Q4 2018 Earnings Call

Company Participants

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

Other Participants

- Amit Daryanani, Analyst
- Chris Caso, Analyst
- Christopher Brett Danely, Analyst
- Harlan Sur, Analyst
- Jeriel Ong, Analyst
- John William Pitzer, Analyst
- Timothy Arcuri, Analyst
- Vivek Arya, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to the Texas Instruments 4Q 2018 and 2018 Year- End Earnings Release Conference. Today's call is being recorded.

At this time, I'd like to turn the conference over to Dave Pahl. Please go ahead, sir.

David Pahl {BIO 18870833 <GO>}

Thank you. Good afternoon and thank you for joining our Fourth Quarter and 2018 Earnings Conference Call. Rafael Lizardi, TI's Chief Financial Officer, is with me today. For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through our website. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's result to differ materially from management's current expectations. We encourage you to review the notice regarding forward-looking statements contained in the earnings release published today, as well as TI's most recent SEC filings for a more complete description.

First, let me provide some information that's important for your calendars. We plan to hold a call to review our capital management strategy on February 5 at 10:00 AM Central Time. Similar to what we've done in the past, Rafael and I will provide insight into our strategy.

For today's call, let me start by summarizing what Rafael and I will be reviewing. I'll cover three topics. First, a high level summary of the financial results for the fourth quarter. Second, I'll provide some details of the fourth quarter by segment and end market and I'll include some additional color in light of the market weakness we're currently experiencing. And finally, since this is the end of the calendar year, I'll provide a summary of our performance by end market for 2018. Rafael will then review profitability, capital management results and the outlook. We'll then open the call for Q&A.

Starting with a high level summary for the fourth quarter results, the weakness in demand for our products have began in the third quarter continued into the fourth quarter. The weakness was across most markets and came in about as we expected. There were a few exceptions that I'll cover in more detail when I discuss our fourth quarter segment and end market performance.

In our core businesses, Analog revenue grew 4% and the Analog processing declined 12% compared with the same quarter a year ago. Both businesses' growth decelerated. Operating margin decreased in both businesses and similar to the third quarter, Embedded remained weaker than Analog, primarily because Analog benefited from increasing content in 5G while the weakness in other markets became more pronounced in Embedded. It is not unusual for Analog and Embedded to perform differently in the short-term, but they are more consistent in the long-term.

Earnings per share were $1.27, including a $0.01 discrete tax benefit not in our original guidance. In the fourth quarter, our cash flow from operations was $2.1 billion. As we note each quarter, 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 $6.1 billion, up 30% from a year ago. Free cash flow margin for the same period was 38.4% of revenue, up from 31.2% a year ago. We continue to benefit from an improved product portfolio that's 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 only be valued if it's productively invested in the business or if it's returned to owners. In 2018, we returned $7.7 billion in cash to owners through a combination of dividends and stock repurchases.

Moving on, I'll now provide some details of the fourth quarter by segment and end market and offer some additional color on the market. From a year-ago quarter, Analog revenue grew 4% due to Signal Chain and Power, partially offset by declines in High Volume.

Embedded Processing revenue declined 12% from the year-ago quarter due to declines in both product lines: Processors and Connected Microcontrollers. In our Other segment, revenue declined $31 million from the year-ago quarter. For the year-end total, Analog and Embedded grew 9% and 2%, respectively; and combined, were 91% of TI's revenue.

Now, given the current market environment, I want to provide some additional color on the quarter. As I mentioned earlier, the weakness in demand in our products that began in the third quarter continued into the fourth quarter. Demand came in mostly as expected, although Personal Electronics, and specifically smartphones, was weaker, including Chinese smartphone manufacturers.

Automotive and Industrial, both declined sequentially, but still grew single digits from the year-ago quarter. In contrast, Communications Equipment grew about 20% year-on-year, benefiting from 5G deployments.

On a regional basis, demand in China was weaker than the other regions. End markets within China, though, behaved directionally consistent with the rest of the world. We are seeing signs from our customers and the channel that this weakness is primarily from increased caution due to trade tensions.

We assume that this weakness is a combination of lower local end demand, as well as reduced exports, but we do not have visibility to distinguish between the two. In addition, I would note that distributors, particularly in Asia, did get more conservative on their inventory positions late in the quarter.

Finally, as we do at the end and close of each calendar year, I'll now describe our revenue by end market for 2018, which is a good indicator of our strategic progress. We break this into six categories: Industrial, Automotive, Personal Electronics, which includes products such as mobile phones, PCs, tablets and TVs; Communications Equipment, Enterprise Systems and Other, which is primarily calculators.

In summary, Industrial, Automotive and Enterprise Systems each grew double-digits, while Communications Equipment was about even; and Personal Electronics declined low-single digits in 2018. Specifically, as a percentage of revenue: Industrial was 36%; and Automotive was 20%;Personal Electronics was 23%; Comms Equipment and Enterprise Systems were 11% and 7%, respectively; Other was 3% of revenue, down low-single digits.

One of our competitive advantages is diversity and longevity. For 2018, we did not have a customer who was more than 10% of our revenue. We continue our efforts to diversify our growth across products, markets and customers, strengthening this competitive advantage.

We continue to focus our strategy on Industrial and Automotive markets, where we've been allocating our capital and driving initiatives to strengthen our position. This is based on a belief that Industrial and Automotive will be the fastest-growing semiconductor markets. They have increasing semiconductor content and also provide diversity and longevity. All of this translates to a high terminal value of our portfolio.

In 2018, Industrial and Automotive combined made up 56% of TI's revenue, up from 54% in 2017 and up from 42% just five years ago. We have established momentum in these markets, and we see great opportunity ahead.

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

Rafael R. Lizardi {BIO 20006334 <GO>}

Thanks, Dave, and good afternoon, everyone. Gross profit in the quarter was $2.41 billion or 64.8% of revenue. From a year ago, gross profit decreased primarily due to lower revenue and reduced factory loadings. Gross profit margin decreased 30 basis points.

Operating expenses in the quarter were $840 million. Operating expenses for the year were up 1% and were 20.5% of revenue, within our range of expectations. For the year, we have invested $1.56 billion in R&D, an important element of our capital allocation. Acquisition charges, a non-cash expense, were $79 million. Acquisition charges will be about $80 million per quarter through the third quarter and then decline to about $50 million per quarter for two remaining years.

Operating profit was $1.52 billion or 40.8% of revenue. Operating profit was down 3% from the year-ago quarter. Operating margin for Analog was 46.7% and for Embedded Processing, was 29.6%. Our focused investments on the best sustainable growth opportunities with differentiated positions enable both businesses to continue to contribute nicely to free cash flow growth over time.

Net income in the fourth quarter was $1.24 billion or $1.27 per share, which included a $0.01 discrete tax benefit not in our prior outlook as we have discussed. As a reminder, the year-ago quarter included non-cash charges associated with the tax law changes.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was $2.15 billion in the quarter, up 11% from a year ago. Capital expenditures were $323 million in the quarter. In the fourth quarter, we paid $736 million in dividends and repurchased $2.01 billion of our own stock for a total return to owners of $2.75 billion in the fourth quarter. Our balance sheet remains strong with $4.23 billion of cash and short-term investments at the end of the fourth quarter. Total debt was $5.1 billion, with a weighted average coupon rate of 2.77%.

Inventory days were 152, up 18 days from a year ago and above our targeted range as mentioned on our last call. We continue to believe there is strategic value in owning and controlling our inventory. We have reduced our operating plans starting in the fourth quarter, but we are also working to replenish inventory of low volume devices. These actions have served us well in the past. In addition, we have made progress on our next phase of our consignment programs with our distributors. We expect inventory will continue to run above our targeted range for several more quarters.

Now, let's look at some of these results for the year. In 2018, cash flow from operations was $7.19 billion. Capital expenditures were $1.13 billion or 7.2% of revenue. Free cash flow for 2018 was $6.06 billion or 38.4% of revenue. Our cash flow reflects the strength of our business model. As we have said, we believe free cash flow growth, especially on a per share basis, is most important to maximizing shareholder value in the long-term and will be valued only if it is productively invested in the business or returned to shareholders. We remain committed to return all our free cash flow to owners.

Total cash returned to owners in 2018 was $7.66 billion. These combined returns of dividends and share repurchases demonstrate our confidence in our business model and our commitment to return all free cash flow to our owners. In 2018, we paid $2.56 billion in dividends or about 42% of free cash flow, evidence of their sustainability. Outstanding share count was reduced by 3.9% in 2018 and has been reduced by 45% since the end of 2004 when we initiated a program designed to reduce our share count.

Turning to our outlook for the first quarter, we expect TI revenue in the range of $3.34 billion to $3.62 billion and earnings per share to be in the range of $1.03 to $1.21, which includes an estimated $20 million discrete tax benefit. For 2019, our annual operating tax rate remains unchanged from our prior expectation of 16%. As usual, details of our expectations for taxes can be found on our IR website under financial summary data.

In closing, we believe that after 10 quarters of year-on-year growth, the weakness we are seeing is primarily due to the semiconductor cycle. In addition, the macro environment, including uncertainty caused by trade tensions, could impact the depth and duration of this cycle. Given our experience, we will stay focused on making TI stronger for the long-term while remaining diligent in the short-term. We continue to invest in our competitive advantages which are technology and manufacturing, portfolio breadth, market reach, and diverse and long-lived positions.

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 I believe will enable us to continue to improve and deliver free cash flow per share growth for a long time to come.

With that, let me turn it back to Dave.

David 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?

Q&A

Operator

Thank you so much. We'll take our first question from Vivek Arya with Bank of America.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question. I'm curious, how are you managing your utilization in this downturn that we are seeing? I know, Rafael, you mentioned that you have long-lived parts but how are you managing utilization and are you making any distinction by the end market that the specific part is going into? And as part of that, should we continue to assume the same 75% or so incremental gross margin fall-through?

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

Yeah. So let me answer that last one first. Yes and now, let me go back to your question. So aside – there's a bit of an echo on the call. But as I – as we talked about on the call 90 days ago, we have reduced our wafer starts to align our operating plan better with our revenue expectations. We did that in fourth quarter and we're doing that again in first quarter.

That does drive lower factory loadings and that does have a P&L effect but the way we're thinking about it is as owners, from a cash standpoint. So inventory is a use of cash. As we drive down inventory, that actually helps cash and more importantly, it sets us up to support our revenue expectations for the coming year. As that revenue expectations, those revenue expectations change over time then we'll adjust the factory loadings and utilization in order to manage that appropriately.

A - David Pahl {BIO 18870833 <GO>}

Yeah and I'll just add to the second part of your question. We've got tens of thousands of products across 100,000 customers, so you can imagine the complexity of that planning. The strongest signal that we get is the orders from customers, as well as the demand signals that we get through our consignment programs. So as we go through and plan wafer starts, that's what we pay close attention to. And obviously, in a time like this, we'll be very diligent in watching that and then proactively moving when we need to. So with that, do you have a follow-up, Vivek?

Q - Vivek Arya {BIO 6781604 <GO>}

Yeah. Thanks, Dave. So the second part is, I know you mentioned that it's hard to predict when we come out of this downturn. But are there any other signs that you look at, even if they're qualitative, that can give us some indication whether this is a one or two or three-quarter issue? I understand it's very trade-dependent, but have you seen cancellations that are any different or similar to prior downturns? Any other color that you could give us to help us try and at least predict somewhat when we come out of this would be very useful. Thank you.

A - David Pahl {BIO 18870833 <GO>}

Yeah, Vivek. So maybe just a couple of things. I think when we look at different things that we can look at, like cancellations; they were up in the quarter, but just up a little. Lead times, overall, they continue to be stable. We can always find pockets where we're working aggressively with customers to close. But, by and far, they tend to be very stable. So we'll look at all of those signals.

I think on a broader view, and I've been in the industry for over 30 years now and we looked at data over that period of time. And I've been through nine upcycles, and obviously we're entering into the ninth downcycle. And if you stared at that data – and I've seen in your reports, Vivek, that you've done some analysis on that, too, there is no typical or average to those numbers.

But if you had to pick a number, it's probably around 12 months that a cycle could last. And things like the trade tensions could lengthen that, but it doesn't mean it has to be that long. As you know, it could be longer or shorter than that. So, again, the best signal that we get is those orders from customers. Rafael, you want to add to that?

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

Yeah. Just to add to that, we are proactively setting the operating plan, so that we can manage whatever comes at us. So it's at a level that if we can run sideways for a while, we are prepared to support a potential snapback; or if it's deeper and longer, then we have to make further adjustments, but we're in a good position to make those adjustments and protect the cash flow and have the company in a good position going forward.

A - David Pahl {BIO 18870833 <GO>}

Okay. With that, we'll go to the next caller, please.

Operator

We'll move to John Pitzer with Credit Suisse.

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

Yeah. Good afternoon, guys. Thanks for letting me ask the question. Just, Rafael, going back to kind of utilization and inventory, I know you said in your prepared comments you'll be above sort of your inventory targets for the next several quarters. I'm just kind of curious, relative to how you see the world today and what action you've already taken on utilization, do you think 152 days will represent kind of the peak in inventory days? Or would you expect it to migrate higher before migrating lower? And I guess as you answer the question, if you could just remind us with the consignment plan, kind of what are the new targets for inventory longer term?

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

Yeah. So that's a good question. Let me just give you a few things to think about on that. First, as I said before, at the end of the day, our objective here is to maximize long-term growth and free cash flow. So that's how we think about all these knobs; loadings and inventory is one of them; CapEx is another one that all we're doing is trying to maximize the long-term growth.

With inventory, as we say, we see value in owning that inventory. That's part of the reason why we are building the low-volume buffers that we talked about. It's also the reason why we're increasing the consignment inventory, and that does put upward pressure on inventory. At the same time, overall, we have lowered the operating plan. So that is to control the cash that's used for inventory more so than any particular inventory days target.

Now, to get to the heart of your specific question, it depends, right? So if this thing gets weaker, then inventory days could theoretically go up higher than 152. If it stays about stable, then over one, two or three quarters, we'll get back to inside the range.

A - David Pahl {BIO 18870833 <GO>}

You have a follow-on, John?

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

Yeah. Then, Dave, as a follow-up, you talked about sort of there has been times where discrepancy in growth between Analog and Embedded. I'm wondering if you could just help us understand kind of from an end market perspective where the discrepancy is sort of largest. So, for example, I know in the Comm space, there's a really good content story on the Analog side that might not be there on the Embedded side. So when you look at the difference of growth rates, is there any sort of end market color you can give us?

A - David Pahl {BIO 18870833 <GO>}

Yeah. And, certainly, both of those segments do have different end market exposure. We talked about the benefit that Analog is seeing in Comms Equipment. Most of our PE revenue is in Analog as well so that's a difference. We do have some inside of Embedded. And, John, if you look at year-over-year growth rates for as long as we've had the segments out there, you'll notice in times that they actually move in opposite directions. But over time, if you look at those numbers, they really do perform more similar.

And then also, if you look at just industry data for the Analog market and compare that to the Embedded market, those behave differently. So I think that that's just kind of the fact of how those two businesses behave. So with that, thank you. We'll go to the next caller, please.

Operator

We'll move next to Harlan Sur with JPMorgan.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon. Thanks for taking my question. What was the book-to-bill in the December quarter? And near-term, kind of looking at bookings and the rolling forecasts in your direct and consignment-based customers, have you guys seen any signs of stabilization or do the near-term trend still suggest kind of continued weakness along that same sort of slope?

A - David Pahl {BIO 18870833 <GO>}

Yeah. So our book-to-bill, and I always make this comment whenever it's asked, we've got now 65% of our revenues on some type of a consignment program, so you're seeing that number begin to move up as we implement further stages of our consignment programs with distributors. So book-to-bill is somewhat – you just have to be cautious with the number.

But this past quarter, it was 0.98. It was 0.98 a year ago and 0.96 in the last quarter. So that's just what the facts are. I think if you look at things like order linearity, orders decreased each month of the quarter. To some degree, that's not completely unusual that in the fourth quarter that you'd see weakness as you got into the third month. But I'd just say that those orders and the demand feeds that we get from our customers has really driven us to give you the guidance that we have. So that's really where we are, Harlan.

You have a follow-on?

Q - Harlan Sur {BIO 6539622 <GO>}

Yeah. Given the growth this year, you guys drove another $1 billion of Analog revenues through your 300-millimeter fabs. You've got probably about another $3 billion left to go. So if I assume kind of high single digits type of normalized revenue growth for Analog, your 300-millimeter fabs are going to be full in about a year and a half, so it would seem that the team would be having to make a decision soon about your new fab expansion initiatives. So do you guys have any updates there?

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

Yeah. Let me give you my view and then Dave may go ahead and chime in but capacity planning for a new 300-millimeter tranche of capacity, yes, that's something we, of course, take very seriously and something that has a very long-term horizon. So this is something that is not changed by small fluctuations in short-term expectations. So we are continuing the planning process on that and right now, we have options to consider and we'll continue thinking of that.

As we have said, I think 90 days ago, whenever we do decide to go that route, if we do build a factory, that would probably be a $600 million to $700 million cost on the shell, the actual building, and that we'll probably spend over a couple of years. So that's not the only option we have for – to expand capacity. We could always buy an existing factory and that's another option that we're considering. And also, I would say that if we do build a factory, there are multiple locations that's we're considering.

A - David Pahl {BIO 18870833 <GO>}

Yeah. I'd just add, Harlan, that last year, we had about $4.8 billion of our Analog revenue on 300-millimeter – in our 300-millimeter footprint. That was up from about $4 billion. That's real close to what the Analog segment actually grew. So, again, we kind of talked about as Analog would grow, that it would be 300-millimeter that would support the growth and roughly that's what we've seen again this quarter.

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

Operator

And we'll take Chris Daneley with Citigroup.

Q - Christopher Brett Danely {BIO 3509857 <GO>}

Hey. Thanks, guys. Dave, first of all, congratulations on surviving eight downturns. Can you guys talk about the ability to manage CapEx and OpEx this year if this sluggish time period continues? Could you work OpEx down on a year-over-year basis? And then I think you said CapEx was 7.2% of sales or something like that. What should we be thinking about CapEx as a percent of sales this year?

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

Yeah, yeah. Let me give you some background on that. First, as I mentioned earlier on the call, all the knobs that we have at the end of the day are to optimize and maximize long-term growth of free cash flow per share. So that's the main objective, as you know very well, from knowing us for many years and our capital management strategy. So CapEx is one of those knobs, right, and for CapEx specifically, what is the objective? It's to invest to support new technology development, it's revenue growth and to expand our low cost manufacturing advantage.

So in 2018, we spent $1.1 billion of CapEx and as you pointed out, that was 7.2% of revenue. At the same time, we generated $6.1 billion of free cash flow. That was 30% growth on free cash flow from the previous year. So despite the CapEx, we increased free cash flow, that 30%.

Now, the CapEx is positioning us to grow the top line and free cash flow for a long time to come. Now, given, as you pointed out and as our midpoint in our range implies, a decelerating market, then we can do things differently on CapEx going forward. I expect if conditions continue, a slowdown in CapEx, probably not in first quarter, maybe not even in second quarter, but over 2019. But just keep that in mind -- keep in mind that that is all dependent on expectations of growth beyond that, for years, not just 2019 or even 2020. So we'll adjust the CapEx plan as those expectations change.

A - David Pahl {BIO 18870833 <GO>}

Yeah. And I'd just add I think when you look at 2019, that we'd expect CapEx to run into the future even beyond 2019, closer to 6% of revenue and that's higher than what it's been in the past just because of the availability of used 300-millimeter equipment on the market. So that's what our expectations there are.

You have a follow-on, Chris?

Q - Christopher Brett Danely {BIO 3509857 <GO>}

Yeah. Can you guys just talk about how the slowdown is impacting your two biggest end markets, Industrial and Automotive?

A - David Pahl {BIO 18870833 <GO>}

Yeah. So I think that when we look at them, they both slowed in the quarter. We actually saw industrial -- it was really broad-based growth; from a year-on-year basis, was double digits but inside of the quarter, it actually grew upper single digits.

And then Automotive, again, had slowed but it grew double digits in total for the year, but for the quarter, for year-on-year quarter, it grew in low single digits. So, again, both of those markets are growing, but certainly not at the rates that we have seen over the past few years.

Okay. Thank you, Chris. And we'll go to our next caller, please.

Operator

Thank you. That will be from Timothy Arcuri with UBS.

Q - Timothy Arcuri {BIO 3824613 <GO>}

Hi, thanks. Dave, can you give us an idea of OpEx for March? I know it's typically up like 5% seasonally, but it's also a little more fixed now than in the past. So is it going to be up a smidge both year-over-year and on a quarterly basis? Thanks.

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

Yes, I'll go ahead and take that. First, a step back real quick. OpEx is just another knob that we have to optimize long-term growth of free cash flow per share, right? At the end of the day, that is the long-term objective. And in the case of OpEx, is an opportunity to invest in R&D, so to put more products for Industrial and Automotive, it's an opportunity to invest in demand creation on the SG&A side and other things, other initiatives that is going to strengthen our competitive advantages.

If you look at 2018, that OpEx came in at about 1% growth versus the previous year and 20.5% of revenue. On a go-forward basis for 2019, for dollars of OpEx, I would expect somewhere in that neighborhood, maybe up a couple percentage points for pay and benefit increases, something along those lines, but generally speaking at about that same level all OpEx.

Now, you asked specifically about the quarter. We give you a range for revenue, a range for EPS. We don't get in the lines in between, but I would tell you we're not expecting anything unusual. You can look at a expected fall-through on revenue to GPM and do your own models and you should get to a reasonable assumption or conclusion for those lines in between.

A - David Pahl {BIO 18870833 <GO>}

Great. You have a follow-on, Tim?

Q - Timothy Arcuri {BIO 3824613 <GO>}

I do, actually. So, Rafael, the repo was the biggest as a percent of free cash flow, I think, in about three years. I know that you don't think of it that way on kind of a quarterly basis, but it's historically been a little more mechanical than opportunistic. So should we kind of read into that that you were a little more opportunistic because of the stock pullback? Thanks.

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

Yeah. No, thanks for the question. So, again, let me step back and remind everybody what's our intent when it comes to repurchases; and our intent is to return all free cash flow to the owners of the company, and that objective has not changed. We do that through a combination of dividends and buybacks, and we have been and will be opportunistic with repurchases as it makes sense.

So, for example, in 2018, as I mentioned earlier, our free cash flow was $6.1 billion. That was an increase of 30% from the previous year. And we returned $7.7 billion throughout the year through a combination of dividends and buybacks. And that year-on-year free cash flow growth was the biggest driver of that increase in returns, as $6.1 billion increased from $4.7 billion in the previous year.

A - David Pahl {BIO 18870833 <GO>}

Okay, great. We'll go to the next caller, please.

Operator

That will be from Chris Caso with Raymond James.

Q - Chris Caso {BIO 4815032 <GO>}

Yes. Thank you. Good evening. For a first question, I wonder if you could talk about geographic differences and you mentioned China in your opening remarks and I think that's obvious right now. Maybe what did you see there and contrast that with what you saw in the U.S. and Europe? Was that weak also, just perhaps not as weak as the China business?

A - David Pahl {BIO 18870833 <GO>}

Yeah. That's exactly right, Chris. So when we looked at China, it was weaker than the other regions. And then when you drop down into the end markets within China, I'd just describe it as really performing very similarly directionally; meaning that Comms Equipment was up as it was in other areas. We saw markets of Auto and Industrial, as well as Enterprise get weaker from that standpoint. So we did see that difference this quarter.

Do you have a follow-on?

Q - Chris Caso {BIO 4815032 <GO>}

Yes. And I guess you had also mentioned in your remarks the impact of the trade issues and the tariffs, and obviously it's very hard to disassociate that from what's going on in the end markets. But with that, have you also seen – I guess we've heard this from some others that perhaps there was some activity of either pulling forward orders to get ahead of tariffs or pushing out things because of the tariffs. And, obviously, the deadlines have changed and we've got another deadline coming up. I guess the question is what effect may have that had on order patterns as you went through the quarter?

A - David Pahl {BIO 18870833 <GO>}

Yeah. I think it's hard for us to actually distinguish that specifically but the one thing that we did see was distributors did get more cautious on their inventory late in the quarter, as I mentioned in the prepared remarks. And I think that, kind of coupled with the signs of weakness that we saw in China, has really led us to the belief that that's part of the caution that they're seeing from a trade tension standpoint so, okay.

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

Operator

Thank you. That will be from Ross Seymore with Deutsche Bank.

Q - Jeriel Ong {BIO 19758244 <GO>}

This is Jeriel on behalf of Ross. I just have a quick question on you mentioned consignment transition. Could you quantify an impact to the 1Q 2019 guide and 2019 as a whole?

A - David Pahl {BIO 18870833 <GO>}

Yeah. I'd say, Jeriel, that we saw probably about $50 million impact in the fourth quarter. In the third quarter, Rafael, you can remind me, it was about $20 million, $30 million...

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

Yes, in the third quarter.

A - David Pahl {BIO 18870833 <GO>}

...in the third quarter of 2018. We'd expect as we go through next year that that impact to be about in that range and by the end of the year, we should have that next phase fully deployed.

You have a follow-on?

Q - Jeriel Ong {BIO 19758244 <GO>}

Yeah. There's been some questions about end markets. I just want to ask it a different way. Could you just talk about quarter-on-quarter what the end markets did, specifically focusing on the fourth quarter?

A - David Pahl {BIO 18870833 <GO>}

Certainly. Yeah, so industrial declined upper single digits. I'd just say those declines were broad-based. Automotive declined upper single digits with all sectors decreasing. Personal Electronics declined low double digits. Comms Equipment grew single digits and Enterprise Systems declined.

So with that, I think we have time for one more caller.

Operator

And that will be from Amit Daryanani with RBC Capital Markets.

Q - Amit Daryanani {BIO 7113568 <GO>}

Thanks a lot, guys. I guess two questions for me as well. First off, when I look at the March quarter guide and the implication is revenues will decline from 1% in December year-over-year to about 8% in March, what is driving that acceleration in revenue declines? Is there couple of end markets you would specifically call out that's driving it where perhaps the challenge is getting addressed more aggressively or is it more or less broad-based?

A - David Pahl {BIO 18870833 <GO>}

Yeah. Amit, when we give our guidance, we don't do it by end markets unless there is something specific that is going on that kind of would be discontinuous with how things are operating. So we'll finish up the quarter and let that – it will provide the details by end markets. But, clearly, the weakness that we saw in the third quarter continued into the fourth. Obviously, we're continuing to expect that to continue into first.

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

Yeah and just to add to that, as we said during prepared remarks and during the call, we think this weakness is primarily due to the semiconductor cycle. We've grown for 10 quarters in a row and that's the sort of thing that happens in the semiconductor industry. In addition to that, the macro environment, including the trade tensions, could also be having an impact and could affect the depth and the duration of the downturn.

A - David Pahl {BIO 18870833 <GO>}

That's right. You have a follow-on, Amit?

Q - Amit Daryanani {BIO 7113568 <GO>}

I do. In the past, you guys have talked about your ability to keep picking up 30 basis points to 40 basis points of share across your end market. As you look at 2019 where revenue or broader industry trends are somewhat more challenging, is it easier for a larger analog company to pick up more market share or is it more difficult for you guys? How would you kind of stack that up?

A - David Pahl {BIO 18870833 <GO>}

Yeah. I think when you look at the quality of the opportunity in the analog and embedded space, market share just doesn't move quickly across any of our peers in these marketplaces, and I think that that just really speaks to the quality of that opportunity. So we continue to invest in our competitive advantages, which are our manufacturing and technology we talked about earlier, the breadth of our product portfolio, the reach of our market channels, which includes our sales force and the size of it but also our presence at TI.com and then diversity and longevity.

So we're not dependent on any particular customer or product or technology to drive that revenue. So we're working and investing to make those stronger. It's just hard to pick up market share. I can tell you that everyone here at TI will be focused on that even as we go through the downturn and probably have even more diligence and intensity around that overall. But, again, if we could make that number higher, we absolutely would but it is a hard thing to move.

So with that, let me turn it over to Rafael to add some final comments.

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

All right. So let me finish with a few comments on some key items for you to remember. First, during this period of weaker demand, we will stay focused on what will make us stronger long-term and diligent in the short term. Second, we will remain focused on Analog and Embedded, the best products, and Industrial and Automotive, the best markets. Third, we will continue to be disciplined in executing our capital management strategy and remain committed to returning all free cash flow to the owners of the company.

A - David Pahl {BIO 18870833 <GO>}

Okay. Thank you for joining us. Again, please plan to join us for our capital management call on February 5 at 10:00 AM Central Time. A replay of this call is available on our website. Good evening.

Operator

That does conclude our conference call for today, everyone. Thank you all for your participation. You may now disconnect your line.
