Q4 2016 Earnings Call

Company Participants

- Dave Pahl, VP and Head of IR
- Kevin March, SVP and CFO
- Rafael Lizardi, CFO Elect

Other Participants

- Ambrish Srivastava, Analyst
- Chris Danely, Analyst
- Harlan Sur, Analyst
- Joe Moore, Analyst
- John Pitzer, Analyst
- Romit Shah, Analyst
- Ross Seymore, Analyst
- Stacy Rasgon, Analyst
- Toshiya Hari, Analyst
- Vivek Arya, Analyst

Presentation

Operator

Good day and welcome to the Texas Instruments Q416 and 2016 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.

Dave Pahl {BIO 18870833 <GO>}

Good afternoon. And thank you for joining our Fourth Quarter 2016 and 2016 earnings conference call. 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.

As usual Kevin March TI's, chief financial officer, is with me today. Also with me is Rafael Lizardi who will become our chief financial officer February 1. Rafael joined TI in 2001 and was named vice president in 2010 followed by corporate controller in 2012. He holds a bachelor's degree in electrical engineering from the U.S. Military Academy at West Point and a master's in business administration from Stanford University.

As you know Kevin, who has been our CFO for 13 years, plans to retire later this year. During his tenure as CFO, TI's free cash flow per share has grown an average of 13% annually, our dividend has increased by a factor of 24. And our share count has been reduced by 42%.

We've all benefited and learned a lot from his disciplined financial management and his commitment to ensure that owners of TI shares get a good return on their investment. Kevin will continue to be with TI until October 2017 to transition his duties between himself and Rafael.

I don't want to get too sentimental but as this is Kevin's final earnings call, I want to say what a pleasure it's been for me to know and to work with him. TI is clearly a better company because of his leadership. I will say he has an outstanding successor. I've worked with Rafael over the past decade and look forward to continue to work with him in his new role as CFO.

With that before I review the quarter, let me provide some information that's important to your calendars. We plan to hold a call to update our capital management strategy on February 8 at 10 AM Central Time. Similar to what we have done in the past, Rafael and I will provide some insight into our strategy.

In today's earnings call Rafael will cover the capital management portion of our prepared remarks. And Kevin and I will cover the rest. Now I'll start with a quick summary of our financial results.

Revenue for the Fourth Quarter increased 7% from a year ago as demand for our products remained strong in the automotive market. The improvement we saw in the Third Quarter in the industrial market continues. Demand in 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. Earnings per share were $1.02 and included $0.14 for items that were not in our original guidance for the quarter. 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 the Fourth Quarter our cash flow from operations was $1.4 billion. We believe that free cash flow growth especially on a per-share basis is most important to maximizing shareholder value in the long term. Free cash flow for the trailing 12-month period was $4.1 billion up 6% from a year ago.

Free cash flow margin was 30.5% of revenue up from 29.6% a year ago. We continue 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 free cash flow will be valued only if it's productively invested in the business or returned to shareholders. In 2016, we returned $3.8 billion of cash to owners through a combination of dividends and repurchases.

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 was about even. Embedded Processing increased 6% from the year-ago quarter due to Processors and Microcontrollers. Connectivity also grew.

In our Other segment revenue declined 9% from the 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 product 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. 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 the 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 of 2017 earnings call we will use these product lines in describing the performance of our business segments.

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 two points from 2015. Automotive was 18% of our revenue, up three points. Personal electronics was 26%, down four points. 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 have been highly focused on a strategy where we have been allocating our capital and we have 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 products, 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 and the way our customer search and select for TI products.

With that I'll turn it over to Kevin.

Kevin March {BIO 5807667 <GO>}

Thanks, Dave. Good afternoon everyone.

Gross profit in the quarter was $2.13 billion 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 400 basis points.

Operating expenses were $754 million, or 22.1% of revenue. Over the last 12 months we have invested $1.37 billion in R&D, an important element of our capital allocation. Acquisition charges were $80 million, all of which were the ongoing amortization of intangibles, which is a non-cash expense.

Restructuring charges and other was a $20 million 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 was $1.32 billion 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 480 basis points 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 free cash flow growth.

Also we signed several intellectual property agreements, which had a total benefit of $228 million in the quarter. We recognized $188 million in Other Income and Expense, or OI&E. And $40 million in Restructuring charges/other. Neither revenue nor gross profit was impacted by these agreements.

Net income in the Fourth Quarter was $1.05 billion, or $1.02 per share, which included a $0.14 benefit for items not in our prior outlook. These included a $0.14 benefit for several intellectual property agreements, a $0.01 tax benefit related to the new accounting standards for stock compensation and a $0.01 restructuring charge.

This quarter we adopted a new GAAP standard that changes where we report tax consequences of employee stock compensation. When employee stock options are exercised or 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.

The new standard requires that amount to be recognized in income taxes on the income statement impacting net income and EPS. In the Fourth Quarter of 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 this accounting standard increases the diluted share count calculation by about 5 million shares.

I'll now ask Rafael to comment on our capital management results.

Rafael Lizardi {BIO 20006334 <GO>}

Thanks, Kevin.

Let me start with our cash generation. Cash flow from operations was $1.39 billion in the quarter. Inventory days were 126, consistent with our long-term model of 105 to 135 days.

Capital expenditures were $110 million in the quarter. In 2016, cash flow from operations was $4.61 billion, up 5% from the same period a year ago. For the year capital expenditures were $531 million, or 4% of revenue. As a reminder our long-term expectation for capital expenditures is about 4% of revenue. This includes expansion of our 300 millimeter Analog capacity.

Free cash flow for the year was $4.08 billion, or 30.5% of revenue. Free cash flow was 6% higher than a year ago. 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 returned to shareholders. Our intent over time remains to return all of our free cash flow plus any proceeds we received from exercises of equity compensation minus net debt retirement. This commitment is unchanged.

In the Fourth Quarter we paid $499 million in dividends and repurchased $475 million of our stock for a total return of $974 million. Total cash returned to owners in 2016 was $3.78 billion. 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 $1.65 billion in dividends, or 40% of trailing 12-month free cash flow. 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 the Fourth Quarter we passed an important milestone reducing our outstanding share count to fewer than 1 billion shares, or more specifically 996 million shares.

Our cash management and tax practices are fundamental to our commitment to return cash. We ended the Fourth Quarter with $3.49 billion 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.

I will now turn this back to Kevin to close out our prepared remarks.

Kevin March {BIO 5807667 <GO>}

Thanks, Rafael.

Our orders in the quarter were $3.44 billion, up 11% from a year ago. Turning to our outlook we expect TI revenue to be in the range of $3.17 billion to $3.43 billion in the First Quarter.

We expect First Quarter earnings per share to be in the range of $0.78 to $0.88, which includes a $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 $80 million per quarter through the Third Quarter of 2019. It will then decline to about $50 million per quarter for two additional years.

Our expectation for our annual effective tax rate in 2017 is about 30% and is the tax rate you should use for the First Quarter and for the year.

In closing I will note that growth in our industry in 2016 was moderate again this year. However, our advantages in the manufacturing and technology, portfolio breadth, market reach and diverse and long-lived product positions enabled important milestones in 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 340 basis points, operating margin improvement of 300 basis points, free cash flow margin improvement of 90 basis points and continued free cash flow 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 free cash flow per share growth for a very long time to come.

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 understanding TI's performance and strategy. And I wish you all the best.

While you will continue to 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 will come to truly enjoy working with him as well just as I have for all these years. With that let me turn it back to Dave.

Dave Pahl {BIO 18870833 <GO>}

Thank you, Kevin. 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 will provide you an opportunity for an additional follow-up. Kevin?

Questions And Answers

Operator

(Operator Instructions)

Harlan Sur, JPMorgan.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon. And great job on the quarterly execution and growth. Your automotive business grew 23% in 2016, obviously very solid results. Can you guys help us understand of the five subsegments within auto what areas drove the most strength?

A - Dave Pahl {BIO 18870833 <GO>}

Yes, 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. We really are excited about the opportunity of both automotive and industrial. And we are very pleased that the investments that we made are really providing a base from which we can grow upon. Do you have a follow-on?

Q - Harlan Sur {BIO 6539622 <GO>}

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 $47 billion 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 subsegments? Thank you

A - Dave Pahl {BIO 18870833 <GO>}

Yes, Harlan, I think when we look at our peers with the publicly reported data, we actually believe that we have performed quite well. We are probably earlier in the reporting season so we've got a few more of our peers to put their numbers up. But we are very confident that we performed very well. So thank you for that question. And we will go to the next caller please.

Operator

Chris Danely, Citi

Q - Chris Danely {BIO 3509857 <GO>}

Thanks, guys. And, Kevin, congratulations on the next phase. Thanks for being patient and I think the real reason you are 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 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 versus 300 millimeter versus utilization rates versus depreciation?

A - Kevin March {BIO 5807667 <GO>}

Sure, Chris. I hope not to revisit that $12 stock price you were talking about.

Q - Chris Danely {BIO 3509857 <GO>}

I'd put a zero after it now.

A - Kevin March {BIO 5807667 <GO>}

I like that a lot better. Margin drivers going forward I think there will be several things happening. I think we have enjoyed the last couple of years depreciation coming down at the same time that 300 millimeter starts have been going up. Those have clearly been tailwinds for us in the last couple of years. As we go forward, depreciation is probably going to begin to flatten out a little bit on a quarter-over-quarter basis. It will still be down next year versus 2016 but not nearly as much as we have 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 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 is still room for us to continue to see overall margin growth and that's before we even talk about revenue growth. Whereas revenue growth just gives us leverage on that capacity that we have been investing in in these past couple of years. And with depreciation being as low as I was talking about, what that really means is underutilization charges are negligible. So really it's just about fall through from revenues way straight to the bottom line and that will especially happen to cash flow.

Q - Chris Danely {BIO 3509857 <GO>}

Great and for my follow-up longer-term question on OpEx. So if we look at year-over-year your SG&A trended down a little bit. R&D was up. You guys have said you were going to pile 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 a percentage of revenue assuming overall revenue grows?

A - Kevin March {BIO 5807667 <GO>}

Yes, Chris, that's actually a really good question. The last couple of years OpEx has on an annual basis run about 23% of 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 will still operate 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 kind of stable markets we are in right now I think the kind of OpEx % you've seen in the last two years is what you should expect going forward in the next year or two.

A - Dave Pahl {BIO 18870833 <GO>}

Great. Thanks, Chris. And we will go to the next caller please.

Operator

Joe Moore, Morgan Stanley.

Q - Joe Moore {BIO 17644779 <GO>}

Great, thank you. I wonder if you could talk about the change to the Analog subsegments 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 should be think of there being any structural change that goes along with that?

A - Kevin March {BIO 5807667 <GO>}

That has nothing to do with the old Analog business. That is 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 are 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.

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, 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 products in our portfolio. With a vast portfolio like ours it's really important to be sure we are aligned as efficiently as possible for the customer to get to the products they need and want.

Q - Joe Moore {BIO 17644779 <GO>}

Okay. Great, that's helpful, thank you. 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 is being sort of 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 - Dave Pahl {BIO 18870833 <GO>}

Joe, this isn't as you know you've been tracking our revenues inside of that market for some time, it's not something that just happened this quarter. We have 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 those are the two markets that are going to provide growth not just for us but in our industry.

As you know these are long tail type of design wins and revenue streams and we are very intentionally as I mentioned earlier trying to direct our investment 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 will go to the next caller please.

Operator

Romit Shaw, Nomura

Q - Romit Shah {BIO 16865852 <GO>}

Yes and, Kevin, congratulations on your retirement. All the best. I wanted to ask, Dave, did you give us channel inventory, how much supply your distributors were carrying in the quarter?

A - Dave Pahl {BIO 18870833 <GO>}

I haven't. But I certainly can. Inventory was even with a year ago and decreased by about a half a week sequentially. It's still running at around four weeks in the channel. And I 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 {BIO 16865852 <GO>}

You guys talked about moderate growth again last year. But there has been talk more recently about stimulus, better GDP growth under the new administration. And I'm curious how you think your distributors would react under that scenario? Do you think about it as your distributors restocking as a major driver for this year?

A - Kevin March {BIO 5807667 <GO>}

You know, Romit, I don't think 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 will finally get some tax relief out of Washington, which will be a significant benefit to our shareholders.

A - Dave Pahl {BIO 18870833 <GO>}

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 gotten 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 are ready to be able to support that. Thank you, Romit. And we will go to the next caller please.

Operator

Ross Seymore, Deutsche Bank.

Q - Ross Seymore {BIO 20902787 <GO>}

Thanks for letting me ask a question. And, first, Kevin, congrats and, to, Rafael, too congrats on the promotion. Looking at the Analog business in the Fourth Quarter Dave it was up 10% year-over-year. But you said HVAL was flat. I was a little surprised at that side being flat and the remainder must have been good up a good 13% 15% year-over-year. Can you talk a little bit about what the drivers were that created such a delta between those segments?

A - Dave Pahl {BIO 18870833 <GO>}

Yes. So I think if you look at year-over-year by end market, personal electronics was down slightly due to mobile phones. If you back out mobile phones actually personal electronics was up slightly. So that was the main reason that we saw that. You could kind of see that inside of Analog. And that weakness in mobile phones was not just inside of HVAL but you saw to a lesser extent inside of Power. Do you have a follow-on?

Q - Ross Seymore {BIO 20902787 <GO>}

On the OpEx side of the equation, Kevin, I know you answered some questions about the R&D remaining elevated. If we think in the First Quarter, traditionally that goes up beginning of the year reasons by about 5%. Is that about the right area we should think OpEx changing sequentially in 1Q, or is it different this year due to that reallocation?

A - Kevin March {BIO 5807667 <GO>}

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 a mix of things like that. So total OpEx will continue to increase as you know seasonally in the First Quarter because of the absence of holidays in the Fourth Quarter as well as the annual pay and benefit increases that we deploy across our company in the First Quarter..

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

Stacy Rasgon, Bernstein Research.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Hi guys, thanks for taking my question. Around the gross margin drivers particularly 300 millimeter, you seem to be talking about that is probably the biggest driver on a go-forward basis structurally. Can you talk to about us in terms of where you are on 300 millimeter utilization versus a year ago, particularly given the amount of expansion you are doing? How much room do you still have to grow there. And how does that compare to where you were a year ago?

A - Kevin March {BIO 5807667 <GO>}

Stacy, I think we have talked about between the Richardson factory, which we call RFAB. And DMOS 6 in the Dallas location. Combined we have about $8 billion 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 pace. More and more of the new products that we're releasing are being released on 300 millimeter. And the economics, as you are well aware, are very compelling. The bottom line is the chip costs are about 40% less on 300 millimeter versus 200 millimeter so the total finished product is about 20% less, which adds meaningfully not only to gross margins but especially to free cash flow because that just falls straight through unimpeded. Again, our starts continue 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 the rate of fall through that we will get from that manufacturing model.

A - Dave Pahl {BIO 18870833 <GO>}

I will 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 Rasgon {BIO 16423886 <GO>}

I appreciate it Dave, thanks. For my follow-up I want to touch a bit on the accounting changes. And 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 5 million shares or so because like you said because of the accounting change.

So how should we think about that going through 2017? Is it still something like a $0.03 or $0.04 per quarter benefit that is going to sustain into perpetuity? And in terms of the share count was this sort of like a one-time step up. And should we still think about shares declining going forward even given the increased dividends that reduce buybacks?

A - Kevin March {BIO 5807667 <GO>}

So Stacy just a little bit more background on this GAAP change. It is going to impact all companies beginning -- who haven't already implemented -- beginning in the First Quarter of 2017 reporting so we basically early adopted by one quarter. The idea is 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 5 million shares to our diluted share count just compliant 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 the First Quarter, $0.03 to the Second Quarter, $0.04 to the Fourth Quarter and added a penny -- excuse me $0.04 to the Third Quarter. And it added a penny to the Fourth Quarter 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 it'll wind up being different when we close the books on those assumptions. But that's the best way to model. So consequently we have $0.04 that would have occurred in the First Quarter of 2016 and the guidance that we just offered for the First Quarter of 2017 included $0.04. And we would suggest that you do the same thing.

A - Rafael Lizardi {BIO 20006334 <GO>}

Stacy, let me just add to that our 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 free cash flow to the owners of the company. And with the dividend model that we announced last quarter it provides a more robust framework to adjust the allocation between of that return between dividend growth and share repurchases.

A - Dave Pahl {BIO 18870833 <GO>}

Great. Okay thank you, Stacy. We will go to our next caller please.

Operator

Vivek Arya, Bank of America Merrill Lynch.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question. And I wanted to wish congratulations and good luck to Kevin and welcome to Rafael. 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 March {BIO 5807667 <GO>}

Vivek, this is very speculative at this stage because clearly you can see just from the reported press there's probably differences of opinions as to what kind of tax policies to employ between the President and 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 free cash flow.

And as Rafael just commented our commitment remains as it has been and that's to return 100% of our free cash flow 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 - Dave Pahl {BIO 18870833 <GO>}

And a follow-on Vivek?

Q - Vivek Arya {BIO 6781604 <GO>}

Yes. Thanks, Dave. Last quarter you mentioned that it seemed like we are 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 word? What would change this year to deter us from that kind of growth trajectory?

A - Dave Pahl {BIO 18870833 <GO>}

Yes. So first, Vivek, I'd just point out 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 have seen choppiness in particular markets. 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. There were just very specific things going on within specific markets so that's really the environment that we think we're operating in now. So thank you. And we will go to the next caller please.

Operator

John Pitzer, Credit Suisse.

Q - John Pitzer {BIO 1541792 <GO>}

Good afternoon, guys, thanks for letting me ask the question. I'll chime in with my congratulations to Kevin. Kevin, I guess my first question is just looking at the op margins on the Embedded business. You did a great job throughout calendar year 2016 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 March {BIO 5807667 <GO>}

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 basestation 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 falling all the way through to op margins as you point out. But again what we focus on it falls through unimpeded to free cash flow.

And that's the real focus there. So there's nothing inherent that keeps it from continuing to improve. In fact I would not be surprised to see the team there continue to improve on that as they completely understand the leverage capability they have on the investment base they have right now.

A - Dave Pahl {BIO 18870833 <GO>}

Your follow-on, John?

Q - John Pitzer {BIO 1541792 <GO>}

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 give us some guidance from these levels how we should think about seasonality or the cadence of the Other revenue going forward?

A - Dave Pahl {BIO 18870833 <GO>}

Yes, I think if you look for -- 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 would be somewhere in a mid-single-digit decline.

There is seasonality inside of the Other business. It's driven primarily by calculators. They have a very strong seasonality due to back-to-school. 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 3% decline probably similar to what we would expect to see going forward. So thanks, John. We will go to the next caller please.

Operator

Ambrish Srivastava, BMO Capital Markets.

Q - Ambrish Srivastava {BIO 4109276 <GO>}

Hi, thank you very much. Kevin, congratulations on your next phase of life. And you have been nothing but an absolute pleasure in all of 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 have been consistently outgrowing the industry. But automotive is a $4 billion business. And I think a year ago I had given you not really a lot of a hard time but I'd asked you why the business didn't grow last year so that was in 2015. But you are growing this business again at a pretty decent rate almost 10% so what are some of the areas that are driving that growth?

A - Dave Pahl {BIO 18870833 <GO>}

Yes, Ambrish, actually if you look at the actual numbers I know you are using the rounded numbers that we gave you, it's more like a 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 at down into the details of the 14 sectors we actually did see growth in most of those sectors for the year.

Again it's kind of the same comments that I made on automotive. We are just encouraged that our investments are really turning to that broad-based growth. You have a follow-on, Ambrish?

Q - Ambrish Srivastava {BIO 4109276 <GO>}

I did. On the consumer side and specifically in mobile would March quarter then be up year-over-year. And would consumer be up year-over-year? All I'm trying to understand is if the indigestion we had a year ago is that was so severe that it lapsed into March or is it behind us?

A - Dave Pahl {BIO 18870833 <GO>}

We are real careful to try to give guidance on below the top line in any sector. But I think your instincts that we will have an easy compare because of the weakness we saw a year ago would probably be correct. With that we've got time for one last caller please.

Operator

Toshiya Hari, Goldman Sachs,

Q - Toshiya Hari {BIO 6770302 <GO>}

Great. Thanks for taking my question and, Kevin, thanks for all the help and congrats on the retirement. 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 quarters where you guys point to an improvement in the industrial marketplace. So just curious if there any specific regions or end market areas that are driving that inflection in the market in industrial?

A - Dave Pahl {BIO 18870833 <GO>}

Yes. There is -- we are seeing that really broad-based growth across regions, across the products. And across those 14 sectors that we have got in it so we are real pleased with that growth. Do you have a follow-on, Toshiya?

Q - Toshiya Hari {BIO 6770302 <GO>}

Just, thanks, Dave. This is a technical one. 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 group agreement was for this?

A - Kevin March {BIO 5807667 <GO>}

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. Then the balance was a settlement of past infringements. And that was recognized in the Other income and expense line. On an ongoing basis these tend to be multi-year cross license agreements. So we would expect about $20 million of annual benefit for the foreseeable future as a result of agreeing to these new intellectual property contracts. So roughly $20 million a year in the contract going forward.

Q - Toshiya Hari {BIO 6770302 <GO>}

Okay. Great thank you so much.

A - Dave Pahl {BIO 18870833 <GO>}

And thank you all for joining us. Again please plan to join us for our capital management call on February 8 at 10 AM Central time. A replay of this call is available on our website. Good evening.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you for your participation.