Company Name: Texas Instruments
Company Ticker: TXN US
Date: 2017-01-24
Event Description: Q4 2016 Earnings Call

Market Cap: 108,025.51
Current PX: 115.09
YTD Change($): +20.59
YTD Change(%): +21.788

Bloomberg Estimates - EPS
Current Quarter: 1.152
Current Year: 5.141
Bloomberg Estimates - Sales
Current Quarter: 3484.304
Current Year: 14854.593

Q4 2016 Earnings Call

Company Participants

- David Pahl
- Kevin P. March
- Rafael Lizardi

Other Participants

- Harlan Sur
- Christopher Brett Danely
- Joe L. Moore
- Romit Shah
- Ross C. Seymore
- Stacy Aaron Rasgon
- Vivek Arya
- John William Pitzer
- Ambrish Srivastava
- Toshiya Hari

MANAGEMENT DISCUSSION SECTION

David Pahl

Financial Highlights

Revenue, Operating Margin and EPS

- Now I'll start with a quick summary of our financial results
- Revenue for Q4 increased 7% from a year ago, as demand for our products remained strong in the automotive market
- The improvement we saw in Q3 in the industrial market continued
- Demand in the personal electronics market was down slightly from a year ago
- I'll elaborate more on our end markets in a few moments
- In our core businesses, Analog revenue grew 10% and Embedded Processing grew 6% compared with the same quarter a year ago
- Operating margin increased in both businesses
- EPS were $1.02 and included $0.14 for items that were not in our original guidance for the quarter

Cash Flow from Operations

- With that backdrop, I will now provide details on our performance, which we believe continues to be representative of the ongoing strength of TI's business model
- In Q4, our cash flow from operations was $1.4B
- We believe that FCF growth, especially on a per share basis, is most important to maximizing shareholder value in the long term
- FCF for the trailing 12-month period was $4.1B, up 6% from a year ago
- FCF margin was 30.5% of revenue, up from 29.6% a year ago
- We continued to benefit from an improved product portfolio that is long-lived and diverse and the efficiency of our manufacturing strategy
  - Which includes our growing 300-millimeter analog output and the opportunistic purchases of assets ahead of demand
- We also believe that FCF will be valued only if it's productively invested in the business or returned to shareholders
- In 2016, we returned $3.8B of cash to owners through a combination of dividends and repurchases

Segments

Analog and Embedded Processing

- Turning to our segments, Analog revenue grew 10% from the year-ago quarter
- Revenue increased due to power management, high-performance analog, and Silicon Valley Analog. high-volume
- Analog and logic [HVAL] was about even
- Embedded Processing increased 6% from a year-ago quarter due to processors and microcontrollers
- Connectivity also grew

Other Segment

- In our Other segment, revenue declined 9% from a year-ago quarter due to royalties and custom ASIC products
- DLP products and calculators were about even
- For the year in total, Analog was up 2% and Embedded was up 8%
  - Combined they grew 4% on broad-based growth and were 86% of TI's revenue for the year
- We recently simplified the product lines inside our two business segments, Analog and Embedded, to align by product categories our customers think about
- Making it easier for customers to search and select products is becoming increasingly important in all of our markets, but particularly in industrial
- Analog is now comprised of three product lines instead of four
  - These are power, signal chain, and high-volume analog and logic

Connected MCU

- Embedded goes from three product lines to two: connected MCU, which merges connectivity and microcontrollers, and processors, which is essentially unchanged
- All of these changes are at the product line level
- Nothing changes at the segment level
- To help you understand this structure, for 2016 within our Analog business, power would have been about 45% of Analog revenue
- Signal chain would have been about 35%, and high-volume analog and logic would have been the remaining 20%
- Inside our Embedded business, connected MCU would have been about 55% of Embedded revenue, with processors comprising the remaining 45%
- Starting in our first quarter 2017 earnings call, we'll use these product lines in describing the performance of our business segments

Performance by End Market

Industrial, Automotive and Personal Electronics

- Now let me describe our performance by end market for 2016
- Just as a reminder, we annually provide an estimate of TI's revenue by end markets
- We break these into six categories: industrial; automotive; personal electronics, where this includes products such as PCs, mobile phones, tablets, and TVs; communications equipment; enterprise systems; and other, which is primarily calculators
- Specifically in 2016, industrial comprised 33% of our revenue, up 2 points from 2015
- Automotive was 18% of our revenue, up 3 points
- Personal electronics was 26%, down 4 points

Communications Equipment and Enterprise Systems

- Communications equipment and enterprise systems were 13% and 6% respectively, both even to last year, while other was about 4%
- We did not have a customer that was more than 10% of our revenue in 2016
- For those of you who have followed TI for several years, you know that we've been highly focused on a strategy where we've been allocating our capital and we've been driving initiatives to increase our market share in industrial and automotive
  - This is based on a belief that industrial and automotive will be the fastest growing semiconductor markets due to their increasing semiconductor content, and that they provide the diversity and longevity of product, which translates to high terminal value of the portfolio
- In 2016, industrial and automotive combined made up 51% of TI's revenue, up from 44% just two years ago

- We have established momentum in these markets, but we are far from satisfied and are continuing to make improvements such as aligning our product lines in the way our customers search and select for TI products

Kevin P. March

Financial Highlights

Gross Profit, Operating Expenses and Capital Allocation

- Gross profit in the quarter was $2.13B or 62.5% of revenue
- Gross profit increased primarily due to higher revenue and lower manufacturing costs
- From a year ago, gross profit margin increased 400BPS
- Operating expenses were $754mm or 22.1% of revenue
- Over the last 12 months, we've invested $1.37B in R&D, an important element of our capital allocation

Acquisition and Restructuring Charges

- Acquisition charges were $80mm, all of which were the ongoing amortization of intangibles, which is a non-cash expense
- Restructuring charges and other was $20mm net benefit, which included a gain related to an intellectual property agreement and a charge associated with the realignment of our product lines, which Dave previously mentioned

Operating Profit, Margin and Investments

- Operating profit was $1.32B or 38.6% of revenue
- Operating profit was up 15% from the year-ago quarter
- Operating margin for Analog was 42.8%, up from 38.0% a year ago
- Embedded Processing was 28.2%, an improvement of 480BPS from a year ago
- Our focused investments on the best sustainable growth opportunities with differentiated positions enabled both businesses to continue to contribute nicely to FCF growth

Intellectual Property Agreements, OI&E and Net Income

- Also, we signed several intellectual property agreements, which had a total benefit of $228mm in the quarter
- We recognized $188mm in other income and expense, or OI&E, and $40mm in restructuring charges and other
- Neither revenue nor gross profit was impacted by these agreements
- Net income in Q4 was $1.05B or $1.02 per share, which included $0.14 benefit for items not in our prior outlook
    - These included $0.14 benefit for several intellectual property agreements, $0.01 tax benefit related to the new accounting standard for stock compensation, and $0.01 restructuring charge

Employee Stock Compensation

- This quarter we adopted a new GAAP standard that changes where we report the tax consequences of employee stock compensation
- When employee stock options are exercised but when restricted stock units vest, either an excess tax benefit or deficiency may be generated
- The previous standard required that amount to be recognized in equity on the balance sheet

Income Taxes, EPS and Share Count

- The new standard requires that amount to be recognized in income taxes on the income statement, impacting net income and EPS
- In Q4 2016, this created a benefit of $0.01 per share and for the year a benefit of $0.13 per share
  - I will also note that this accounting standard increases the diluted share count calculation by about 5mm shares

Rafael Lizardi

Highlights

Cash Generation, Inventory and CapEx

- Let me start with our cash generation
- Cash flow from operations was $1.39B in the quarter
- Inventory days were 126, consistent with our long-term model of 105 to 135 days
- CapEx were $110mm in the quarter
- In 2016, cash flow from operations was $4.61B, up 5% from the same period a year ago
- For the year, CapEx were $531mm, or 4% of revenue
- As a reminder, our long-term expectation for CapEx is about 4% of revenue
  - This includes the expansion of our 300-millimeter analog capacity
- FCF for the year was $4.08B or 30.5% of revenue
- FCF was 6% higher than a year ago
- Our cash flow reflects the strength of our business model
- As we have said, we believe FCF 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 returned to shareholders
- Our intent over time remains to return all of our FCF, offsetting receipts we receive from exercises of equity compensation minus net debt retirement
  - This commitment is unchanged

Dividends

- In Q4, we paid $499mm in dividends and repurchased $475mm of our stock, for a total return of $974mm

- Total cash returned to owners in 2016 was $3.78B
  - This combined return demonstrates our confidence in our business model and our commitment to return excess cash to our owners
- Over the last 12 months, we paid $1.65B in dividends or 40% of trailing 12-month FCF

Share Count

- Outstanding share count was reduced by 1.5% over the past 12 months and by 42% since the end of 2004, when we initiated a program designed to reduce our share count
- In fact, we have reduced shares every quarter year on year for 51 consecutive quarters
- In Q4, we passed an important milestone, reducing our outstanding share count to fewer than 1B shares, or more specifically 996mm shares

Cash Management and Tax Practices

- Our cash management and tax practices are fundamental to our commitment to return cash
- We ended Q4 with $3.49B of cash and short-term investments, with our U.S. entities owning about 80% of our cash
  - This onshore cash is readily available for multiple uses

Kevin P. March

Outlook

Orders, Revenue, EPS, Acquisition Charges and Tax Rate

- Our orders in the quarter were $3.44B, up 11% from a year ago
- Turning to our outlook, we expect TI revenue to be in the range of $3.17B to $3.43B in Q1
- We expect first quarter EPS to be in a range of $0.78 to $0.88, which includes $0.04 tax benefit related to the adoption of the new GAAP standard that I mentioned earlier
- Acquisition charges, which are non-cash amortization charges, will remain about even and hold at about $80mm per quarter through Q3 2019
  - They will then decline to about $50mm per quarter for two additional years
- Our expectation for our annual effective tax rate in 2017 is about 30%, and this is the tax rate you should use for Q1 and for the year

Growth Opportunities

- In closing, I'll note that growth in our industry in 2016 was moderate again this year
- However, our advantages in manufacturing and technology, portfolio breadth, market reach, and diverse and all-new product positions enabled important milestones to the year

- These include:
  - Solid revenue growth in our core businesses of Analog and Embedded; expansion of 300-millimeter analog production
  - Gross margin improvement of 340BPS
  - Operating margin improvement of 300BPS
  - FCF margin improvement of 90BPS
  - And continued FCF per share growth
- We will continue to feed our advantages through disciplined capital allocation by focusing on the best growth opportunities, which I believe will enable us to continue to improve and deliver FCF per share growth for a very long time to come

Closing Remarks

Before I turn it back to Dave and start the Q&A, I want to say it's been a pleasure to work with all of you

I thank you for the time you've invested in understanding TI’s performance and strategy, and I wish you all the best

While you'll continue to have the benefit of working with our industry’s finest Investor Relations director, I'm confident when I say that you will also come to appreciate Rafael's integrity and intelligence as our new CFO, and you'll come to truly enjoy working with him as well, just as I have for all these years

QUESTION AND ANSWER SECTION

<Q - Harlan Sur>: Your automotive business grew 23% in 2016, obviously very solid results. Can you guys just help us understand of the five sub-segments within auto, what areas drove the most strength?

<A - David Pahl>: Harlan, thanks for that question. And as you noted, automotive did grow over 20%. The great news is that that wasn’t due to one segment. I can say that that growth was very diverse. It was diverse across the five sectors that we saw. It was diverse across customers, and it also was very diverse across different product lines. So we really are excited about the opportunity of both automotive and industrial. And we're just very pleased that the investments that we made really providing a base from which we can grow upon. Do you have a follow-on?

<Q - Harlan Sur>: Yes, I do. Thank you for that. If I look at the recent SIA industry data, total analog is likely to be up about 5% this year, about $47B – I'm sorry, in 2016. Your Analog business was up about 2% last year, but obviously the growth was impacted by your largest customer that had an inventory correction last year. If you strip this out, does the team think that they gained analog market share, and if so, in which of the sub-segments? Thank you.

<A - David Pahl>: Yeah, Harlan, I think that when we look at our peers with the publicly reported data, we actually believe that we've performed quite well. So we're probably earlier in the reporting season, so we've got a few more of our peers to put their numbers up, but we're very confident that we performed very well. So thank you for that question and we'll go to the next caller, please.

<Q - Christopher Brett Danely>: I think the real reason you're leaving is you got tired of waiting for TI to hit my $12 stock price. But anyway, that's a joke for all of you who are listening. If you could, just list I guess the margin drivers, and maybe rank them from here as far as how much room or how much leverage you have in terms of mix vs. 300-millimeter vs. utilization rates vs. depreciation.

<A - Kevin P. March>: Sure, Chris. I hope not to revisit that $12 stock price you were talking about.

<Q - Christopher Brett Danely>: I put a zero after it now.

<A - Kevin P. March>: That's much better, I like that a lot better. Margin drivers going forward, I think that there will be several things happening. I think we've enjoyed the last couple years depreciation coming down at the same time that 300-millimeter starts have been going up. Those clearly have been tailwinds for us in the last couple years. As we go forward, depreciation is probably going begin to flatten out a bit on a q-over-q basis. It'll still be down next year vs. 2016 but not nearly as much as we've seen. What's a lot more important is the continued expansion of 300-millimeter production as well as the continued improvement of the mix of products that we are shipping. You've heard us again talk for a number of years about focusing on our investments in auto and industrial. And frankly, the margin opportunities in those spaces are very attractive.

And so between the mix of products, but importantly, the increasing starts of products on 300-millimeter capacity, there's still room for us to continue to see overall margin growth, and that's before we even talk about revenue growth. Of course, revenue growth just gives us leverage on that capacity that we've been investing in for these past couple years. And with depreciation being as low as I was talking about, what that really means is underutilization charges are negligible. And so really it's just about fall through from revenue straight through to the bottom line, and that will especially happen to cash flow.

<Q - Christopher Brett Danely>: Great, and for my follow-up, a longer-term question on OpEx. So if we look at y-over-y, your SG&A trended down a little bit. R&D was up. You guys have said you were going to plow a little more money into R&D. Assuming revenue continues to grow, what can we expect from R&D and SG&A on a yearly basis? Do you feel comfortable with the level of R&D as it is right here, and could we expect SG&A to continue to trend down as percentage of revenue assuming overall revenue grows?

<A - Kevin P. March>: Yeah Chris, that's actually a really good question. The last couple years, OpEx has on an annual basis run about 23% revenue. And as you noted, we have been internally reallocating resources, putting more efforts into the R&D areas. That will continue for the next couple of quarters, and then begin to stabilize. And I would expect in 2017, all things being equal, we'll still operate at around 23% of OpEx to revenue.

Keep in mind that on the long haul, we expect our OpEx to probably fluctuate between 20% and 30%. So in very weak markets, it might be as high as 30%. And in very strong markets, it might be as low as 20%. In stable markets where we're in right now, I think the OpEx percent you've seen the last two years is what you should expect going forward for the next year or two.

<Q - Joe L. Moore>: I wonder if you could talk about the change to the Analog sub-segments, I guess in particular, Silicon Valley Analog as a category going away. Does that signify anything from a business standpoint in terms of the integration of the old National business, or just should we think of there being any structural change that goes along with that?

<A - Kevin P. March>: That, Joe, has nothing to do with the old Analog business. That's simply a question of realigning our products to the way that we have come to understand that our customers prefer to look for them when they're trying to find products here at TI. And so if you look at the categories that we've lined up with, we now have Power. We have Signal Chain, and we have High-Volume Analog and Logic. And that's really how we've learned our customers prefer to try to find products at TI, and so that allows us to give them better and faster support. The Silicon Valley Analog products along with High-Performance Analog have been reallocated among those segments with those new product lines that we just talked about.

And so consequently, the best way to think about this is how do we react faster and more thoroughly to customer inquiries and searches for parts inside our portfolio. With a vast portfolio like ours, it's really important for us to be sure that we're aligned as efficiently as possible for customers to get to the parts they need and want.

<Q - Joe L. Moore>: Okay, great.

<A - Kevin P. March>: All right?

<Q - Joe L. Moore>: That's helpful. That's helpful, thank you. And then just returning to the growth in autos, I guess we see the peer group as growing high single digits, maybe a little bit better. So obviously you're growing quite a bit faster in autos than other analog companies. Should we think of that as being sustainable gains, or just how do you – is there anything you can do to help us understand why that was such a good number and what should we expect going forward?

<A - David Pahl>: Joe, this isn't – as you know, and you've been tracking our revenues inside of that market for some time, it's not something that just happened this quarter. We've been having very strong growth inside of automotive, and that is a result of how we allocate capital. We have for some time been directing investments and increases both in automotive and industrial, and that's because we think that those are the two markets that are going to provide growth not just for us but in our industry. And as you know, these are long-tail type of design wins and revenue streams. And we're very intentionally, as I mentioned earlier, trying to direct our investments, so we're not just seeing growth in one sector or at one customer. So that's what we're trying to do, so thanks for that question. We'll go to next caller, please.

<Q - Romit Shah>: I wanted to ask. Dave, did you give us channel inventory, how much supply your distributors were carrying in the quarter?

<A - David Pahl>: I haven't, but I certainly can. Inventory was even with a year ago and decreased by about a half a week sequentially, and it's still running at around four weeks in the channel. And I just also just have a reminder that that number benefits because of our consignment programs that we have in place with our distributors.

<Q - Romit Shah>: You guys talked about moderate growth again last year, but there's been I guess talk more recently about stimulus, better GDP growth under the new administration, and I'm curious. How do you think your distributors would react under that scenario, or do you guys think about it as your distributors restocking as a major driver for this year?

<A - Kevin P. March>: Romit, I don't think that we're quite that precise on that kind of thinking as to how distributors might react. We look at the talk of stimulus with some anticipation of a positive boost to the economy, but frankly we think it's probably too early to figure out what that might be and how it might manifest itself. A lot of that stimulus seems to be focused towards infrastructure. And so if in fact it does wind up there, that will further benefit our industrial portfolio. More important to us is to watch what's happening on the tax front, and hopefully we'll finally get some tax relief out of Washington, which will be a significant benefit to our shareholders.

<A - David Pahl>: And, Romit, I'll just add that if you look, as I said, inventory was even with where we ended last year. It was actually down sequentially, so reflected in our numbers really has no restocking inside of it. And I would just say that the inventory levels that they have, the inventory levels that we have just reflect an environment where we've got good product availability. And because of our investments in capacity ahead of demand, if these things do show up and turn into more significant growth going forward, we're ready to be able to support that. So thank you, Romit, and we'll go to the next caller, please.

<Q - Ross C. Seymore>: Looking at the Analog business in Q4, Dave, it was up 10% y-over-y, but you said HVAL was flat. I was a little surprised at that side being flat and the remainder must have been up a good 13% – 15% y-over-y. Can you talk a little bit about what the drivers were that created such a delta between those segments?

<A - David Pahl>: Yes, I think if you look at y-over-y by end market, personal electronics was down slightly due to mobile phones. So if you back out mobile phones, actually personal electronics was up slightly. So that was the main reason that we saw that. You can see that inside of Analog. And that weakness in mobile phones was not just inside of HVAL, but you saw that to a lesser extent inside of Power.

<Q - Ross C. Seymore>: And I guess.

<A - David Pahl>: Do you have a follow-on?

<Q - Ross C. Seymore>: Yes, I do. On the OpEx side of the equation, I know, Kevin, you answered some questions about the R&D remaining elevated. If we think in Q1, traditionally that goes up just for beginning of the year reasons by about 5%. Is that about the right area we should think OpEx changing sequentially in Q1, or is it different this year due to that reallocation?

<A - Kevin P. March>: No, I wouldn't expect anything particularly different. The reallocation is mostly coming out of SG&A as we go forward, so it's just the mix inside that. So total OpEx will continue to increase. As you know, seasonally in first quarter because of the absence of holidays from Q4 as well as the annual pay and benefit increases that we deploy across the company Q1.

<Q - Stacy Aaron Rasgon>: Around the gross margin drivers, particularly 300-millimeter, you seem to be talking about that as probably the biggest driver on a go-forward basis structurally. Can you talk about it to us in terms of where you are on 300-millimeter utilization vs. a year ago, particularly given the amount of expansion that you're doing? How much I guess room do you still have to grow there, and how does that compare to where you were a year ago?

<A - Kevin P. March>: Stacy, I think that we have talked about between the Richardson factory, which we call RFab, and DMOS6 in the Dallas location, combined we have about $8B of revenue-generating capacity in those factories combined. We have continued to increase starts meaningfully on 300-millimeter for Analog, and that is really going to be picking up the pace. More and more, the new products that we're releasing are being released on 300-millimeter. And the economics, as you're well aware, are very compelling. The bottom line is that chip costs are about 40% less on 300-millimeter vs. 200-millimeter. So the total finished product is about 20% less, which adds meaningfully not only to gross margins but especially to FCF because that just falls straight through unimpeded.

So again, our starts continued to increase. We continue to have a lot of capacity available to us. But more importantly, we have a lot of new devices in the pipeline being released onto 300-millimeter. And that all coming together will probably continue to accelerate the rate of starts and therefore there will be a fall-through that we'll get from that manufacturing line.

<A - David Pahl>: I'll just add, Stacy, as a shameless plug for our capital management call, Rafael and I will cover more of that detail in our capital management call.

<Q - Stacy Aaron Rasgon>: Preview today, so thanks. For my follow-up, I want to touch a bit on the accounting changes. It seems to be influencing both the earnings as well as the share count. The diluted share count went up this quarter for the first time in forever, but it sounds like it was boosted by 5mm shares or so I guess because of accounting change. How should we think about that I guess going through 2017? Is it still something like $0.03 or $0.04 per quarter benefit that's going to sustain into perpetuity? And in terms of the share count, was this a one-time step up and should we still think about shares declining going forward, even given I guess the increased dividends but reduced buybacks?

<A - Kevin P. March>: So, Stacy, just a little bit more background on this GAAP change. It's going to impact all companies who haven't already implemented beginning with Q1 2017 reporting. So we've basically early-adopted by one quarter. The idea is to try to help with better comparability for 2016 and 2017.

That being said, it does cause reported earnings to increase because of this tax benefit. It also mathematically requires that you compute your diluted share count differently. And so it added about 5mm shares to our diluted share count just complying to the new calculation rules. In 2016, had we applied the same GAAP at the beginning of the year, it would have added $0.04 to Q1, $0.03 to Q2, $0.04 to Q3, and it added $0.01 to Q4, for a total of $0.13 for the year.

The way that we would recommend that you model this for purposes of analyzing the company going forward is similar to what we're doing, and that is just look at what happened last year and use that same set of assumptions for next year. I'm pretty sure that it will wind up being different when we close the books on those assumptions, but that's the best way to model. So consequently, we had $0.04 that would have occurred in Q1 2016. And the guidance that we've just offered for Q1 2017, we've included $0.04, and we would suggest that you do the same thing.

<A - Rafael Lizardi>: Stacy, let me just add to that that for looking at next year, our commitment to our capital management strategy and the disciplined execution of that strategy remains unchanged. Our target is to return all of our FCF to the owners of the company. And with the dividend model that we announced last quarter, it provides a more robust framework to adjust allocation of that return between dividend growth and share repurchases.

<Q - Vivek Arya>: So for my first question, I know it's early days. But can you share any views on impact from any potential border tax rate changes, or conversely any lowering of the U.S. corporate tax rate? What would TI do differently if either of these two things were to happen?

<A - Kevin P. March>: Vivek, this is very speculative at this stage because clearly you can see just from the reported press that there's probably differences of opinions as to what kind of tax policies are employed between the President and the Congress. So I think it's a little bit hard for us to be able to characterize what that might do. What I can say is that any form of relief will be beneficial directly to our shareholders because it will simply expand our FCF. And as Rafael just commented, our commitment remains as it has been, and that's to return 100% of our FCF to our shareholders through dividends and stock buybacks. So any form, whether it's border tax adjustments or actual lowering of the overall tax brackets, clearly will be beneficial to our shareholders, and I'm looking forward to seeing that happen.

<A - David Pahl>: Do you have a follow on, Vivek?

<Q - Vivek Arya>: Yes, thanks, Dave. Last quarter you mentioned that it seems like we were in a 3% to 4% growth world, but then you grew 7% in Q4 and you're guiding to 10%-plus in Q1. I understand part of it is probably just normalization at one of your larger customers. But what is driving the upside? Is it sustainable? Are we now in a 7%-plus growth world? Like what will change this year to deter us from that kind of growth trajectory?

<A - David Pahl>: Yeah, so first, Vivek, I'd just point out that when we look at the overall macro environment, we really don't see something that has significantly changed in some time. So we continue to believe that we are operating in a very similar macro environment that we have been.

If you look at inside of the quarter, demand came in stronger really across most markets and businesses. The only notable exception, as I talked about before, was personal electronics came in about as we expected. And to your point, we've seen choppiness in particular markets, and some of that more recently has been driven by one large customer. You can roll back the clock not too long ago into last year, we saw some choppiness in comms equipment. Before that, we had a PC XP refresh cycle that came to an end, and none of those were really tied to the overall economy. They were just very specific things going on within specific markets. So that's really the environment that we think that we're operating in now. So thank you, and we'll go to the next caller, please.

<Q - John William Pitzer>: I guess my first question is just looking at the op margins on the Embedded business, you did a great job throughout CY2016 as you grew that business to drive leverage and upside to the operating margin, but there's still a pretty healthy gap between the op margins in Embedded and those in Analog. Is that still just a matter of getting more scale in the Embedded business, or how do we think about those op margins closing over time?

<A - Kevin P. March>: John, I think the best way to think about it is what we have been talking about for a number of years, which means we stepped up investments in that area a number of years back, and then we readjusted the investments especially for the base station marketplaces. And since then, we think we've got the investment levels about right.

So it really is a question of continuing to get leverage from revenue growth all in, all the way through to op margins, as you point out. But again, what we focus on, it falls through unimpeded to FCF, and that's the real focus there. So there is nothing inherent that keeps it from continuing to improve. In fact, I would not be surprised to see the team there continuing to improve on that as they completely understand the leverage capability they have on the investment base they have right now.

<A - David Pahl>: Do you have a follow-on, John?

<Q - John William Pitzer>: Yes, just as my follow-on, I apologize for asking, but a lot of my questions were already asked and answered. But just on the other revenue line, if you look at your revenue holistically over time, it's become significantly less volatile, but that Other bucket has jumped around a lot quarter on quarter. And, Dave, I'm wondering if you could just give us some guidance from these levels, how we should think about seasonality or the cadence of the Other revenue going forward.

<A - David Pahl>: I think if you look at it for the full year, it decreased 3% year on year. And as we had talked about before, when you look at the history, it had declined more like in the mid-teens, and that was primarily as the legacy wireless products had unwound, and we expect going forward that we'd be somewhere in a mid-single-digit decline.

There is seasonality inside of the Other business. It's driven primarily by calculators that have very strong seasonality due to back-to-school. And then we also have royalties inside of there that can be choppy every once in a while, so those are the types of things. But overall when you look at it, much like this year, we saw a 3% decline that's probably similar to what we would expect to see going forward. So thanks, John. We'll go to the next caller, please.

<Q - Ambrish Srivastava>: You've been nothing but an absolute pleasure in all the dealings we have had with you, so thank you for that.

My first question, Dave, is on the industrial business. Auto is a great business for you. Over the years, you've been consistently outgrowing the industry, but automotive is $4B business. And I think a year ago I'd given you not really a lot of hard time, but I had asked you why the business didn't grow last year. So that was in 2015, but you're growing this business again at a pretty decent rate, almost 10%. So what are some of the areas that are driving that growth?

<A - David Pahl>: Ambrish, actually, if you look at the actual numbers, I know you're using the rounded numbers that we gave you, more like the mid-single digits. So growth for the year for industrial 2016 over 2015, and it's good to see good solid growth there. When we look down into the details of the 14 sectors, we actually did see growth in most of those sectors for the year. So again, it's the same comments that we made on our automotive. We're just encouraged that our investments are really turning to that broad-based growth. Do you have a follow-on, Ambrish?

<Q - Ambrish Srivastava>: I did. On the consumer side and specifically in mobile, would March quarter then be up y-over-y, and would consumer be up y-over-y? All I'm trying to understand is if the indigestion we had a year ago, if that was so severe that it will last into March or it's behind us.

<A - David Pahl>: So we're real careful to try to give guidance on below the top line in any sector, but I think your instincts that we'll have an easy compare because of the weakness we saw a year ago would probably be correct. Okay, with that, we've got time for one last caller, please.

<Q - Toshiya Hari>: My first question is again on industrial. And, Dave, I appreciate your comments about there being broad-based growth in the segment. But if I recall correctly, I think this is the second consecutive quarter where you guys point to an improvement in the industrial marketplace. So I'm just curious if there are any specific regions or end market areas that's driving that inflection in the market in Industrial.

<A - David Pahl>: We are seeing that really broad-based growth across regions, across products, and across those 14 sectors that we've got in it. So we're real pleased with that growth. Do you have a follow-on, Toshiya?

<Q - Toshiya Hari>: Thanks, Dave. So this is a technical one. So the IP, the one-time benefit you guys saw in Q4 from your IP agreements, is this one-time in nature, or could we see this materialize again in future quarters? I just wanted to know what the nature of the contract or the agreement was for this.

<A - Kevin P. March>: It included several agreements with several different cross-licensees. But part of it was a sale of some IP assets, and that was recognized in the restructuring other line. And then the balance was for settlement of past infringements, and that was recognized in the other income/expense line. On an ongoing basis, these have been multiyear cross-license agreements, so we would expect about $20mm of annual benefit for the foreseeable future as a result of agreeing to these new intellectual property contracts, so roughly $20mm a year of annual benefit going forward