Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Ambrish Srivastava, Analyst
- Chris Danely
- Craig Hettenbach, Analyst
- Harlan Sur, Analyst
- John Pitzer, Analyst
- Stacy Rasgon, Analyst
- Timothy Arcuri, Analyst
- Tore Svanberg, Analyst

Presentation

Operator

Thank you for standing by. Good day and welcome to the Texas Instruments' Q1, 2021 Earnings Release Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Dave Pahl. Please go ahead, sir.

Dave Pahl {BIO 18870833 <GO>}

Good afternoon, and thank you for joining our first quarter 2021 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.

Our Chief Financial Officer, Rafael Lizardi is with me today and will provide the following updates. First, I'll start with a quick overview of the quarter. Next, I'll provide insight into the first quarter revenue results with more details than usual by end markets including some sequential performance since it's more informative at this time. Lastly, Rafael will cover the financial results, some insights into one-time items and our guidance for the second quarter of 2021.

Starting with a quick overview of first quarter. The company's revenue increased 5% sequentially and 29% year-over-year, driven by strong demand in industrial, automotive and personal electronics. On a sequential basis, Analog grew 5% and Embedded Processing grew 7%. On a year-over-year basis, Analog grew 33% and Embedded Processing grew 17%. Our other segment grew 12% from the year ago quarter.

Moving on given the current environment again this quarter, I'll provide some insight into our first quarter revenue by end market and then some comments on our lead times.

First, the industrial market was up about 20% sequentially and up almost 30% from the year ago. The strength was seen across most sectors.

The automotive market was about even compared to a very strong fourth quarter 2020 and up about 25% from the year ago. Compared to the pre-COVID-19 levels of fourth quarter '19, our shipments to automotive in both the fourth quarter of 2020 and the first quarter of 2021 were up about 25%, as we work to help our automotive customers recover from their supply chain disruptions.

Personal electronics was down about 10% sequentially and up about 50% compared to the year ago. The strength was broad-based across sectors and customers within personal electronics.

Next communications equipment grew in the high teens sequentially and -- but was about even from the year ago. Enterprise systems grew upper single digit sequentially and was down about 10% from the year ago.

Regarding lead times, over 80% of our products have steady lead times and more than 50,000 parts have off the shelf availability via ti.com. However, the growing demand in the first quarter of 2021 did expand our list of hot spots, which required extending some lead times. We will continue to add incremental capacity in 2021 and the first half of 2022 with additional support from the start-up of our third 300-millimeter wafer fab, our Fab 2 that will come online in the second half of 2022.

As discussed during our Capital Management review in February, our competitive advantage of internal manufacturing and technology delivers the benefits of lower costs and greater control of our supply chain, which really shows through in a market environment like this.

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

Rafael R. Lizardi {BIO 20006334 <GO>}

Thanks, Dave, and good afternoon, everyone. First quarter revenue was $4.3 billion, up 29% from a year ago. Gross profit in the quarter was $2.8 billion or 65% of revenue. From a year ago, gross profit margin increased 250 basis points.

Operating expenses in the quarter were $811 million, up 2% from a year ago and about as expected. On a trailing 12 month basis, operating expenses were 21% of revenue. Over the last 12 months, we have invested $1.5 billion in R&D.

Acquisition charges and non-cash expense were $47 million in the first quarter. Acquisition charges will remain at about this level through the third quarter of 2021 and then go to zero.

Operating profit was $1.9 billion in the quarter or 45% of revenue. Operating profit was up 56% from a year ago quarter.

Net income in the first quarter was $1.8 billion or $1.87 per share, which included a $0.02 net benefit that was not in our prior outlook, primarily due to discrete tax benefit, which was partially offset by about $50 million of utility costs related to the February Winter storm in Texas. Most of this expense is in our cost of revenue and reported in our other segment results.

Let me now comment on our Capital Management results, starting with our cash generation. Cash flow from operations was $1.9 billion in the quarter. Capital expenditures were $308 million in the quarter. Free cash flow on a trailing 12-month basis was $6.3 billion. In the quarter, we paid $940 million in dividend and repurchased $100 million of our stock. In total, we have returned $4.5 billion in the past 12-months. Over the same period, our dividend represented 56% of free cash flow underscoring its sustainability.

Our balance sheet remains strong with $6.7 billion of cash and short term investments at the end of the first quarter. We retired $550 million of debt in the quarter, leaving $6.3 billion of total debt with a weighted average coupon of 277 -- 2.77%.

Regarding inventory, TI inventory dollars were down $65 million from the prior quarter and days were 114. For the second quarter, we expect TI revenue in the range of $4.13 billion to $4.47 billion and earnings per share to be in the range of $1.68 to $1.92. We continue to expect our annual operating tax rate to be about 14%.

In closing, we continue to invest to strengthen our competitive advantages and in making our business stronger.

With that, let me turn it back to Dave.

Dave Pahl {BIO 18870833 <GO>}

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

Questions And Answers

Operator

Thank you. (Operator Instructions) And first we'll go to Chris Danely with Citi.

Q - Chris Danely {BIO 3509857 <GO>}

Hey, thanks, guys. So Q1, clearly was very strong, well above seasonality and above guidance. However, your sequential guidance is flat -- is well below seasonality. So my question is, are you guys seeing cancellations and push outs or why that such weak guidance after a strong Q1? Thanks.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. Chris, yeah, thanks for that question. We aren't seeing cancellations or push outs. I just say that if you look to your observations, Q1 was very strong both sequentially and year-on-year. So at the mid point, second quarter will be a strong quarter from a year-on-year standpoint. Do you have a follow-up?

Q - Chris Danely {BIO 3509857 <GO>}

Yeah. I mean, I guess, it would just be a follow-on to the first question. This would be the -- the lowest sequential guidance you guys have given in some time. So I guess why not -- why not guide for seasonal or even close -- seasonal sequential guide?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. It -- it really, Chris is just the -- it is the best estimate that we have for our revenue for the quarter. And again, I would describe it as following a very strong first quarter. It will -- it will be a strong quarter again. So. Okay. Thank you. We'll go to the next call.

Operator

And next we'll go to Stacy Rasgon with Bernstein Research.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Hi, guys, thanks for taking my question. I want to talk about your inventory strategy. I know you have a strategy to build out inventory for customer service. I guess, how do I reconcile that though with the fact that your inventory dollars are down and you're still getting some pockets of lead time -- of extended lead times. Is that just a function of demand, the pull that's just so strong, you can't keep up.

And I guess, in that light, how do you parse the quality of those orders that you're getting. How do you know -- are you just, I mean, you're just shipping whatever is being asked for at this point. And I guess like, what are the plans for loadings and inventories, as we go into Q2, are you going to try to replenish the inventory that's been drained?

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

Yeah. So thanks for the question, Stacy. So first let me step back and remind everyone inventory our objective there is to maintain high levels of customer service, minimize -- well, we minimize obsolescence and improve manufacturing utilization. And as you alluded in the question, we would prefer to have higher levels of inventory.

In fact about [ph] 60 days ago at the Capital Management strategy, we increased the target for inventory to 130 to 190 days, up from 115, 145 prior to that. So yeah, we'd like to -- to have more inventory. But in the current environment we're focusing our capacity on fulfilling demand not on building inventory. Whenever things slowdown which at some point it will or -- and/or as we increase capacity, which we're increasing capacity incrementally, we have been and we'll continue today [ph] through the balance of this year into the first half of next year. And then, in the second half of next year, we'll have a first output from our Fab 2. As those things come together, then, we'll be able to build more inventory.

I know you had a couple of other parts to that question, but why don't you use your follow-up for add [ph], if I miss something.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Okay. I use the follow-up (Multiple Speakers).

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

You -- you put on a lot [ph], Stacy, so.

Q - Stacy Rasgon {BIO 16423886 <GO>}

So how are you parsing the quality of the orders that you're getting or are you just shipping whatever is being ordered at this point?

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

Yeah. No, I'm glad you -- I'm glad you chose that one as the follow-up. I'll just highlight, as you know, we have moved away from distributors over the last couple of years, really it's been more of a -- of a 10-year process. But really in the last few years more we pulled the trigger and actually no longer shipping to -- to many distributors that we used to and now we're going direct with -- with a lot of our customers.

To the point, where we exited last year with almost two thirds of our revenue shipping direct that has put us in a great position, particularly in the current environment because we have -- we now have more direct access to those customers. We have a better understanding of what they really need. We have -- we don't have that intermediary in between frankly clouding things up as frankly that's the way it happen a lot with the distributor. So -- so then we use that information to -- to better allocate our resources both inventory, manufacturing, et cetera in order to fulfill demand from our customers.

A - Dave Pahl {BIO 18870833 <GO>}

That's great. Thank you, Stacy. Now, we'll go to the next caller please.

Operator

And our next question will come from John Pitzer with Credit Suisse.

Q - John Pitzer {BIO 1541792 <GO>}

Yeah. Good afternoon, guys. Thanks for me [ph] ask the question not original, but a follow up to the June revenue guide. I'm just curious, Rafael, you said that you would be growing supply sequentially from March to June, so the implication is you might be able to build some inventory in your own balance sheet. I'm just curious, given how lean inventories are across the channel, why you wouldn't expect incremental supply that you bring on not to be used by your customers and actually show, excuse me, sequential revenue growth.

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

I think you're getting a little new ones in that question. I'll pick in -- pick in some of the thing I've said. Just, I would -- I would tell you, we drain inventory fourth to first, right. So even if we're increasing output, tat doesn't necessarily mean that we'll be able to build inventory. I -- what I said earlier, you shouldn't take that as a statement that we're going to build inventory going into second quarter.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. And I would add that we're going to add incremental -- our incremental capacity through the balance of this year and through the first half of this next year until our Fab 2 comes on, which would be in the second half of 2022. So you've got multiple pieces that are moving there. Do you have follow on John?

Q - John Pitzer {BIO 1541792 <GO>}

Yeah. Just, it was nice to see in the March quarter, Embedded at least sequentially growing faster than Analog, and we've talked about this in the past Dave about kind of the growth there is kind of lag that of Analog. Do you feel like within the Embedded market, you're turning the corner and can you help us kind of understand how you guys see the design funnel there and what the growth rate in that market might be beyond kind of the cyclical recovery?

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

Yeah. I'll give you few -- few comments on that and Dave, if you want to -- you want to follow up. At high level, we're pleased with -- with the trajectory of Embedded. We're still -- however, we're still in very early phases right. As we have said before, our goal with

Embedded was first to stabilize -- stabilize Embedded and make some -- some changes that we have made and then leverage our competitive advantages that we have to -- to have Embedded headed in the -- in a better direction. And we're in the early phases, but we're pleased with those early results.

Q - John Pitzer {BIO 1541792 <GO>}

Great. Thank you.

A - Dave Pahl {BIO 18870833 <GO>}

Thank you, John. We'll go to the next caller please.

Operator

Moving on, we'll go to Craig Hettenbach with Morgan Stanley.

Q - Craig Hettenbach {BIO 6185428 <GO>}

Yes. Dave, thanks for the color on lead times. I guess in the hot spots maybe 20% or so that's been impacted. Can you just give a sense of what you're seeing there and maybe your sense of when you would expect that the lead times in certain areas to -- to normalize?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. There is just a lot of moving pieces on that, Craig. I think it's probably premature to try to -- to try to pick that. Our teams are obviously working very hard with customers to close those demand and fulfill those needs. So it really is just based on technologies and packages and what those customer requirements -- those are customer [ph] requirements are. Do you have a follow-on?

Q - Craig Hettenbach {BIO 6185428 <GO>}

Sure. Thanks. And then personal electronics up 50% year-over-year. I know there has been some nice tailwinds from work from home, any -- any more color in terms of some of the segments that you're seeing growth and how you feel about that business for Q2?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So at a high level, what I'd say, we'll give color by end market if there is something unusual going on. When we look out into a quarter, I can say that there is nothing unusual that -- that we feel the need to call out.

When we look back into first quarter and really in the past few quarters in personal electronics, the demand that we've seen there has been very broad-based both by customer really across the board that we've seen, as well as by sector. So -- and just as a reminder, inside of personal electronics, we'll have things like handsets and tablets and personal computers, including laptops, televisions, smart speakers, those types of things. So it's a pretty broad category -- printers. So it's pretty broad categories. I think there is 9, 10 different sectors that make up personal electronics. So -- and we've seen very strong demand across the -- really across all of those.

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

Yeah. I --this is Rafael. I just want to go back to -- to the question on lead times then and earlier several people asked about inventory. At the end of the day, things are going to be tied. The slowness demand is ahead of supply. Things are going to be tied. Lead times are going to be tied. They -- but the key point here is, we own our own manufacturing and technology, right. That is the key differentiator versus our competitors. It is one of our competitive advantages. So we're in a -- in a strategically, in a unique strategic position to be able to have that control that inventory (Technical Difficulty) very importantly over the long haul, as we continue to focus on industrial, automotive, all those customers that are in those -- in those great phases.

Q - Craig Hettenbach {BIO 6185428 <GO>}

Good color. Yeah. Thank you.

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

Thank you. And it will come from Harlan Sur with JPMorgan.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon, thanks for answering my question. On the extended lead times maybe a different way to ask the question. You also [ph] about 20% of your wafer requirements, most of it is Embedded and you outsource 40% of your test and assembly. I'm just wondering if this is where you're seeing maybe more of the extended lead times just given the capacity is tight at your outsourced partners or is it spread across both internal and outsource manufacturers?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. It's not -- it's not specifically there, Harlan. It really is more just based on technology or end market driven or package types. So we've described it as hot spots. So it's kind of the combination of those things when we've got demand that is out stripping the -- the short term supply.

But back to Rafael's point, the fact that we do the majority of that assembly test in-house, most of our peers don't do that, most of our peers have that -- that assembly outside. So even that 60%, 70% is a very large number that we control and -- and do in-house. Also because we do 80% of our wafers in-house. We can expand that capacity incrementally. Also, we control the cost to a much higher degrees and than our peers as well. And those are very important things in times like these. So it's the tremendous advantage. On top of the fact that 300-millimeter, where we're adding capacity, so it's coming in. It's structurally lower cost in addition to it. So do you have a follow-on?

Q - Harlan Sur {BIO 6539622 <GO>}

Yeah. No. Thanks for the insights there. So good -- good again to see the year-over-year momentum in the Embedded business, and I know somebody tried to ask a question about this previously, but wondering if you could just, I know, you guys will [ph] focus some of the sub-segments within Embedded last year. Just wondering, if you guys could give us a profile of Embedded relative to the overall corporate profile. I mean, does it have the same end market exposure, the overall business or is it more skewed now towards one or particular end market and on a go-forward basis, like what end markets within Embedded are you spending more R&D dollars?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So I think that what the investments that we have in Embedded, we have directed at -- at the best growth opportunity. So as we took a step back, we wanted to focus them into that direction. They are biased towards industrial and the automotive markets. The largest portion of our revenue are pointed in that -- in those two markets as well.

We do have a little bit of revenue in communications enterprise and PE inside of that, but the majority of the revenue is in -- in the -- in those two markets. So again, as Rafael said, we're in the early stages. Our first objective was to get the revenue stabilized. So we feel very good about the progress that we've made so far.

And we're making the investments there because we believe Embedded will be a great contributor to -- to free cash flow growth over the long term. So we believe that several years from now, we'll look back and we'll be very pleased with the investments that we've made will be very pleased with the free cash flow growth that Embedded will have contributed to the company,so.

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

Operator

Thank you. And that will come from Ambrish Srivastava with Bank of Montreal.

Q - Ambrish Srivastava {BIO 4109276 <GO>}

Hi, thank you very much. Just a question on the -- on the order patterns that you're seeing, guy, many of your -- your peers have talked about no cancellations policies, facets of the business behind the scene and -- and you could say never. But are you seeing that the customers are looking for commitments to capacity, and then, as a result, you're having to change your clauses with the customers in terms of cancellation policy or what have you. Are there any changes on that front?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. I -- so we -- we don't think that -- that's a good idea to go down that path to force customers to tell us what -- what they need a year from now. I don't, you can demand that they tell you what they need in April or May of 2022, but I can assure you they don't know what they need a year from now. We really want to be in a position, where we can supply them what they need and be a supplier that they can -- can count on as well.

The -- our competitive advantage of manufacturing technology and owning controlling that our manufacturing asset also gives us control of our cost there. So we haven't been in a position, where we've had to go in and raise prices, as many of our other peers have. So and we believe that those two things combined are translating into -- into share gains, right.

So when you look at the revenues in this quarter we believe part of that is share gains. And I'll quickly also point out that you got to measure that over time. So don't look at -- and -- or measured over just one quarter. But -- but we do believe that will be something that will benefit us for a very long time to come. Do you have a follow-on, Ambrish?

Q - Ambrish Srivastava {BIO 4109276 <GO>}

Yeah. I do. Just quickly on the capacity and -- and the CapEx. So intensity, we should be modeling a different intensity over the next few quarters, correct. We should be within the guidance range that you've given, as you build the third fab. And then is that second half '22 a pull-in versus what you were expecting?

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

No, no, it's not a pull in. That's about [ph] what we've always expected. But now, let me answer your first part of your question. As -- as you know very well, you've been following us for a while. We talked about our guide for CapEx as a percent of revenue at about 6%. We did that, you know, the capital management strategy meeting and that is -- that's a valid number over the long term. And it's -- it's just a model to help you -- help you think about our CapEx. But the reality is that in the short term for two years, three years, we're going to run higher than that in absolute terms and also as a percent of revenue, as we continue to invest both short term to get ahead of the -- of the current situation.

But more importantly, longer term, as we continue to strengthen our competitive advantage of having our own manufacturing technology particularly 300-millimeter, as we've talked about provide such a -- such a great structural cost advantage and controlling our own -- our own manufacturing and supply advantage that early during this pandemic and cycle has proven worthwhile.

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

Thank you. And that question will come from Timothy Arcuri with UBS.

Q - Timothy Arcuri {BIO 3824613 <GO>}

Thanks a lot. Dave, I guess, I also wanted to ask about the guidance. I know there is some school of thought that because you control your supply chain and that your model end inventory would sort of drive some share gains and some more upside given what's going on. And I know that you're typically conservative, and you had a very tough comp on Q1. But I wonder if maybe customers are not pulling your product because of shortages elsewhere because it just as -- sitting in a consignment anyway waiting for them. And I guess, the question is, are you hearing that from any of your customers that they are not pulling due to shortages elsewhere and maybe that's contributing somewhat to your June guidance?

A - Dave Pahl {BIO 18870833 <GO>}

Tim, we think that -- that probably goes on at any point. Though we don't believe that -- that's going on at any significant -- at any significant level. So yeah, so we don't believe that's a significant factor that's -- that's going on in the second quarter. Do you have a follow-on?

Q - Timothy Arcuri {BIO 3824613 <GO>}

Yeah. Yeah. I do. So I guess, I'll ask the same thing that I asked last quarter about the share repo, and I know that you guys always said that free cash flow only matters if it;s -- if it's returned, but you didn't buyback much again this quarter. It's like 130 million over the past nine months, and it sort of seems like maybe a bit of a pattern now that it's three quarters in a row. So -- and I know you have a pretty strong intrinsic value model for your stock. So can you just talk about that? Thanks.

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

Yeah. Sure. No, thanks. First stepping back, as you alluded to our goal, our objective is to return all free cash flow to the owners of the company over the long term. And if you look at our 15 year, 16 year history on that front, we have been returning all free cash flow and then some -- of -- to the owners of the company. And we're going to continue doing that over time, now over time -- over the long term. That means, you know that doesn't necessarily mean every quarter, certainly not every quarter, maybe not even every year, right. But over the -- the long term we're going to return all free cash flow to the owners of the company. We did that through both dividends and buybacks and they are different criteria that we look at -- for each of those and we -- we've talked about that.

A - Dave Pahl {BIO 18870833 <GO>}

Okay. We've got time for -- for one more caller.

Operator

Thank you. And that question will come from Tore Svanberg with Stifel.

Q - Tore Svanberg {BIO 3658854 <GO>}

Yes. Thank you and congratulations on the record revenues and earnings. First question. Dave or Rafael, could you step back just looking at the last 90 days, what is it exactly that changed this last quarter, did orders continue to accelerate, that the capacity situation ease, maybe just walk through exactly what changed?

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

I'll give you a few comments. I'm not sure if I -- if I what -- what you're looking for. Demand continues to be strong. We're still in an environment, where demand exceeds supply capacity right. And of course, where revenue has continued growing in that environment and both year-on-year clearly, but also sequentially, right. And we're incrementally adding capacity while we do that.

We're also in the -- while we have done that, we have over this entire cycle, we have a focus on making the company stronger right. So we have back -- if you look at the first phase of this -- of this pandemic back in February or March, when everybody was pulling back, we built through that cycle. So that was a tactical decision enabled by our strategic position of our focus on industrial, automotive, on catalog -- catalog parts [ph] with low risk obsolescence. We're able to build through that cycle and be prepared for the -- for the other side once demand start returning pretty quickly, as it turned out.

We also -- as we did that, we also gained a strategic ground focusing on -- on auto and industrial. So you've seen, how we have grown in those -- in those spaces. And while we have done that, we have invested for the long term right, and that's invested in competitive advantage is the most obvious one, is manufacturing technology, we already started [ph] playing about that here, but there is also our product portfolio, right. We continue to strengthen the R&D in the -- in the best basis.

And then, the other going feature [ph] of channels, which we really haven't talked about today much, but we continue to strengthen that and the -- maybe the most obvious one is ti.com and everything we're doing there to support our customers with very, very high availability, in fact immediate availability in a lot of cases, with many parts that -- that's inventory there for -- for customers to buy direct from us on ti.com.

A - Dave Pahl {BIO 18870833 <GO>}

Do you have follow-on, Tore?

Q - Tore Svanberg {BIO 3658854 <GO>}

Yes. Thank you. So your operating margin, I think was just very shy of a record at 45.2%. Rafael in the past you've talked about OpEx kind of being between 20% and 30% of revenue now that, it's pretty obvious that there is so much demand out there and that it's sustainable is it safe to say that -- that OpEx ratio is going to change going forward maybe stay at 20%, 25%?

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

Yeah. So what I would [ph] tell you in that is in the short term, we run OpEx on a trailing 12-month basis on about $3.2 billion. That's not going to change much in the short term, right because it doesn't need to, right. We feel very good about those investments. We feel very good about where they are going. They are long term in nature clearly in R&D, but also part of SG&A is -- is the other common example that, well, I think of that as an investment of course, even though is in SG&A. So we don't -- so I don't see that number in the short term changing much. But over the long term, for many years, the guidance that we have given you of 20% to 25% still applies. So you still think of it in those terms.

Okay. So I think that was the last one. So let me go ahead and wrap up by reiterating what we have said previously at our core [ph], we're engineers and technology is the foundation of our company. But ultimately our objective and best metric to measure progress and generate long term value for our owners is the growth of free cash flow per share. While we strive to achieve our objective, we'll continue to pursue our three ambitions, we'll act like owners, who will own the company for decades, we'll adapt and succeed in a world that's ever changing, and we'll be a company that we're personally proud to be a part of and would want us our neighborhood. And we are successful, our employees, customers communities and owners, all benefit. Thank you and have a good evening.

Operator

Thank you. And that does conclude today's conference. We'd like to thank everyone for their participation. You may now disconnect.