Q1 2019 Earnings Call

Company Participants

- Dave Pahl, Investor Relations
- Rafael Lizardi, Senior Vice President and Chief Financial Officer
- Rafael R Lizardi, SVP, CFO and CAO Finance & Operations

Other Participants

- Chris Danley
- John Pitzer
- Joseph Moore
- Mark Lipacis
- Stacy Rasgon
- Toshiya Hari
- Vivek Arya

Presentation

Operator

Good day, and welcome to the Texas Instruments' Q1 2019 Earnings Release Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

Dave Pahl {BIO 18870833 <GO>}

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

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

For today's call, let me start by summarizing what Rafael and I will be reviewing. I'll be covering the following topics. First, a high level summary of the financial results for the first quarter; second, I'll provide some details of the first quarter by segment and end market; and third, I'll include some additional color in light of the market weakness we're currently experiencing. Raphael will then review profitability, capital management results, a brief comment on the status of our next 300 millimeter fab, and then the outlook. Then we'll open the call for Q&A

Now, starting with the high level summary of our first quarter financial results; the weakness in demand that began in the second half of 2018 continued into the first quarter. The weakness was across all markets with the exception of Communications equipment. In our core businesses, analog revenue declined 2% and Embedded Processing revenue declined 14%, compared with the same quarter a year ago. Both businesses year-over-year growth decelerated, as we expected at this point in the cycle.

Similar to the fourth quarter, Embedded remained weaker than analog primarily because it didn't benefit from increasing contents in 5G Operating margins decreased in both businesses. Reduced factory loadings affected both businesses, but the impact was greater in Analog since more of its supply comes from internal manufacturing.

Overall revenue in the first quarter decreased 5% from a year ago, and earnings per share were $1.26 including a $0.04 discrete tax benefit, not in our original guidance. With that backdrop, I'll now provide details on our performance which we believe continues to be representative of the ongoing strength of our business model.

In the first quarter, our cash flow from operations was $1.1 billion. As we know 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. We remain committed to returning all of our free cash flow to owners.

Free cash flow for the trailing 12-month period was $6 billion, up 22% from a year ago. Free cash flow margin for the same period was 38.4% of revenue, up from [ph] 32.1% from a year ago. We continued to benefit from the quality of our 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 be valued only if it's productively invested in the business or returned to owners. For the trailing 12-month period, we returned $8 billion of cash to owners through a combination of dividends and stock repurchases, demonstrating our confidence in our business model and our commitment to return all of our free-cash flow to owners.

Moving on, I'll now provide some details of the first quarter by segment and end-market and then offer some additional colors on the market.

From a year ago quarter, Analog revenue declined 2% due to high volume and power, partially offset by growth in signal chains. I'll note that the strength in Communications Equipment minimized Analog's decline. Embedded Processing revenue declined by 14% from a year ago quarter due to declines in both product lines, processors, and connected microcontrollers.

In our other segment, revenue declined 6% from a year ago.

Now, given the current weaker market environment, I wanted to provide some additional color on the quarter. As I mentioned earlier, the weakness in demand for our products that began in the second half of 2018 continued into the first quarter. Demand came in mostly as expected although Communications Equipment was stronger than expected due to shipments of products that support 5G

Next, I will provide some insight into this quarter's performance by end market versus a year ago. Industrial and Automotive declined mid-single digits due to broad-based weakness. We continue to focus our investments across 13 sectors in Industrial and five sectors in Automotive. Despite this near-term weakness, we continue to believe these investments will deliver broad-based and diverse revenue growth over the long term.

Personal Electronics declined low double-digits due to broad-based weakness, including mobile phones and PCs. In contrast, Communications Equipment grew about 30% year-on-year, and as we mentioned earlier, benefiting both from 5G shipments as well as an easy compare due to weakness in the year ago period. History would suggest that we should expect this market to be choppy in the future. And then lastly, Enterprise Systems declined.

Looking at this end markets on a regional basis, generally all the regions performed consistently excluding the positive effects of Communications Equipment. So, in summary, we continue to focus our strategy on the Industrial and Automotive markets, where we've been allocating our capital and driving initiatives to strengthen our position. This is based on the belief that Industrial and Automotive will be the fastest growing semiconductor markets. They have increasing semiconductor content, and they also provide diversity and longevity. All of this translates to a high terminal value of our portfolio.

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

Rafael Lizardi {BIO 20006334 <GO>}

Thanks Dave, and good afternoon, everyone.

Gross profit in the quarter was $2.26 billion or 62.9% of revenue. From a year ago, gross profit decreased due to lower revenue and reduced factory loadings. Gross profit margin decreased 170 basis points.

Operating expenses in the quarter were $803 million, down about 2% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were 20.7% of revenue, within our range of expectations. Over the last 12 months, we have invested $1.56 billion in R&D, an important element of our capital allocation. We are pleased with our disciplined process of allocating capital to R&D, which we believe will allow us to continue to grow our top line over the long term.

Acquisition charges, a non-cash expense, were $79 million. Acquisition charges will be about $80 million per quarter through the third quarter of this year, then decline about $50 million per quarter for two remaining years.

Operating profit was $1.38 billion, or 38.4% of revenue. Operating profit was down 11% from the year ago quarter. Operating margin for Analog was 43.2%, down from 45.4% a year ago. And for Embedded Processing, it was 31.3%, down from 35.4% a year ago. Our focused investments on the best sustainable growth opportunities with differentiated positions will enable both businesses to continue to contribute nicely to free cash flow growth over time.

Net income in the first quarter was $1.22 billion or $1.26 per share which included a $0.04 discrete tax benefit not in our prior outlook as we have discussed.

Let me now comment on our capital management results starting with our cash generation. Cash flow from operations was $1.11 billion in the quarter. Capital expenditures were $251 million in the quarter. Free cash flow on a trailing 12-month basis was $5.99 billion. In the first quarter, we paid $724 million in dividends and repurchased $1.15 billion of our stock, for a total return to owners of $1.88 billion. In total, we have returned $8.05 billion in the past 12 months, consistent with our strategy to return all of our free cash flow.

Over the same period, our dividends represented 45% of free cash flow underscoring their sustainability. Our balance sheet remains strong with $4.09 billion of cash, and short term investments at the end of the first quarter. Total debt is $5.8 billion with a weighted average coupon of 2.91%. Inventory days were 144, up eight days from a year ago and down eight days sequentially. We are pleased with the progress we have made replenishing inventory of low volume devices, and implemented the next phase of our consignment programs with our distributors. Work in both of these areas will continue in the second quarter. We believe there is strategic value in owning and controlling our inventory and we'll manage it with our long-term objectives in mind.

Next, as we mentioned earlier, we want to update to on our next 300 millimeter wafer fab. As you may have seen, we have chosen Richardson, Texas as the site for our next wafer fab. The new building will be on our existing site in Richardson. We have not announced a specific construction time table yet, but as we indicated during the February Capital Management Call, we would expect to get started in the next few years.

Turning to our outlook for the second quarter, we expect TI revenue in the range of $3.46 billion to $3.74 billion, and earnings per share to be in the range of a $1.12 to $1.32, which includes an estimated $10 million discrete tax benefit. We continue to expect our annual operating tax rate to be about 16% in 2019.

In closing, as we said last quarter, we believe that after 10 quarters of year-on-year growth, the weakness we are seeing is primarily due to the semiconductor cycle. We have just completed our second quarter of year-on-year decline for the TI If you look at history, cycles are always different but typically the industry would have four to five quarters of year-on-year declines before year-on-year growth resumes. We're not trying to forecast the cycle but simply offer some historical perspective.

Given our experience, we will stay focused on making TI stronger for the long-term while remaining diligent in the short-term. We continued to invest in our competitive advantages, which are technology and manufacturing, portfolio breadth, market reach, and diverse and long-lived products. We will continue to strengthen disadvantages 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.

Dave Pahl {BIO 18870833 <GO>}

Thanks, Rafael. Operator, you can now open up the lines for questions. In order to provide as many of you as possible, an opportunity to ask your question, please limit yourself to a single question. After our response, we'll provide you an opportunity for an additional follow-up. Operator?

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). We'll go first to the Vivek Arya with Bank of America Merrill Lynch.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question. I'm trying to think of how to interpret your Q2 outlook. One interpretation is that you're not really seeing much recovery off of Q1, right, which is kind of surprising when we hear of China PMI improving and all the optimism about some signs of recovery. The other interpretation is that may be Q1, you saw the extra benefit from Com Equipment, so if I exclude that, then you are seeing some modest pick up going to Q2. So I am just curious, how are you thinking about your Q2 outlook versus seasonally which is supposed to be up 7%, 8% sequentially.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah Vivek. I'd say, certainly, I can confirm the first part of the question that in first quarter, we did get a benefit from Comms Equipment, just in the numbers. I think, when we look at our second quarter outlook and we put that together, again, we base that on the orders that we get from customers as well as the demand feeds that we get through our consignment programs. And just as a reminder, about two-thirds of our revenue come through those consignment programs and for OEMS, we'll typically get six months of visibility and there's no inventory that sits in front of us in that manufacturing line. So it really is the one of the best signals that we can get. And I also would caution that that doesn't mean that that signal can't change very quickly. But -- so that's how we're basing the guidance for the second quarter and I'll leave the further interpretation to you. Do you have a follow-up?

Q - Vivek Arya {BIO 6781604 <GO>}

Yeah. Thanks, Dave. So, maybe if I ask the question in a different way. Have you seen any pick up in orders over the last few weeks versus let's say the first few weeks of the year?

A - Dave Pahl {BIO 18870833 <GO>}

Well I would say that orders behaved normally in the quarter. And again, two-thirds of our revenues coming through on consignment. So we'll get an order when that product is due to ship that happens instantaneously. So orders are probably less of the strongest signal that we'll get than versus those demand signals that we get from orders. So thank you. With that, we'll go to the next caller please.

Operator

We'll go next to John Pitzer with Credit Suisse.

Q - John Pitzer {BIO 1541792 <GO>}

Yeah. Thanks guys. Thanks for letting me ask the question. Rafael, I was wondering can you talk a little bit about some of the utilization actions you are taking, how much of a hit were they to the calendar first quarter gross margins and I guess more importantly, I know it takes time for utilization actions to kind of go through the P&L, but have utilization rates now bottomed and how do you think about utilization relative to Q2 gross margins and going throughout the remainder of the year?

A - Rafael Lizardi {BIO 20006334 <GO>}

Yes, thanks for the question. Let me try to frame that for you a little bit. Over the last couple of quarters, we have talked about how we were going to decrease our wafer stars to adjust to the expectations of revenue, while at the same time, we're going to increase the portion or dedicate a portion of those wafers to building our low volume industrial consignment or industrial buffer part and also the transition to consignment. So, we did those things and our operating plan did reduce and we did take a hit to gross margins in the process. And that's what you're seeing in our P&L

Now what I would take you back to is look at it from a free cash flow standpoint. Because ultimately that's what matters right, what you're seeing from utilization charges standpoint is a non-cash expense. At the end of the day, what we're focused on is allocating capital and allocating cash, right. So by decreasing those wafer starts, what we did was dedicating less cash to that so in fact leaving out more cash for the owners of the company, but generating enough inventory or the right amount of inventory to be prepared for the revenue that we want to meet in the future. And also to build those buffer inventory stocks so that we are prepared for future quarters and have the ability to meet customer expectations and customer satisfaction, ultimately is what we're trying to do with that inventory so that it helps to position ourselves to meet those customer demands and help with our goal of continuing to grow the top line for a long time to come.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, just a number on that I think if you look at our first quarter trailing 12-month free cash flows at 38.4, that was the same that we had last quarter. So it didn't change much. Do you have a follow on, John?

Q - John Pitzer {BIO 1541792 <GO>}

Yeah, Dave. Just going back to the revenue guidance for the calendar second quarter, if you look at how the business has historically performed, I think I need to go back to 2001 to see a calendar second quarter that was down sequentially and that was sort of in the wake of the tech bubble. Again I'm just trying to get a sense of what you're seeing in the bottoms up business to potentially have a scenario when they're up-down sequential revenue and I guess, you mentioned in your prepared comments that the Comms business can be lumpy historically. Is Embedded in the Q2 guidance still good lumpiness or would you expect bad lumpiness in the Comms sector?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah so I would say first, if you look over and you know this very well John, if you look over 10 to15, 25 years of the Comms Equipment market, that business is lumpy. It's lumpy because of the way that operators put out tenders and then place the orders and the OEMS, our customers, have to build to those. So history just says that you should be mindful of that and that doesn't make it a bad business, it's just an attribute of it. And so I think in second quarter, I'd remind you that we just completed the second quarter of year-on-year declines for TI It's not likely that cycles as we mentioned in the prepared remarks, can last four or five quarters. Sometimes they can be shorter and sometimes they can be longer than that. But we're two quarters into that so -- and for our practice, if there was something significant or unusual going on in our guidance either by end markets or a particular customer, we would make those things clear to help you understand it. So okay, thank you, John. We'll go to the next caller please.

Operator

We'll go next to Stacy Rasgon with Bernstein Research.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Yeah. Thanks for taking my questions. Again, I want to push on the Comm point a little bit. I know, Analog and Embedded have diverged partially because of that if it wasn't for the upside on common Analog, do you think it'd be seeing similar year-over-year trends without the strength in Comm as well as (inaudible) Embedded?

A - Dave Pahl {BIO 18870833 <GO>}

Yes, they would be much closer. I think there's still some differences but directionally all the end markets are the same and they'd be much closer from year-over-year decline standpoint. Do you have a follow up?

Q - Stacy Rasgon {BIO 16423886 <GO>}

I do, again, I want to follow up still on Comm, so we're seeing very strong upside. I guess is the first part of it is (inaudible) I think, you mentioned this that the upside versus guidance in the quarter that was all calm so the rest of the business came in as expected and I guess just secondly, how concerned are you with the possibility that the current strength we're seeing in Comm is not actually matched to end and (inaudible) worried about like order pull forwards, and most of the things from some of the larger customers like what do you see around those lines, around the sustainability to the upside that we're seeing in Comms now I guess over the years (inaudible).

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, so I'd say that the upside that we saw was almost off from Comms. I think that the rest of the markets and businesses, if you looked at it from that way, performed about as we expected. And the comments on what the future of that looks like, I just go back to the statements that we made before and just staring at history of that market, it tends to be choppy. So, would we expect it to be choppy in the future? We would. That's not a comment on second quarter or third or fourth, it's just a comment of looking at history that that market just tends to be choppy. So, okay thank you Stacy, we will go to the next caller please.

Operator

We'll go next to Mark Lipacis with Jefferies.

Q - Mark Lipacis {BIO 2380059 <GO>}

Hi. Thanks for taking my question. The first question is, will inventory -- will your factory loadings go up sequentially in this quarter versus last quarter or are they going to be going down? I am trying to understand if you believe inventories are going to be a source or use of cash this quarter.

A - Rafael Lizardi {BIO 20006334 <GO>}

Yeah, last quarter we characterized that because it was more relevant at the time given the inflection point on our revenue. Now that the midpoint of our revenue is about the same as the first quarter, I think, it's time to just not focus on that and focus on the other things that we think are more important longer-term, which is our ability to continue to grow the top line as we focused on Analog and Embedded and Industrial and Automotive, and with that as we focus in growing free cash flow for the long term, as Dave mentioned earlier, and we mentioned in the call, despite the drop in gross margin and the dropping utilization, our free cash flow on the trailing 12-month was essentially unchanged from 90 days ago and as a percent of revenue was 38.4%, right.

A - Dave Pahl {BIO 18870833 <GO>}

And I think that just speaks to the quality of the business model that top-line can change quite a bit. But if you look at that trailing 12-month's free cash-flow, it just tends to be much more stable and that just speaks to the quality of the model. Mark, do you have a follow on?

Q - Mark Lipacis {BIO 2380059 <GO>}

Yes, thank you. Dave in your script, you said, I may have misunderstood this, but you said that regionally the business trends were consistent except for Communications Equipment. I don't think I really quite understand that and hoping you can just spell that statement out for me. Thank you.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, so that you can -- there are -- you could think of the largest manufacturers of communications equipment, we try not to go by customer of who those are, but there are only a couple of regions on which they exist and so you can imagine that you can connect those two pieces of information together. So hopefully that helps,

Thank you Mark, we will go to go to the next caller please.

Operator

We'll go next to Toshiya Hari with Goldman Sachs.

Q - Toshiya Hari {BIO 6770302 <GO>}

Hi. Thanks very much for taking the question. I had a follow up on Comp segment, Dave, you talked about the business being up 30% year-over-year. What was Embedded in your original guide for the first quarter?

A - Dave Pahl {BIO 18870833 <GO>}

Well again, I think that overall our revenue came within the range of our expected guidance. It was in the upper half primarily because of the strength that we saw in Comms Equipment.

Q - Toshiya Hari {BIO 6770302 <GO>}

Okay, got it. And then as a quick follow-up for Rafael, wanted to get an update on your thoughts on capital return. Your stock is back up to, not quite your 52-week high but pretty close, how should we think about buybacks versus dividends versus other uses of cash going forward? Thank you.

A - Rafael Lizardi {BIO 20006334 <GO>}

Yes, I am happy to address that Toshi. First let me take everybody back to our capital management strategy. The objective that we talk about and when it comes to cash return, our objective is to return all free cash-flow to the owners of the company via buybacks and dividends. And within that, we recognize that sometimes you strategically build cash, sometimes you strategically drain cash, right, so then you can actually return more than 100% of free cash flow, as frankly, we've done for the last few years.

But on the two pieces of dividends and buybacks and dividends, the goal is to provide a sustainable and growing dividend and we target to be somewhere between 40% to 60% of our free cash flow and the moment on the trailing 12-month basis we're 45%. And then on the repurchases, the accretive capture of future free cash-flow for the long-term owners. So, but that essentially means -- so let me dive a little deeper on repurchases because that's I think that's where your question is going.

We use reasonable assumptions, not aggressive, not conservative, but reasonable assumptions of our expected growth of free cash flow per share for the company for a long time to come and then based on that, we develop our assessment on valuation intrinsic value of the company and then we compare that to the market price and depending on the divergence of those, we buy back. So as long as these below -- their intrinsic is higher than market price, we will be buying back shares and how much it depends on that diversion right. So you can see your history the last year and a half or so, I mean we have been returning significantly more than 100% of free cash flow as we do that assessment. But as long as the intrinsic value is higher than the market price, we will buy back shares in the open market.

Was that -- do you have a follow-up?

A - Dave Pahl {BIO 18870833 <GO>}

That was his follow-up. We will go to the next caller please.

Operator

We'll go next to Chris Danley with Citigroup. Your line is open.

Q - Chris Danley {BIO 20435308 <GO>}

Hey guys. That me I had -- the operator came on. Anyway, my question is on trends over in China. Can you just comment on how the order trends have gone over there, over the last three months, have you seen any stabilization and then any words you can give us on distribution inventory as well?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah Chris. I would say that as we said in the prepared remarks, that really all the regions prepared or performed similarly, with the exception of Comms Equipment that we talked about. All our markets were pretty consistent this quarter. Distributor inventories were up a little more than a day, sequentially and to just a little over 4.5 weeks. Do you have a follow on, Chris?

Q - Chris Danley {BIO 20435308 <GO>}

So, a bit of a longer term question. I'll break with form on the call. If we look at your other quote-unquote other revenue, it's like 8% of sales now. And the operating margin has been sort of steadily trending down over the last few years and I think the most recent quarter was 15%. So it was about 25% below the corporate average. A, why is that operating margin so low? What's going on there and then B, why not just start shutting down or ending life those products?

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

Yeah, a couple things on that. Recently we in this last quarter, we did have a decrease inside of that business within our DLP business but a lot of that was due to this consignment transition that we have talked about. So that's part of what drove some of the short-term and also maybe some of what the margin issue that you are attributing to. I'd also remind you of some of our -- the acquisition charges, for example, restructuring charges, that's all in that in that other piece. Remember, especially on the acquisition charges are non-cash. Those that represents cash that went out the door about eight years ago. So, you adjust for that maybe gives you a better picture. And lastly, we do have the custom ASIC piece there, a couple 100 million still left per year, there and over the next three, four -- two, three, four years that will trend to zero. The rest of the business should be fairly steady and inside of other.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah and the other comment that I would make Chris, than you can see the seasonality of calculator not only in the revenues but you can see it in the operating margin. So, almost all of those revenues come full back to school. So we'll see that at the end of the second quarter and the beginning of third. But obviously, the expenses for that business carry out throughout the whole year. So you'll see always, will see because that revenue comes in that short period of time, the operating margins in those two quarters look much nicer. But -- and the last comment, I'll make, and we kind of joke about we should have come up with a more creative name for Other, like other good stuff or something like that. So, those businesses generate lots of cash for us and they don't take a lot of resources to maintain them. So that's why they remain in the family.

So with that, I think we've got time for one more caller.

Operator

We're going next to Joe Moore with Morgan Stanley.

Q - Joseph Moore {BIO 17644779 <GO>}

Hi. I just had a question on the genesis of some of the inventory related weakness you're seeing. We saw last year some of the tightness of things that TI doesn't sell like MOCC capacitors and things like that where the lead times got really inflated and clearly that's corrected now. You know I guess as you look back on that, do you think that that triggered inventory of TI components to get built and where do you think we are and sort of that cycle playing its way through in terms of shortages of other components that TI can't control.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, I think Joe that's you're describing it goes that's kind of what drives semiconductor cycles, right. I think that if you think of a customer, wherever they are in the world and they start to get notified from their suppliers and our peers that their lead times are going out, even though ours aren't going out, they may decide to proactively take their inventory position from six weeks to nine weeks over a 90-day period. And that will drive strengthen the business overall and 90 days later they decide to go from 9 to 12 weeks of inventory because things look like they're getting even tighter and then once they get comfortable, it moves back in the other way. So, as you watch that play out, we had ten quarters of very strong growth, most of that was double-digit. I think most people when they looked at that would describe that as above trend and what follows the ten quarters are running above trend is a few quarters that will run below. So do you have a follow on, Joe?

Q - Joseph Moore {BIO 17644779 <GO>}

Yeah, I guess. You may have touched and I may have missed it, any change in your lead times over the last three months.

A - Dave Pahl {BIO 18870833 <GO>}

Generally our lead times have remained stable. Even through the period of very strong demand, our lead times had remained stable. I think that you can always find pockets, just as you can today where we work with customers very aggressively to close. And I think another important metric that we track Joe is on-time delivery and those have remained very-very high, other customer service metrics remain very high so meaning that if someone does come in order products that at lead time are we shipping them to the commitments that we've got, and those remained high through that whole cycle.

So -- and some of the things that we're doing, like building inventory of low volume parts during this peak period of weaker demand, we're doing that to ensure that we can continue to deliver product consistently to customers. That's really what's driving that and that and the visibility that we get through programs like consignment, kind of the combination of those things, we're actually doing other things around inventory positions and in order entry and we summarize that as the really -- believe that there are strategic value in owing and controlling that inventory and keeping it on our balance sheet. So with that, I will turn it over to Rafael to wrap things up for us.

A - Rafael Lizardi {BIO 20006334 <GO>}

All right. Thanks Dave. Let me finish with few comments on key items for you to remember. First, as we mentioned last quarter, 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; and third, we will continue to be disciplined in executing our capital management strategy and remain committed to returning free cash flow to owners of the company.

A - Dave Pahl {BIO 18870833 <GO>}

Thank you and good night.

Operator

That does concludes today's conference We thank you for your participation.