NXP Semiconductors N.V., Q3 2022 Earnings Call, Nov 01, 2022 (EditedCopy)

TEXT version of Transcript

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Presentation

Operator [1]

Hello. Thank you for standing by, and welcome to the NXP Third Quarter 2022 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference may be recorded.

I would now like to hand the conference over to your speaker today, Jeff Palmer, Senior Vice President of Investor Relations. Please go ahead.

Jeff Palmer, NXP Semiconductors N.V. - Vice President of Investor Relations [2]

Thank you, Josh, and good morning, everyone. Welcome to the NXP Semiconductors Third Quarter 2022 Earnings Call. With me on the call today is Kurt Sievers, NXP's President and CEO; and Bill Betz, our CFO. The call today is being recorded and will be available for replay from our corporate website.

Today's call will include forward-looking statements that involve risks and uncertainties that could cause NXP's results to differ materially from management's current expectations. These risks and uncertainties include, but are not limited to, statements regarding the continued impact of the COVID-19 pandemic on our business, the macroeconomic impact on the specific end markets in which we operate, the sale of new and existing products and our expectations for the financial results for the fourth quarter of 2022. Please be reminded that NXP undertakes no obligation to revise or update publicly any forward-looking statements. For a full disclosure on forward-looking statements, please refer to our press release.

Additionally, we will refer to certain non-GAAP financial measures, which are driven primarily by discrete events that management does not consider to be directly related to NXP's underlying core operating performance. Pursuant to Regulation G, NXP has provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures in our third quarter 2022 earnings press release, which will be furnished to the SEC on Form 8-K and be available on NXP's website in the Investor Relations section at nxp.com.

Now I'd like to turn the call over to Kurt.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [3]

Thank you, Jeff, and good morning, everyone. We appreciate you joining our call today.

Now let me begin with a review of our quarter 3 performance. Our revenue was $20 million better than the midpoint of our guidance with performance in the Mobile, Automotive and Communication Infrastructure markets, all better than our expectations. For the Consumer-exposed IoT subset of the Industrial & IoT market, we started to experience weaker sell-through in the Channel. And let me remind you that our Consumer IoT exposure is approximately 40% of the Industrial and IoT segment revenue. It is made up of thousands of customers primarily in China and serviced through our distribution partners. Taken together, NXP delivered quarter 3 revenue of $3.45 billion, an increase of 20% year-on-year.

Our non-GAAP operating margin in quarter 3 was a record 36.9%, 340 basis points better than the year ago period and 80 basis points above the midpoint of our guidance. Our results reflect strong execution with solid profit fall-through on the incrementally higher revenue and better than guided operating leverage.

Notwithstanding our results, which surpassed our guidance, we are facing a tricky demand environment. On the one hand, the demand trends from Automotive and Core Industrial customers are very resilient. And we continue to face supply constraints across multiple microcontroller and advanced analog products. And on the other hand, we see weakness in the broad Consumer IoT and in the Android mobile market.

Given that unbalanced dynamic of the demand environment, we are going to pull those levers that are in our control, namely stringent Channel Inventory management and discipline and discretionary operating expense.

In terms of inventory, we have decided to take a Draconian approach to managing our distribution Channel Inventory. Specifically, our quarter 4 guidance contemplates a Channel Inventory at the 1.6 months of supply level, which is in line with quarter 3 and well below our long-term model. We prefer to keep any incremental inventory on our balance sheet, where we have the ability to control and redirect shipments as needed.

And in terms of discretionary spending, amongst others, we are slowing the rate of hiring. All in all, we believe these measures are a prudent approach until such time as we see a clearer and more consistent view of the demand environment.

Now let me turn to the specific trends in our focus end markets. In Automotive, revenue in Q1 was -- in Q3 was $1.8 billion, up 24% year-on-year, near the high end of guidance. In Industrial & IoT, revenue was $713 million, up 17% year-on-year, $32 million below our guidance. In Mobile, revenue was $410 million, up 19% year-on-year, $30 million better than our guidance. And lastly, Communication Infrastructure & Other revenue was $518 million, up 14% year-on-year, slightly above our guidance.

Now let me look at key operating indicators relative to the noted demand dynamics, where we see the following. In terms of quoted product lead times, overall, we dropped to just below 70% of our portfolio with lead times that are greater than 52 weeks. This metric was greater than 80% a quarter ago. While this is in aggregate an improvement from prior periods, we continue to be sold out through '23 in the Automotive and Core Industrial end markets.

In terms of our NCNR program, most of our Automotive and Core Industrial customers continue to demand assured supply for 2023. Our '23 NCNR order book continues to surpass our '23 supply capability as well as the level of NCNR orders which have been requested for 2022.

And in terms of inventory, as noted previously, our Q4 guidance contemplates distribution channel at 1.6 months, well below our long-term target of 2.5 months. With respect to on-hand inventory at NXP, our DIO has increased 5 days sequentially to 99 days, and it will increase further. Given the application-specific nature of our product portfolio, we are comfortable with this direction.

Now let me turn to our expectations for quarter 4. We are guiding revenue at $3.3 billion, up about 9% versus the fourth quarter of 2021, within a range of up 5% to up 12% year-on-year. And from a sequential perspective, this represents a decline of about 4%, at the midpoint versus the prior quarter.

At the midpoint, we anticipate the following trends in our business. Automotive is expected to be up in the high teens on a percent basis versus quarter 4 '21 and flattish versus quarter 3 '22. Industrial and IoT is expected to be down in the low double-digit range on a percentage basis year-on-year and down in the high teens range versus quarter 3 '22.

Mobile is expected to be up in the low single-digit range year-on-year and down in the upper single-digit range versus quarter 3 '22. And finally, Communication Infrastructure & Other is expected to be up in the low teens range versus the same period a year ago and flattish on a sequential basis.

Now in summary, there is a real dichotomy in the various end markets that we serve. The potential for some demand destruction in the consumer end markets that we noted as a concern last quarter has materialized. While we could ship more into the Channel, we are taking a proactive stance to limit Channel Inventory buildup. And conversely, we are seeing very resilient customer demand in the Automotive and Core Industrial segments, where demand continues to outpace supply, which hinders us from shipping to the true end demand. So overall, we remain cautious in the near term due to the uncertainties in the macro environment.

And with that, now I would like to pass the call over to you, Bill, for a review of our financial performance.

William J. Betz, NXP Semiconductors N.V. - Executive VP & CFO [4]

Thank you, Kurt, and good morning to everyone on today's call.

As Kurt has already covered the drivers of the revenue during Q3 and provided our revenue outlook for Q4, I will move to the financial highlights. Overall, our Q3 financial performance was very good. Revenue was $20 million above the midpoint of our guidance range. And both non-GAAP gross profit and non-GAAP operating profit were above the midpoint of our guidance.

Now moving to the details of Q3. Total revenue was $3.45 billion, up 20% year-on-year, notwithstanding weakness in the consumer-centric portion of the Industrial and IoT segment. We generated $1.99 billion in non-GAAP gross profit and reported a non-GAAP gross margin of 58%, up 150 basis points year-on-year and both above the midpoint of guidance range as a result of higher factory utilization and higher sales volume.

Total non-GAAP operating expenses were $730 million or 21.2%, up $73 million year-on-year and up $6 million from Q2, better than our guidance range and below our long-term model. From a total operating profit perspective, non-GAAP operating profit was $1.27 billion, and non-GAAP operating margin was 36.9%, up 340 basis points year-on-year, and both above the midpoint of the guidance range.

Non-GAAP interest expense was $91 million with cash taxes for ongoing operations of $160 million or 13.6% effective cash tax rate. And noncontrolling interest was about $12 million. Stock-based compensation, which is not included in our non-GAAP earnings, was $89 million.

Now I would like to turn to the changes in our cash and debt. Our total debt at the end of Q3 was $11.16 billion, flat sequentially. Our ending cash position was $3.76 billion, up $214 million sequentially thanks to improved operating performance. The resulting net debt was $7.40 billion. And we exited the quarter with a trailing 12-month adjusted EBITDA of $5.3 billion. Our ratio of net debt to trailing 12-month adjusted EBITDA at the end of Q3 was 1.4x, and our 12-month adjusted EBITDA interest coverage was 13.8x.

Turning to working capital metrics. Days of inventory was 99 days, an increase of 5 days sequentially as we continue to experience incrementally improved supply trends. The increase in on-hand inventory was evenly split between raw materials and work in process to support revenue growth in subsequent periods and an increase in finished goods due to the noted weakness in the Android mobile market and the consumer-centric portion of Industrial & IoT.

As Kurt mentioned, we continue to tightly manage our Channel Inventory. Inventory in the Channel was 1.6 months and continues to be well below our long-term target. Days receivable were 27 days, flat sequentially. And days payable were 96, an increase of 2 days versus the prior quarter. Taken together, our cash conversion cycle was 30 days. Our working capital management, balance sheet and Channel metrics continue to be very strong and well managed.

Cash flow from operations was $1.14 billion, and net CapEx was $281 million or 8.2% of revenue, resulting in a non-GAAP free cash flow of $863 million or 25% of revenue. During Q3, we paid $223 million in cash dividends, and we repurchased $400 million of NXP shares. In addition, since the beginning of Q4 through October 28, we purchased an additional $260 million of shares under the established 10b5-1 program.

On a trailing 12-month basis through the end of Q3, we have returned 98% of our non-GAAP free cash flow back to the owners of the company, consistent with our capital allocation strategy. The cash flow generation of the business continues to be excellent.

Now turning to our expectations for Q4. As Kurt mentioned, we anticipate revenue to be about $3.3 billion, plus or minus about $100 million. At the midpoint, this is up 9% year-on-year and down 4% sequentially. We expect non-GAAP gross margin to be about 57.8%, plus or minus 50 basis points. Operating expenses are expected to be around $720 million, plus or minus about $10 million, which is down about 1% sequentially driven by lower incentive compensation and discretionary spending.

Taken together, we see non-GAAP operating margin to be 36% at the midpoint. We estimate non-GAAP financial expense to be about $81 million driven by higher interest income and we anticipate cash tax related to ongoing operations to be about $140 million or about a 13% effective cash tax rate, which is below our communicated model, leading to a full year effective tax rate of 13%.

Noncontrolling interest should be about $12 million. And for Q4, we suggest for modeling purposes, you use an average share count of 262 million shares. For CapEx, we suggest you use 8%, bringing total year CapEx to 8% versus our prior expectations of 10% due to delays in equipment deliveries.

Finally, I have an update to our reported financials. Beginning with our guidance for Q1 2023, we will begin to apply an estimated annual tax rate to our GAAP and, thus, our non-GAAP profit before tax. This change will enable NXP to report a non-GAAP earnings per share on a go-forward basis, consistent with SEC guidelines.

Given current tax legislation, we believe our new estimated tax rate will be consistent with our long-term cash tax rate of 18%, as provided at our Analyst Day in November of 2021.

Overall, despite the uncertain macroeconomic conditions which are impacting some of our more consumer-oriented markets, as Kurt mentioned, we will navigate what is in our control, such as Channel Inventory and discretionary spending. Furthermore, over the foreseeable future, we will continue to operate within our long-term financial model.

Thank you, and we now can turn the call back over to the operator for questions.

Question And Answer

Operator [1]

[Operator Instructions] Our first question comes from Ross Seymore with Deutsche Bank.

Ross Clark Seymore, Deutsche Bank AG, Research Division - Managing Director [2]

Kurt, I wanted to ask about the inventory side of the equation, both on the Channel and on your balance sheet. On the Channel side of things, you guys are, like you said, well below target about 1.6 months, well below where you were at similar points where people were worried about us being at a peak cycle. So I guess the question is, could you ship more into the Channel if you wanted to? And what's led to the philosophical shift to significantly lessen the Channel and more on your balance sheet as in prior cycles, it seems to be the opposite prioritization?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [3]

Yes. Thanks, Ross. Yes, the answer is a blunt yes. We could have shipped more into the Channel against open orders actually in this fourth quarter, and that especially into the Consumer IoT part of our segments. But as I mentioned, given the whole macroeconomic uncertainty, we just feel it is a much more prudent approach to actually limit this Channel Inventory at this very low level of 1.6 months and mind you that the delta to 2.5 months in terms of revenue would be about $500 million. And that's the level of open orders which we would easily have, which we could serve.

But we think it's more prudent because it's unclear how the macro is going to further develop and how the demand in that part of the market is going to develop. So we feel it's a better idea to keep what we have already in the pipeline to keep in-house and on the balance sheet, also for eventually being in a position to redirect it to other customers.

Now that's the one side of the house. I just have to also remind you that at the same time, Ross, we have this real situation that in the auto and core industrial side of the house, we have the opposite situation. We do not have enough supply, so we continue to be sold out. And also there, we could actually -- if only we have the supply, we could make more revenue in quarter 4. We have a lot of open orders which are very real. We checked all of them but can't really serve them.

But again, back to your initial question, yes, we could sell more, but we found it is much more wise to stick to this very low Channel Inventory of 1.6 months at this time. It's not a long-term target, though, but at this particular period in the cycle, we feel it's the best thing we should do.

Ross Clark Seymore, Deutsche Bank AG, Research Division - Managing Director [4]

I guess as my follow-up, one for Bill on the gross margin side of things. I'm impressed that the gross margin is staying flat, maybe surprised would be the word more than impressed, given that the revenues are dropping 4% or so. Your predecessor kind of had a very rough rule of thumb that a 5% drop in revenue was a 1% drop in gross margin. So how are you able to keep that flat? And what's the sustainability of that ability to keep the gross margin at this general level?

William J. Betz, NXP Semiconductors N.V. - Executive VP & CFO [5]

Yes. Thanks, Ross, for your question. And you're right, we did slightly better than our guidance driven by the higher revenues and fall-through. One area I think we need to understand a little bit better is that our internal utilizations remain in the high 90s as we are still well constrained specifically in our auto. And if you think about internally, more than 2/3 of our capacity is just pinpointed to our IP proprietary mixed-signal, auto-centric capacity internally. And we are constrained. As you heard Kurt mention, we are sold out, and we expect this to be well utilized all throughout 2023.

Second, as mentioned on previous calls, you're right, we mentioned we'd stay in a tight range, delivering towards our high-end model. And I think we've demonstrated that, and it's incorporated in our Q4 guide. And more longer term, what gets us to 58% is really those new product introductions which are further out in the journey, I would say.

Operator [6]

Our next question comes from C.J. Muse with Evercore.

Christopher James Muse, Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst [7]

I guess the follow-on on Ross's question, I guess, can you comment on the ability at all to repurpose wafers capacity? My sense is internal versus external, the answer is no. And then as part of that, before coming into the recovery, you had a gross margin construct, I think, of every 5% change in top line, 100 bps growth in gross margins. Now that you see a clear mix shift here in terms of auto, core industrial holding strong, yet Consumer weaker, is there kind of a thought process or model we should be thinking about on the gross margin side as we push forward into some sort of further correction on the Consumer side?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [8]

Let me first go at the repurposing or the potential for repurposing of capacity. So first of all, yes, I can confirm directionally that indeed repurposing between internal and external is very limited. I mean that's really how we've built our supply strategy. When you then think about within internal and within external repurposing between the different segments which we serve, and that's now specifically between the more Consumer-oriented versus the more Auto or Core Industrial-oriented markets, to a limited level, it is possible.

It is typically not at all possible on a finished product level, so once the product is completely manufactured and sometimes programmed, we have hardly any products which are swappable. However, if you still speak about buy back, inventory, for example, we do have the opportunity with several process nodes to actually swap between those markets but not with all of them.

I'll give you one example which is quite sizable for us. We have a lot of product going in 55 nanometers with embedded nonvolatile memory. That, for example, is very, very purely Automotive, which means we are sold out, we are short in that technology, but that same technology is also not used for any of the consumer applications. So the demand drop in consumer doesn't really help us there. However, there is other technologies, like 90 nanometers or 180 nanometers, where we can do this if the product is not yet a finished goods.

So it's a bit of an in between, but we have some liberty here. And that is also the reason why, amongst others, for example, in parts of our Comm Infra market in Q4, we started to see acceleration in our revenues because we actually could swap some of our existing capacity into those markets like the e-government markets or RFID markets, which were super constrained over the past 8 quarters.

On the margin side, I'd say there is quite some variation of margin within each of the segments. So you cannot easily draw conclusions between the 4 revenue segments, what their mix is and what it means to the end margin of the company. It is more sophisticated, to be fair. Bill, I'm not sure if you want to go a little bit deeper. But in the end, you cannot draw conclusions on the level of the total segment.

William J. Betz, NXP Semiconductors N.V. - Executive VP & CFO [9]

No, nothing else there.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [10]

C.J., did you have a follow-up?

Christopher James Muse, Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst [11]

Yes, just a quick follow-up. The China IoT piece, I would have thought that, that would have shown weakness earlier. So I guess, are there particular kind of sub end markets that have proven to be more resilient, at least until today, that's kind of enabled that to hold up? Or kind of can you give us a little more color on how to think about the key drivers within that bucket?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [12]

Yes. It really started in, I'd say, August and then going into October to quite significantly drop. But again, of course, our approach to stick to the 1.6 level of month of Channel Inventory gives this a different color, CJ. I mean, in former days, honestly, we would just have kept shipping. So it would have felt like, oh, finally, we get the Channel Inventory up. Now it's very much our choice that we said we don't want to do this, and that's why it sees quite a harsh decline. But again, as I explained earlier, we think that's the better way to do it.

But again, it started in August time frame. I would say it's the Consumer IoT market globally which is softening. It's just such that we have a relatively sizable exposure to China. But it's not that the non-Chinese Consumer IoT customers would be still very resilient. I think this is globally weakening, but it hits us harder from a China perspective. And this is also where we have a very large Channel exposure, which is why this Channel approach which I explained earlier, I think, makes a significant difference in how we want to deal with it.

Operator [13]

Our next question comes from Vivek Arya with Bank of America.

Vivek Arya, BofA Securities, Research Division - MD in Equity Research & Research Analyst [14]

Kurt, for my first one, I'm curious to get your perspective on just the supply-demand equation in the automotive industry at your OEM and Tier 1 customers. Do you think they're still undersupplied or oversupplied or just kind of rightly supplied? And just what are the hotspots of over or undersupply right now? And just how is your visibility of growth into the first half of next year? I think you've added Q4 flattish, which I assume is more a supply variable. But just what's your perspective into the supply-demand balance at your auto customers right now?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [15]

Yes. Thanks, Vivek. First of all, let me just indeed unfortunately confirm that the sequential flat in auto into Q4 is purely a function of supply. I wish it was different, but it is a straight function of supply. Now it still has a nice year-on-year growth, by the way, but the sequential is a supply limitation.

In general, many microcontrollers, if not all, in our portfolio and the large part of the analog products which we have continued to be significantly supply constrained in Automotive. And that is after a very careful and very thorough analysis of the demand in this whole web from the OEMs through to Tier 1.

So I think we have more transparent and more detailed discussions than ever before in trying to understand that. And it really shows also, given the NCNR order levels which we are getting in Automotive for all of next year, that those constraints will continue to be in place through a large part of next year, depending, of course, on how the supply possibly further improves above the visibility we have today. But with our current supply visibility, we will continue to be sold out in the automotive market through next year.

If you would ask me how much was the gap to true demand, probably it is in the order of -- that we have a supply coverage of 85% next year in Automotive and Core Industrial versus true demand.

Now there is still this golden screw problem. So I don't want to take this off the table. So sometimes one component is indeed missing from us or from another peer in the market, and then it takes a few weeks until stuff is being flushed through. But that doesn't take away that there is overall shortage in the key microcontrollers and analog products.

Vivek Arya, BofA Securities, Research Division - MD in Equity Research & Research Analyst [16]

So my follow-up, you continue to build inventory on your balance sheet. And when I couple that with the fact that you mentioned you're sold out in Automotive and Core Industrial, that's almost 2/3 of your business. So is it fair to assume that you're planning for next year -- I know you're not giving '23 guidance, but are you planning for next year sales to be at least flattish year-on-year with Auto and Core Industrial growth offsetting any weakness on the consumer side? Or is that stretching right too much the conclusion from combining the fact that you still continue to build inventory and your Auto and Core Industrial demand is sold out for next year?

William J. Betz, NXP Semiconductors N.V. - Executive VP & CFO [17]

Vivek, this is Bill. Let me take this one. First off, we're not guiding 2023, but let me go into the internal inventory and try to summarize for everyone. Yes, we've increased 5 days, which is about 50% raw material and work in process. And the remainder was in finished goods from a quarter-over-quarter perspective.

Clearly, as Kurt mentioned, a portion of these finished goods was driven primarily by NXP preventing inventory buildup in the Channel as we reroute this material to other customers in need or some of it's fungible and some of it is not. Areas where we have higher Consumer or Mobile inventory levels, we hold the wafers in die bank, as Kurt mentioned, before completing assembly and test in our back-end facilities.

At the same time, we remain highly constrained in the wafer areas of 28, 40, 55, 65 and 90 in our Auto and Core Industrial segments. And again, as we mentioned in both our opening remarks, it's better to keep control of your own inventory and putting it into the Channel which will just create future issues if demand falls. And again, majority of what we build is very application specific and long-lived, which gives us confidence to hold and be ready to service future demand.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [18]

And -- thanks, Bill. Let me maybe just add that one view on next year when it comes to Automotive since you were asking earlier. We see no reason why the strong trend of content increase following, amongst others, electrification and ADAS would break. I think every quarter, we look at the ratio of electric cars of the total SAAR is higher than the quarter before. For this year, we see now 27% of the total SAAR being xEVs and for next year, it's forecasted to be 34%. And you know what that means for the semiconductor content in a car.

So from that perspective, I think there is, from a demand view, certainly good reason to believe that it continues to be a very strong and very resilient market while, at the same time, the extended supply chain in our view continues to be underfilled. It is still actually dysfunctional because it is still too low level. So those 2 perspectives should maybe add to a pretty healthy view from an automotive demand perspective on 2023.

Operator [19]

Our next question comes from Stacy Rasgon with Bernstein Research.

Stacy Aaron Rasgon, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [20]

The first one, I get the issues in Consumer and Mobile. Those seem to be in the numbers now at this point. But Auto and Industrial look really resilient. You're just sold out. You've got these NCNRs. I guess why do you sound so worried given that long-term support in those core markets and presumably given how sustainable it is. Are you seeing any signs at all of weakness, even small signs, any tiny upticks in cancellations or anything like that in those core markets?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [21]

Stacy, we have no cancellations or push-outs in Auto or Core Industrial. At the same time, I don't have a crystal ball, and I don't want to take a position here to be the economic federalist for the macro for next year. But so this -- also this guidance here is based on the orders and the supply capability which we have at hand for quarter 4. But I can absolutely confirm no pushouts, no cancellations in Core Industrial and Auto.

And the one indicator which gives maybe a somewhat better feel on the longer term is the level of inventory sitting in the extended supply chains in those two markets. And from anything we can check and see there, that level continues to be super low. And that's why we continue to believe it should stay very resilient.

Stacy Aaron Rasgon, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [22]

Got it. For my follow-up question, I wanted to, again, I guess, dig into the Channel Inventories. So a lot of the consumer stuff which is weak goes to the Channel. It sounds like you're not shipping that into the Channel, but the Channel Inventories are still flat. So are you shipping other stuff into the Channel that's making up for it? Like how is the mix, I guess, of end markets within that Channel changing as the consumer stuff is weakening?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [23]

We will not speak about the mix because then it really becomes complicated. But it is not that we do not ship at all in the Channel. We ship into the Channel to keep a steady level of 1.6 months of inventory. So it's not to say that this is so dramatic that we have to stop all shipments. That's not how it works. We just -- we are very disciplined. Bill and I are actually sitting every week and we look at the sell-through and sell-in data with each of our distribution partners by segment. And then we make sure every week, that's not only at the end of the quarter, that's through the quarter, that it doesn't surpass the 1.6.

The change we wanted to communicate today is only that so far, honestly, for 8 quarters in a row, I was desperate to get it up. I mean I would have wished we could have shipped more into it in order to have a higher Channel Inventory. [Audio Gap] Now, given those consumer trends, we are actually more disciplined to make sure it doesn't go higher especially in those parts where actually the demand is, but it doesn't mean there is fewer shipments.

Stacy Aaron Rasgon, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [24]

I understand that. I guess what I'm asking is, is it fair to say, even if you don't want to go to the mix, the detailed mix that the consumer mix within the Channel is lower and mix of other stuff is higher now versus maybe a couple of quarters ago?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [25]

No.

Stacy Aaron Rasgon, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [26]

No? Okay.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [27]

I'm not sure why you think it should be. No, it is not.

Stacy Aaron Rasgon, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [28]

Well, I mean if the consumer stuff is so much weaker, you said it's 40% of your Industrial business, and a lot of it goes through the Channel, and clearly, demand is weakening. And it sounds like they're limiting shipments of that stuff into the Channel. That's all. But the total inventories look the same.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [29]

Yes, Stacy, we are limiting shipments. But I mean I think about it this way. The Industrial IoT segment is 18% of the total revenue of the company, and 40% of that is the Consumer IoT, and that's still not at a 0 shipment level. So it is not that dramatic from a change perspective.

Operator [30]

Our next question comes from William Stein with Truist.

William Stein, Truist Securities, Inc., Research Division - Managing Director [31]

I'm hoping you might have some discussion in terms of the difference in demand levels and lead times and your level of constraints between Automotive on the one hand and Industrial on the other. I think in prior quarters, you've noted that Industrial is even more constrained than Automotive. That doesn't quite get the same level of attention. Can you update us on that dynamic, please?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [32]

We really don't have it broken down that way but Will the key shortages in the Core Industrial are indeed continuing to be highly escalated and quite painful. So I think I can repeat the statement I made earlier that while there continues to be a lot of public reports about the shortages in Auto and much less noise about Industrial, in our case, in the Core Industrial, we continue to be as short as we used to be before.

I said it earlier, I think, in the context of a different question. Say for the next couple of quarters, I think about 4 or 5 quarters, we believe after risk adjusting our demand, we should have about 85% coverage against [indiscernible]. That used to be 80%. So you see we are 5 percentage points higher, but that is not necessarily because the supply capability in Auto or Core Industrial has gone up so much, it is just that the consumer IoT demand on the other side for the total company has dropped such that in aggregate for the total we come up to 85%. But it continues to be equally painful in Auto and Industrial than it used to be.

William Stein, Truist Securities, Inc., Research Division - Managing Director [33]

Appreciate that. As a follow-up, I'd like to linger on this, the small pivot you're making in terms of the way you're dealing with the Channel in your inventory. And I wonder if the company has evaluated potentially moving to a consignment-oriented model which would allow you to make even more control. There's only one company that I'm aware of that has perceived that in a big way that this sort of an outlier in terms of how to deal with distribution. But I wonder if that's a growing thought given your approach that you're discussing today.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [34]

Thanks, Bill, but that's a quick answer, no, we are not contemplating that.

Operator [35]

Our next question comes from Gary Mobley with Wells Fargo.

Gary Wade Mobley, Wells Fargo Securities, LLC, Research Division - Senior Analyst [36]

I wanted to talk about one of your smaller businesses for a second, and that is the Mobile side of the business. You highlighted what sounds like 8% upside to your Q3 revenue forecast for that particular business. And we step back and look at the full year. Based on your Q4 guide, you're going to grow that business by close to 10%, which is counterintuitive given some of the weak mobile handset-related data points. So what's helping you outperform there? Is it content growth? Or is it Inventory Channel related?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [37]

It's got nothing to do with Channel or Inventory because we put the same discipline on all segments. Now it has to do with our strategy, which is really on content growth. Think about the mobile wallet. Think about the kicking in ultra-wide bands. And we also have, I'd say, directionally, it's not black and white, but we have a bias to higher-end mobile phone market, which comparably is doing better this year than the very low-end Android. So I'd say therefore two answers.

Our company-specific content increase in share gains are working out. I mean that is very much in line with how we put it a year ago at our Investor Day. And secondly, you might say we are in a good position because we are somewhat more exposed to the higher end rather than the feature phones, the Android phones.

Gary Wade Mobley, Wells Fargo Securities, LLC, Research Division - Senior Analyst [38]

As my follow-up, I want to ask about the latest U.S. export restrictions. My hunch is you're not so much directly impacted from these U.S. export restrictions. But I guess indirectly, can you speak to how it may result in some kitting issues in certain end markets and/or whether it requires you to change your manufacturing footprint?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [39]

Yes. So first of all, of course, at all times, we will 100% make sure that we are in total compliance with any export control regulations, and so we are also after these latest changes. All of our assessment so far of these latest changes in the regulations show that, if anything, we have super immaterial impact on our revenues.

When it comes to second or third order effect, which you were hinting to, also there I must admit we haven't really found anything which looks like being an issue for us. But of course, we keep researching it. But at this point, I can only say no. If anything, only super immaterial impact.

Operator [40]

Our next question comes from Matt Ramsay with Cowen.

Matthew D. Ramsay, Cowen and Company, LLC, Research Division - MD & Senior Research Analyst [41]

Kurt, for my first question is, you were very clear about the trends in your Automotive business and the business continues to do quite well. And I think to an earlier question, you mentioned that sort of on a quarterly basis, the SAAR numbers and the L2, L3 penetration numbers of ADAS continue to kind of go higher in your own estimates. But how do you guys made any changes to those kind of mix and content assumptions in the next year or two just based on interest rates?

I think a lot of us externally saw some of the data out of CarMax and some other sources that new car purchases are obviously financed pretty heavily. So is there any assumptions that might have changed recently in your forecasting based on some of the interest rates? That would be interesting.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [42]

Yes, Matt. So we -- I give you here two answers. The one is the short term. So when it comes to the guidance for Q4, it is really based on orders at hand. I mean we don't -- it sounds big number. We don't make these strategic considerations for the next 3 months. This is really about orders and supply capability.

Longer term, say next year, again, I don't want to say I have the crystal ball. So we use IHS typically for the SAAR, which I think just updated their forecast for next year for a 4% SAAR growth to, I believe, something like 85 million units.

However, it really isn't that important at all. What really matters is the content increase, which has a lot to do with the mix to e-vehicles, premium vehicles and other features kicking in. So I think the whole discussion around interest rates and recessions looming left and right, I agree with you it could have impact on the demand behavior of people buying cars.

But unless that drops incredibly far down, I believe that the content -- the semiconductor content per car is actually dropping the moves on the SAAR itself. And that is for us much more relevant. But again, I mean, we don't guide next year. I don't know what it is going to be, but we really should more and more start to look at this as a semiconductor company and industry from a content perspective rather than a unit perspective in Automotive.

Matthew D. Ramsay, Cowen and Company, LLC, Research Division - MD & Senior Research Analyst [43]

I realize it's a tough -- big picture question, but it's one that we're getting. As my follow-up, I wanted to ask, in the automotive sector, you guys obviously have a strong position in BMS, so managing the battery. But there's sort of two sides to managing the battery. There's actually running the car, and then there's the charging side and lots of conversation on why in batt semis and what it means for fast -- onboard fast chargers.

And I wonder, as a full BMS solution managing the charging and the discharge of the battery, is that something that you guys are looking into, not the manufacturer or anything [indiscernible] buying it from someone else and doing a fully integrated both sides of the battery type solution? And any thoughts there would be helpful. Really appreciate it.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [44]

Well, actually, we not only look at it, but we work the system end-to-end. So we are also very busy with companies building and providing the charging infrastructure. I think we have revealed earlier, so I may use the name. We work closely with ChargePoint, for example, in the U.S. And that is not only on the charging, but that even includes payment to make this a very seamless process for the consumer. So our payment and identification and security technologies are also being included in this.

So yes, we look at it as a -- from a total end-to-end basis. However, I have to say this still means we are not going into discrete power. So whenever these systems and wherever they need discrete power solutions, so like silicon carbide, this is not our focus. Our focus remains on the advanced analog and logic products, which we think is about 50% of that opportunity.

Operator [45]

Our next question comes from Joseph Moore with Morgan Stanley.

Joseph Lawrence Moore, Morgan Stanley, Research Division - Executive Director [46]

Great. I know last quarter you guys have talked about the desire of the automotive companies to build up safety stock at the Tier 1 level, I think you talked about 6 months. Where are they in that process? I mean it definitely sounds like things are still pretty tight, but is there any indication that they're able to put any of that inventory into place?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [47]

Yes. Indeed, that is a strategic requirement, which, in many cases, OEMs are and have been putting on Tier 1s. My guess is -- it's very hard to get the full picture of this, but my guess is that in some few cases, they start to be able to start building somewhat. On a lot of those core products which are plaguing us and others from a sheer built performance perspective, they are very, very far from achieving anything in this. Because, again, even before that would happen, the whole supply chain, the whole extended supply chain needs to build a higher inventory level. That's not just one company but it's just that the whole trade becomes more functional.

So I would say, given the end demand trends and how I would judge the supply capability of us and the industry, this will take all of next year still before we come even close to that requirement.

Jeff Palmer, NXP Semiconductors N.V. - Vice President of Investor Relations [48]

Joe, did you have a follow-up or is that it?

Joseph Lawrence Moore, Morgan Stanley, Research Division - Executive Director [49]

No, I'm good, Jeff.

Jeff Palmer, NXP Semiconductors N.V. - Vice President of Investor Relations [50]

This would probably our last question. Operator?

Operator [51]

Our next question comes from Toshiya Hari with Goldman Sachs.

Toshiya Hari, Goldman Sachs Group, Inc., Research Division - Managing Director [52]

I have two questions. First one is on pricing. I think if we take the midpoint of your Q4 revenue guidance, you're going to be growing around 19% for the full year. I think you gave really good color last quarter on how significant the tailwind is from pricing. If we can get an update on '22 pricing, that would be great. And then your preliminary thoughts into '23, again, from a pricing perspective particularly given, I think, the intent on your foundry supplier to raise pricing next year as well?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [53]

Yes, Toshiya, so as a good practice, as we've done for last year, we will provide the full year pricing impact for calendar year '22 in quarter 1 of '23. It's still very, very dynamic, I would almost say day in, day out. So we will give you and provide you the aggregate pricing impact on our revenue growth for this year in Q1 of next year.

From an overall dynamic perspective, we continue to see quite sizable cost -- input cost decreases to us. That is from the foundry partners, but there's also a lot of other inflationary cost increases. And of course, we absolutely walk the talk that we stick to our strategy to pass on those input cost increases to our customers to exactly that level that we can protect our gross profit percentage.

And seeing how the supply-demand imbalance in our core markets is moving into next year, I guess it is reasonable to assume that we will continue to raise prices also next year. We are now so much to the end of '22 that I think it's fair to say it's highly likely that we will also continue next year's prices just following those input cost increases.

Toshiya Hari, Goldman Sachs Group, Inc., Research Division - Managing Director [54]

That's helpful. As my follow-up, just on how you're thinking about utilization rates and CapEx going forward, Bill, you talked about utilization rates being in the high 90s. Given your comment on inventory growing in the quarter, my guess is you're keeping utilization rates to where they are but just wanted to clarify that.

And then on CapEx, you mentioned you've had equipment delivery delays. Should we expect CapEx to be elevated into '23? Or is it a little bit premature to say at this point?

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [55]

So let me quickly take the utilization, and Bill is going to speak about CapEx. On the utilization, yes, we will stay very, very highly utilized because, as Bill put it earlier, the majority of our internal front-end factories are working for Automotive and Core Industrial. So that's exactly there where we see the strong demand continuing, and that's why the utilization rates there will stay very high.

Bill, over to you for CapEx.

William J. Betz, NXP Semiconductors N.V. - Executive VP & CFO [56]

Yes. Related to the CapEx, as I mentioned, we will do better this year, 10% going to 8%. And next year, we will be in the range between 6% and 8%.

Kurt Sievers, NXP Semiconductors N.V. - President, CEO & Executive Director [57]

Yes. I guess that gets us to the end of the call. So in summary, I would say we are cautious in the near term given all the macro uncertainty. However, under the surface, we see what I call the dichotomy, which is really a very disciplined approach to a weakening consumer IoT market, where we want to stay ahead of the game and not trim the Channel.

While, at the very same time, we continue to be supply constrained quite significantly in our Core Industrial and Automotive markets, where we try to do everything in-house and with our foundry partners to get the supply the soonest in line with the pretty resilient demand signals which we are having. And that sets it for the call today. Thank you all very much. Thank you.

Jeff Palmer, NXP Semiconductors N.V. - Vice President of Investor Relations [58]

Thank you, Josh. Appreciate everybody's attendance. That concludes the call today.

Operator [59]

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.