ago. But of course revenue has been dropping more than that. So then, as a percent of revenue has gone up a little bit, so now is at 20% and that's well within our expectation our guide of 20% to 25% for that metric. You have a follow up?

**Q - Timothy Arcuri** {BIO 3824613 <GO>}

Sure. I guess with respect to the loadings commentary, does it make you rethink the timing on the new 300 millimeter fab. Can -- if you can give us an update there? Thanks.

**A - Dave Pahl** {BIO 18870833 <GO>}

Yes, you are. So first, let me remind you of course when it comes to the CapEx, particularly for that fab is it's all about driving long-term revenue growth and extended our manufacturing advantage, including 300 millimeter and that is one of our key competitive advantages. We are now in the process of a building a parking structure that will be complete in the first half of next year. Once we build that, that will enable us to build the

building for the next 300 millimeter factory. Our plan continues to be to build that building within the next few years. And as a reminder that will cause \$600 million to \$700 million over a couple of years as we build that building. And it is \$600 million to \$700 million it is a sizable amount, but the big expense comes from the equipment that would follow. And if I get and even bigger one will be the opportunity cost of not having that available, if there is, or when there is growth on the other side of these things. So we think about all those things, and based on that we've made our -- we laid our plans at the moment.

Okay. Thank you, Tim. We can go to our next caller, please.

## Operator

Our next question comes from CJ Muse of Evercore. Please go ahead.

### Q - CJ Muse

Yeah, good afternoon. Thanks for taking the question. I guess -- what to revisit comments around China and the potential for pull-ins. If I look back at your June quarter that business was up about 6% year-on-year where everything else was down 1%. And so I guess as you look back and you think forward. Do you have a sense that was in fact pull-ins in the prior quarters and that's perhaps exacerbating what you're seeing into the December quarter?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah, I think that. So first -- I spent eight years of my career in sales, and I like the job. I never want to took a double order or saw customer still [ph] pulling right. But, so I certainly wouldn't rule that out as a possibility, but I think more of what you're seeing there is just seasonality as customers prepare more of the PE products -- our products are shipped into China than any other region. So that has an effect that's in there as well. So again, I won't rule it out. But you've got some seasonality that's going on with that. You have a follow-on?

### Q - CJ Muse

I do. You talked broad based weakness, but was hoping, perhaps if you could narrow in on auto and give a little more color on what you're seeing there either geographically or by sub-segment?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So we've got five sectors that are inside of that, all the sector saw weakness, I -- I made the comment that if you look at the sectors across industrial and even personal electronics that most of those sectors, were down. So automotive was no different from that front. And I would say that from a regional standpoint there is -- we saw weakness across all of the regions, so nothing really significant there to spike out.

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

Okay. Thank you, CJ. And with that, we'll go to -- we've got time for one last caller. Operator?

## Operator

Our last question comes from Tore Svanberg of Stifel. Please go ahead.

### Q - Tore Svanberg {BIO 3658854 <GO>}

Yes, thank you. Could you maybe talk a little bit about the linearity of the orders. So obviously there's been some weakening. And I'm just wondering if you already started to see that this summer? Or was it sort of something more that came later in the quarter?

### A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So I would say that it was weak throughout the quarter, it wasn't last couple of week or last 30 day phenomenon. I'd also point out, we've got two-thirds of our revenue on consignment. So in those arrangements we get the order and ship them instantaneously at the same time. So revenues and orders really reflect each other for the most part. Do you have follow-on Tore?

### Q - Tore Svanberg {BIO 3658854 <GO>}

Tyeah, I had a follow-on for Rafael. So you've done a tremendous job on gross margin revenues down 12% year-over-year, the gross margin only down 90 basis points. And now your inventory days were down as well, sequentially, I know you talked a little bit about the factory loadings in Q4. But do you -- should we think about some sort of a inventory days target that you want to run the business at next few quarters?

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

So, let me -- good question. Let me first step back and remind you how we think about inventory. Okay inventory, the objective there is to maintain high levels of customer service, minimize obsolescence and improve our asset utilization. We have a guide of 115 to 145, but those are not concrete barriers, right. It's just a guide there where we're going to do the right thing for the business. So for example in this situation in the current environment, even though we have decreased those wafer starts. It is likely that we go above the top of that range or it's at least possible that we do, just because of where the revenue mid point is. Now, we are not going to go drive the wafer starts (inaudible) way to get -- to just to stay within those -- those guidelines that would not make sense in one quarter, but over one, two, three quarters then the idea is to that guidelines just provider an area where we should aim at, and we can achieve our objectives the inventory objectives, I talked about, while deploying allocating capital in the best way that benefits the interest of the long-term owners of the company.

### A - Dave Pahl {BIO 18870833 <GO>}

So with that, let me just finish with a few comments on some 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 continue to be disciplined in

executing our capital management strategy and remain committed to returning free cash flow to the owners of the company. Lastly, we continue to believe growing free cash flow per share over the long term it's why we will maximize value for the owners of the company.

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

Thank you all for joining us. A replay of this call is also available on our website. Good evening.

**Operator**

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

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