Q2 2021 Earnings Call

Company Participants

- Dave Pahl, Vice President and Head of Investor Relations
- Rafael R. Lizardi, Senior vice president and chief financial officer, Finance & Operations

Other Participants

- Ambrish Srivastava, Analyst
- Blayne Curtis, Analyst
- Chris Danely, Analyst
- John Pitzer, Analyst
- Stacy Rasgon, Analyst
- Toshiya Hari, Analyst
- Vivek Arya, Analyst

Presentation

Operator

Good day and welcome to the Texas Instruments Q2 2021 Earnings Release Conference Call. Please note that today's call is being recorded. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead.

Dave Pahl {BIO 18870833 <GO>}

Good afternoon and thank you for joining our second 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 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 in the second quarter revenue results with more details than usual by end market, including some sequential performance since it's more informative at this time. And lastly, Rafael will cover the financial results, some insight into onetime items and our guidance for the third quarter of 2021.

Starting with a quick overview of the second quarter. Revenue in the quarter was $4.6 billion, an increase of 7% sequentially and 41% year-over-year, driven by strong demand in industrial, automotive and personal electronics. On a sequential basis Analog grew 6% and Embedded Processing grew 2%. On a year-over-year basis Analog grew 42% and Embedded grew 43%. Our other segment grew 30% from the year ago quarter.

Moving on, given the current environment again in this quarter, I'll provide some insight into our second quarter revenue by end market and comment on our lead times. First, the industrial market was up mid-teens sequentially and up about 40% from the year ago. The strength was seen across most sectors. The automotive market grew sequentially following the strong first quarter 2021 and more than doubled from a weak year ago compare.

Personal electronics was about even sequentially and up about 25% compared to a year ago. The strength was broad-based across sectors and customers within personal electronics. Next communications equipment was up low-single digits sequentially, and was down upper teens from the year ago. Enterprise systems grew upper teens sequentially and was about even from the year ago. Regarding lead times, the majority of our products continue to remain steady. However, the growing demand in the second quarter of 2021 again expanded our list of hotspots, which required extending some lead times. As planned, we continue to add incremental capacity in 2021 and first half of 2022 with additional support from the start-up of our third 300-millimeter wafer fab, RFAB 2, that will come online in the second half of 2022. As discussed during our capital management review in February, our competitive advantage of manufacturing and technology delivers the benefits of lower cost and greater control of our supply chain, which really shows through in a market environment like this.

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

Rafael R. Lizardi {BIO 20006334 <GO>}

Thanks, Dave, and good afternoon everyone. As Dave, mentioned second quarter revenue was $4.6 billion, up 41% from a year ago. Gross profit in the quarter was $3.1 billion or 67% of revenue. From a year ago gross profit margin increased 290 basis points. Operating expenses in the quarter were $816 million, up 5% from a year ago and about as expected. On a trailing 12 month basis operating expenses were 19% of revenue. Over the last 12 months, we have invested $1.6 billion in R&D. Acquisition charges and non-cash expense were $48 million in the second quarter and are related to the National Semiconductor acquisition. This acquisition charges will remain at about this level through the third quarter of 2021, and then go to zero. Operating profit was $2.2 billion in the quarter or 48% of revenue. Operating profit was up 80% from the year ago quarter. Net income in the second quarter was $1.9 billion or $2.05 per share, which included a $0.06 benefit that was not in our prior outlook due to the signing of our royalty agreement.

Let me now comment on our capital management results starting with our cash generation. Cash flow from operations was $2.1 billion in the quarter, capital expenditures were $386 million in the quarter. Free cash flow on a trailing 12-month basis was $6.5 billion. I the quarter, we paid $942 million in dividends and repurchased $146 million of our stock. In total we have returned $3.9 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 $7.4 billion of cash and short-term investments at the end of the second quarter. Regarding inventory, TI inventory dollars were down $34 million from the prior quarter and days were 111, which are below desired levels.

In the second quarter, we signed an agreement to acquire Micron's 300-millimeter fab in Lehi, Utah. This investment continue to strengthen our competitive advantage in manufacturing and technology and is part of our long-term capacity planning. The Lehi fab will be our fourth 300-millimeter fab joining (inaudible), RFAB 1 and soon to be completed RFAB 2 in our wafer fab manufacturing operations. We continue to believe that our competitive advantage of manufacturing and technology will be of growing importance in owning and controlling our supply chain. For the third quarter, we expect TI revenue in the range of $4.40 billion to $4.76 billion and earnings per share to be in the range of $1.87 to $2.13. We continue to expect our annual operating tax rate to be above 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 up 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 an opportunity for an additional follow-up. Operator?

Questions And Answers

Operator

(Operator Instructions). And we'll go first to Vivek Arya of Bank of America.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question, Rafael and Dave, when I look at the last few quarters your reported sales have been significantly above your guided range and I mean like between 5% to 13% above your original outlook and that's just making it very hard to distinguish right between how to read your guidance because even now you're guiding to a flattish outlook in what's supposed to be a seasonally stronger quarter. Should we take that to be conservatism, should we take that to be a peaking in the cycle and how is it that the demand is so strong, you are increasing supply, but yet your sales outlook is very flattish? I think it's a very confusing message and I would love your insights into how to interpret your guidance? Are we reading them in the right way?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, Vivek, thanks for the question. I think first, I'd say, perhaps, normal seasonal patterns may not be the best measure to look at things in periods like this. Certainly, the last few quarters, we would all agree have been unusual periods that we've gone through and as we continue to -- continue to move through. So, and as you said, the last few quarters have been exceptionally strong, second quarter was certainly strong both sequentially and year-on-year. So if you look at our guidance, it would suggest that next quarter will again be a very strong quarter. So -- as you know, our guidance is the best estimate that we have at this time. So that's what we try to do and try to give you that insight. Do you have a follow-on?

Q - Vivek Arya {BIO 6781604 <GO>}

Yeah, thanks Dave. So from what you said, I assume that you are again implying conservatism, unless you're suggest otherwise. My real question is, when I look at the share buyback activity, it's been very low, the last few quarters and there are only a few reasons why that would be, right. One is the simplest reason that maybe the stock is perhaps not attractive at these valuations or it could be that you're preparing for some M&A or is it some large CapEx or some caution about macro? I'm trying to understand why is there such a material shift in terms of your return a free cash flow strategy, right? We understand the dividend part has been very strong, but the share buyback activity has been very low over the last almost a year now. So just appreciate your views as to why you are not buying back your stock at the pace at which you have historically done so? Thank you.

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

No, I'm happy to address that one Vivek. So first let me take you back to how we think about cash return and you know us very well, you follow us for many years and you've heard us talk about this during capital management year end and year out. And our objective when it comes to cash return is to return all free cash flow to the owners of the company. We do that through dividends as well as buybacks. Now that -- that has never meant and doesn't mean that every single quarter or even every single year, where that return is going to be exactly 100%, right. If you look at our history, over 15 plus years, it has been actually above 100%. So that shows our commitment to that and that commitment has not change. We are committed to returning all free cash flow to the owners of the company over time.

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

And that next caller will be Toshiya Hari of Goldman Sachs.

Q - Toshiya Hari {BIO 6770302 <GO>}

Hi guys, thanks so much for taking the question. I had two as well. I guess one clarification Dave, I think when you talked about automotive you set up sequentially in the second quarter, Did I catch that, right? Did you not give a specific number for automotive?

A - Dave Pahl {BIO 18870833 <GO>}

That's correct. It was up low-single digits, Toshiya.

Q - Toshiya Hari {BIO 6770302 <GO>}

Okay, got it.

A - Dave Pahl {BIO 18870833 <GO>}

Do you have a follow-on?

Q - Toshiya Hari {BIO 6770302 <GO>}

Yes. So in terms of gross margins, I realize you guys don't run the business management, the business for gross margins, but clearly you had a very, very strong quarter in Q2 and I know you don't guide gross margins going forward. But based on how you're thinking about utilization rates in your factories, given what you know about pricing in your business, both on the Analog side as well as the Embedded side going forward, how are you thinking about gross margins and kind of the OpEx leverage going forward in your business? Thank you.

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

Yeah, No. So first let me emphasize a point you made. We do not focus on gross margins in how we run the business just like you said. Our focus is on free cash flow generation, in fact, free cash flow per share and how we can grow that over the long term, right, because we think ultimately, that is what drives value for the owners of the company. And you can do that at 67% margin, you can do it at a lower margin, you could do it at a higher margin, depends on a number of factors. So, and then to answer your specific question, as we have always guided over the long term, in any one quarter or even any one year, but over the long-term 70% to 75% fall through is the right way to generally speaking -- the right way to look at to model the company as we go forward. So as you you put whatever revenue expectation you have there and pull that through at about that rate and you'll be in the ballpark.

A - Dave Pahl {BIO 18870833 <GO>}

Okay, thank you to Toshiya. We'll consider that two questions, if that's okay. We'll move on to our next caller.

Operator

And the next caller is going to be Stacy Rasgon of Bernstein Research.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Hi guys, thanks for taking my question. So I know you don't think about running the business to gross margins, but I'm going to ask your gross margin question, anyways. In (inaudible), obviously you did very stronger this quarter, but you said you had $0.06 of royalties that was unexpected, that should have been about 1.4 points of gross margins as

I understand it, if I did the math right. And I think you had something like $50 million in (inaudible) cost last quarter that should have rolled off this quarter, that would have been another 100 basis points give or take. So I'm actually wondering why gross margins were -- if I take out the royalties, they would have been up 60 basis points only with 100 basis points of cost, it should rolled off with a massive revenue increase like what's going on -- what happened with gross margins in the current quarter, given all of that?

A - Dave Pahl {BIO 18870833 <GO>}

So, CCI let me address one and then I have to ask your question. I don't quite understand part of your question, but...

Q - Stacy Rasgon {BIO 16423886 <GO>}

And then working gross margins, maybe...

A - Dave Pahl {BIO 18870833 <GO>}

Exactly, that's the part I did, okay. So the you are assuming -- royalty, okay. So let me address that first. We took our royalty used to be in revenue and gross margin, but that was years ago. I think three or four years ago, we...

Q - Stacy Rasgon {BIO 16423886 <GO>}

Yeah.

A - Dave Pahl {BIO 18870833 <GO>}

We move that to other income and expense, so that is -- that is in that line, other income expense. So it has nothing to do with margins. It has been for three or four years or so since we -- and the reason we moved that is very de minimis. It's a relatively small amount. It averages about $100 million a year, of course in the big scheme of things, given -- given our revenue level is a relatively small amount and we expect that to be continue to be small going forward. On the other part of your question, so last quarter we had about a $50 million hit to our gross margins that was because of the winter storm in Texas. We did talk about that during the call, we mentioned and that was all in gross margin. So yeah, you can adjust that -- you can -- you guys just however you wish for fourth quarter to get the gross margin without that impact, right, and -- and that may make more sense when you look at the trends.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Yeah.

A - Dave Pahl {BIO 18870833 <GO>}

Does that answer your question?

Q - Stacy Rasgon {BIO 16423886 <GO>}

Yeah. So that's quite helpful. Thank you.

A - Dave Pahl {BIO 18870833 <GO>}

I think you have a second one. Do you have a follow-up?

Q - Stacy Rasgon {BIO 16423886 <GO>}

So my follow-up, yes, your guiding revenue is flat and your guiding EPS down slightly. So either -- either gross margins are going down to OpEx is going up, normally OpEx, I think seasonally in the Q3, would be down a few points. I guess, are you expecting any sort of different OpEx trends in the Q3 as you would normally see like in the normal Q3, is there something else going on, because normally it's down sequentially?

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

Yeah, and well, so the reason that EPS is moving at the midpoint is the royalty that we just talked about right. So you just take out that $0.06 from the EPS that we just delivered, you get to a -- to a more normalized EPS without that royalty and then compare that to the, to the next quarter and and you'll see that there is nothing unusual there. Obviously, we only give revenue and EPS range, but if there was some revenue shown between the lines, we would pointed out and there's nothing unusual.

A - Dave Pahl {BIO 18870833 <GO>}

Nothing is changing much between between the other other lines, right. Yeah, okay. Thank you, Stacy. And we'll go to the next caller please.

Operator

And next we have John Pitzer of Credit Suisse.

Q - John Pitzer {BIO 1541792 <GO>}

Yeah, good afternoon guys. Thanks for let me ask the question. Dave and Rafael, I just want to go back to the revenue guidance sort of flat at the midpoint with down sequentially. I guess I'm just trying to wrap my head around the fact that your deficiencies kind of increased in the June quarter. You said you're hotspots went up, it sounds like demand is still relatively strong and yet, there is a part of your guidance that could be down sequentially, which I'm having a hard time grasping. Dave, maybe you can talk about end markets, are there any end-markets that particularly look like they're cooling off sequentially into the calendar third quarter or why they're down sequential? I think I have to go back to quite a bit of time to see you guys have a flat to down sequential Q3?

A - Dave Pahl {BIO 18870833 <GO>}

And John, when you say down sequentially, just to clarify, are you saying that part of our range would imply that it could be down and the other part would imply that it will be up. That's what -- that -- just to clarify that part of the question, I got you.

Q - John Pitzer {BIO 1541792 <GO>}

Yes.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah. So yeah, John, there is something that's unusual going on within the end market or region or product area. We've always provided insight into -- into that to help understand an outlook or even something that's happened in the current quarter. I'll just say there is nothing unusual like that -- that we feel that we would need to explain what's going on. I think that, as I mentioned earlier to Vivek's question on the topic, seasonality probably isn't the best thing to be looking at as we've been moving through the last few quarters. And I would say, with that range implies that the revenue is still will be -- will still be strong. So, Do you have a follow-on?

Q - John Pitzer {BIO 1541792 <GO>}

Yeah, just as my follow-on on RFAB 2, I'm just curious with the proposed purchase of Lehi, should we think about sort of the building going on as planned, the pilot line going on as plan, but capacity at RFAB 2, kind of slowed or how do we think about kind of now your mix of capacity as Lehi comes in next year and what that means for CapEx and the ramp of RFAB 2?

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

Yeah, now, let me, let me tell you about that. So first let me step back and remind everyone objective, when it comes to CapEx is to invest to support new technology development and revenue growth and specifically, extending our low-cost manufacturing advantage, primarily 300-millimeter right. So we have talked about that for a long time and is a core part of our strategy and one of our competitive advantages, having that manufacturing and technology advantage.

RFAB 2, will be the third 300-millimeter factory, Lehi will be our fourth 300-millimeter factory. RFAB 2 will become operational sometime in the middle of next year, that's when the shell will be completed and then we'll be deploying equipment there and then we incurring CapEx because of that. So CapEx as I said at the last call will be higher, both in absolute dollars and as a percent of revenue because of that and then on top of that, add Lehi, right, which we didn't have last quarter when we had talked -- when we had the earnings call. So, now Lehi is going to be on top of that, that's a $900 million purchase price, which will run through CapEx. But, then in addition to that factory is ready for production once we qualify, but a relatively low volumes where we still have to add CapEx to that factory to take it to the volumes that we won and that will happen over time.

And think of that, that CapEx is probably going to be is probably going to run about half of what RFAB 2 CapEx will run. I'm talking over years, right as we -- as we deploy equipment there. And both of those will add to the strength or will strengthen our competitive advantage of manufacturing technology with two more 300-millimeter factories.

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

And that will be Blayne Curtis of Barclays.

Q - Blayne Curtis {BIO 15302785 <GO>}

Hey, thanks for taking the question. Actually, I just wanted to ask on, I know you're not going to probably guide December, but just kind of any feel you can for that quarter? Obviously seasonality has been out the window, typically a down quarter, just trying to get a bit a handle on the back half year, obviously that the flattening market, but at much higher levels, anything you can throw out there for December?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, Blayne. You know and certainly I know there is lots of speculations on how long the strong demand will last. And certainly we read the ranges that it's going to end soon and others say it is going to continue for quite some time. And obviously as you stated, we're not going to forecast the fourth quarter or even comment on how long the cycle lasts, because honestly, as you know, we don't know, I don't think anyone knows, but I think we can frame how the actions that we've taken and our approach as we've gone through -- through the cycle. And in the first phase, you've seen us accelerate into the widely anticipated decline and that really enabled us to gain ground and really in the second phase, we're working to ensure that we gain strategic ground, particularly in industrial and automotive and that -- those gains will reward us for years to come. And independent of that, we're investing for the long term.

So some of the obvious things that you can see are the new manufacturing investments in RFAB 2. If you're down here in Texas, you'll see cranes up over -- over the building. I think I counted six or seven at the max that were up over that. The additional Lehi, some of the less visible ones are the R&D investments and in new capabilities at ti.com and those investments are continuing. So we won't will go through cycles. We won't be able to predict it, but we can make the place stronger, we can continue to invest in our competitive advantage, so. Do you have a follow on?

Q - Blayne Curtis {BIO 15302785 <GO>}

Yes, I just wanted to ask you on inventory levels. Obviously, way down at these sales levels on a days inventory, but your ability to grow that absolute amount, and if you're able to do that in the September?

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

I'll start and Dave, you want to follow up, but inventory levels. First, let me remind everyone the objective there, maintain high levels of customer satisfaction while minimizing obsolescence, which frankly is not -- is not an issue given our business model. We are clearly below desired levels, just like we said during the prepared remarks, right, we're running about 111 days in our target with 130 days to 190 days. That's part of the reason why we have the hotspots that we talked about. At the same time I tell you, we go back to second quarter last year, when the pandemic was starting, in fact, March of last year. Everybody, all our competitors were decreasing their inventory levels, slowing down factories. We went the other way, right.

We maintained and in fact, increase our production levels. We increased our inventory levels. They went from about 140 days to 160 days, some 170 days almost. And that along with our business strategy, our business model, helped to put us in a great position to take advantage of the situation and has helped us do significantly better than our competitors over the last three or four quarters, right, But we have gotten to a point where, yeah, things are -- inventory is now below desired levels. We'll continue to to add incremental capacity as we have talked about, that is in all of our factories, especially RFAB 1, but the next bigger tranche of capacity will come in with RFAB 2, as we talked about earlier. Once that is operational sometime in -- in second quarter of next year, then that well -- that's when we finish and they'll be to put this revenue sometime in the second half of next year, then that will add a significant amount of capacity and then shortly after that Lehi will also come in line for additional revenue capacity there.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, and maybe just quickly, what I might add to that, Obviously, whenever things do slow, we will then use that period of time to rebuild inventories and those positions to be able to support growth in the future.

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

And I'll just add one more thing, both RFAB 2 and Lehi, those are long-term plays right. These are -- this is to strengthen our manufacturing advantage, owning our own manufacturing, which clearly has proven over the last year and a half. We knew that already, but it has proven that how important that is in the current environment -- in the current environment. They are going to happen to help in the medium term, most likely, but if they don't, if things slow down, and it doesn't work out that way, that is completely fine with us. That's not why we are equipping those factory, if not, why we bought what we're buying Lehi is for the long-term positioning of the company to support long-term revenue growth in both Analog and Embedded.

A - Dave Pahl {BIO 18870833 <GO>}

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

Operator

And next we will go to Ambrish Srivastava of BMO.

Q - Ambrish Srivastava {BIO 4109276 <GO>}

Hi, thank you very much, Rafael and Dave. I had a question on free cash flow per share and you guys know I don't look at it on a quarterly basis. So if I look at the last two years, if I look at 2020 free cash flow per share, down 3%, 2019 it was flat. And I know that if I look at this year on a trailing 12-month basis, it is up double-digit, but it has lagged, sorry for the background noise, it always happens when I'm on a conference call. If I look at the trailing 12-month and then so that's in line with what you have said consistently, but should we expect this to come back to the double-digit on an annualized basis? What's the right way to think about the lag over the last two years and how should we think about it going forward?

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

Yeah, this is one -- most financial metrics are this way too, but you want to look at this over the long term, right. Any one quarter or even any one year, they could be a little choppy. You mentioned a couple of years when 2019 and even 2020, where that trajectory does not represent the longer term and arguably the same thing for 2021, right or the trailing 12-month number that you just quoted, right. So you want to look at this over the long term and that's how we look at it, and that's what's going to ultimately drive value for the owners of the company.

A - Dave Pahl {BIO 18870833 <GO>}

Do you have a follow on, Ambrish?

Q - Ambrish Srivastava {BIO 4109276 <GO>}

Yeah, I do. With all the tightness and contrast with the way you guys have manage the business and these shares probably don't show up that quickly because these designs are such long lasting and they don't change on a dime. Are you seeing any discernible change in your design in activity as a result of what we've seeing from your peers with the tightness and you managed to your lead times and then inventory much better than some of your peers? Thank you.

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, I'll start off and Rafael, if you want to add, I would say that as you know Ambrish, we have started on the journey to have close-to-direct relationships with customers, really seven, eight years ago with our investments in ti.com, investments in our sales applications teams, investments in processes and how we do business and just our structure inside of the company. And last year, you saw a pretty major step of taking more customers direct and operating with fewer distributors as well as transacting business through ti.com.

So you kind of mix that together with the pandemic and our ability to do virtual sales calls, I think all those things have positioned us well strategically, especially in markets like industrial, automotive, those markets where we want to gain that strategic ground. You couple that with availability and like you say things don't move quickly, but the supply shortages really start showing up in the beginning of of 2020 took a break in the first or second quarter, when the pandemic hit and then re-accelerated after that. So there are cases that are unusual, but there are cases where customers redesigned boards just because of availability. I'll describe that as an outlier, but we do see cases of that, but we see more cases where you have designs that are being intersected as they come through. And again, our sales teams are engaged from production all the way back into into engineering, that gives that visibility is a great strategic advantage and those benefits again will be things that will pay rewards for us for a long time to come. Okay, thank you. Ambrish, and I think we've got time for one last caller.

Operator

And that caller will be Chris Danely of Citigroup.

Q - Chris Danely {BIO 3509857 <GO>}

Thanks guys. Hey, Dave, by the way, thanks for the other analysts go first and beat you up on the flat guidance, so I don't have to. My question is on the auto revenue. So if we look at the headlines and talk to the folks in the auto supply chain, there is still a lot of shortages et cetera, et cetera, out there. And I think you're revenue was only slightly up, so can you just explain the discrepancy it seems like it would be up a little bit more than that if there is all these folks clamoring for parts out there?

A - Dave Pahl {BIO 18870833 <GO>}

Well, I'd point out at over doubled from a year ago Chris. So it's a little bit more than up up a little bit and I think your point to this is sequential. But again, last quarter it was up over 25% from pre-pandemic levels. I don't think we're shipping 25% more cars from pre-pandemic levels, right. So our shipments into automotive are up -- up and up significantly and we continue to add capacity and continue to -- we believe we're gaining share there as well, you got to measure it over time. But, yeah, so we are -- our shipments are up there and up strong. So, do you have a follow on?

Q - Chris Danely {BIO 3509857 <GO>}

Yeah, I just, I guess a hotspot questions. So you said that, you're seeing a few more hotspots last quarter, do you think that the situation gets a little bit worse this quarter or do you think it gets better? When do you guys think you'll start to get a handle on all these sort of supply issues out there, I guess?

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

Chris, it's going to the ban on demand, right. We are on the supply side as we said, we are adding capacity incrementally. We have been and will continue to do that. The bigger tranche of capacity doesn't come in until about a year from now, all right, as we just talked about the RFAB 2 and then six months later we've Lehi. So it'll be a while before we have a big tranches of capacity coming online. So it's going to depend on demand. At the end of the day, we don't -- we don't fully control this. It is more of a macro situation, but we are better prepared than our peers than have been in both the tactical decisions we have made during the pandemic. But more importantly our business model and how we run the company, specifically owning our own manufacturing that there has been a key in this whole process and we're just really doubling down on that with what we're doing with all those factors that -- that we just talked about.

A - Dave Pahl {BIO 18870833 <GO>}

Thank you, Chris.

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

Dave, do you want to wrap?

A - Dave Pahl {BIO 18870833 <GO>}

Yeah, first, I'll go ahead and wrap up. So let me just emphasize what we have said previously, at our core, we're engineers and technology is the foundation of our company, but ultimately our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share. While we strive to achieve our objective, we will continue to pursue our three ambitions. We will act like owners, who will own the company for decades, we will adapt and succeed in a world that's ever changing and we will be a company that we are personally proud to be a part of and would want as our neighbor. When we are successful, our employees, customers communities and owners all benefit. Thank you and have a good evening.

Operator

This concludes today's call. We thank you for your participation, you may now disconnect.
