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PRESENTATION

Operator

Good day, and welcome to the Texas Instruments Capital Management Strategy Conference Call. Today's conference is being recorded.

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

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Thank you. Good morning, and thank you for joining our 2019 capital management call. This call is being broadcast live over the web and can be accessed through our website at ti.com/ir. 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 our most recent earnings release as well as our most recent SEC filings for a more complete description.

During today's presentation, we'll begin with a quick recap of our capital management strategy and our scorecard for 2018. Then we'll provide a historical summary of our capital allocation and take a deeper look into specific areas of investment, including 300-millimeter Analog. We'll also discuss our free cash flow per share performance. And finally, we'll wrap up with a review of our cash returns.

We believe the key points that investors can take away from our discussion today are: first, we remain focused on consistent execution of our capital management strategy; second, our business model is designed around four sustainable competitive advantages, and we continue to strengthen and leverage those advantages with a view towards the long term; third, our disciplined allocation of R&D and investments in our initiatives is delivering growth from the best products, which are analog and embedded, and the best markets, industrial and automotive; fourth, our 300-millimeter Analog manufacturing strategy is a unique advantage and will provide benefits for a long time; and lastly, we remain committed to returning all free cash flow to owners. These points are consistent with past capital management presentations.

As we've said, our objective is to maximize long-term growth of free cash flow per share, which we believe is the best metric to judge our performance and to drive higher intrinsic value for the owners of the company.

Our strategy to achieve this objective has three elements: first, by having a great business model that is built on our four competitive advantages, advantages in which we are continuing to invest and make even stronger; second, by being disciplined in how we allocate our resources, focusing on the best product opportunities as well as areas that strengthen and leverage our competitive advantages; and third, by striving to constantly increase our efficiency, which is about achieving more output for every dollar of input.

As a reminder, we believe TI is in a unique class of companies that can grow, generate and return significant cash.



We are focused on the best products and in the best markets in the semiconductor industry. We believe analog and embedded are the best products. They are large categories of products that are used across a diverse set of applications and customers, and also have a fragmented competitor base. In addition, over decades, these products have generated profitable returns and significant amounts of cash. We believe industrial and automotive are the best markets and will drive growth in our industry and for TI. These markets are the fastest growing due to their increasing semiconductor content, a trend that's fueled by products becoming more intelligent, more connected, safer, more efficient, especially as mechanical and electromechanical features are replaced with solid-state electronics.

This year, we'll provide more insight into the opportunities we see within the industrial market later in the presentation.

Next, our strategy is designed around four sustainable competitive advantages that, taken in combination, provide tangible benefits that are difficult to replicate. They're manufacturing and differentiated technology. The second is our broadest portfolio of analog and embedded products. The third, the reach of our market channels. And the last is diverse and long-lived positions, which results in a high terminal value.

With that, I'll turn it over to Rafael, and he will review our capital management strategy. Rafael?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Thanks, Dave.

Our capital management scorecard is one that we have shared with you every year since 2013. Consistent with prior years, in 2018, we again met our multiple metrics. We are pleased with the consistency of these results that have been enabled by our business model and strategic decisions.

You can see that the scorecard continues to include descriptions of our long-term objectives for each metric as well as the target range. The long-term objective provides insight into how we make decisions and run the business, as opposed to only a number that reflects a single data point.

There is one change I would like to highlight as well as some additional insight. First, as we have mentioned before, we expect our long-term CapEx to run 6% of revenue as opposed to our previous target of 4%. It is higher primarily because we are assuming a higher percentage of the equipment for our 300-millimeter factories to be new equipment, not used equipment.

I will point out that with the higher cap -- levels of CapEx, our expectation for free cash flow generation remains unchanged at 25% to 35% of trailing 12-month revenue, and we believe that we can run near the 35% consistently when markets are stable.

Second, our inventory range remains 115 to 145 days, even though we are currently running above that range. I will remind you that we believe there is strategic value in owning and controlling our inventory. Our objective with inventory is to maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. We highlighted earlier that we're implementing our next phase of consignment with distributors and also building strategic inventory buffers of low-volume products that will continue to put upward pressure on inventory. In fact, depending on demand, we may run above this target range for a number of quarters.

Lastly, as a reminder on that, our objective is to increase rates of return with some leverage on the balance sheet when the economics make sense, while avoiding concentrated maturities and ensuring strategic flexibility. In 2018, we added \$1.5 billion of 30-year debt at 4.15%, while half a billion dollars came due. Besides this debt, our future maturities range from \$300 million to \$750 million in any given year, making rollover risk minimal.

Of our other objectives, pensions remain unchanged, and I will comment on the others later in the presentation.

In summary, our capital management strategy continues to serve the owners well. Free cash flow per share continues to grow steadily while we continue to strengthen and leverage our long-term competitive advantages.

Now I would like to provide additional insight into how we allocate our capital, and I will give you updates on several key investment areas. Over the last 10 years, we have allocated about \$77 billion of capital. Given that magnitude, you can quickly appreciate why capital allocation is a job we take quite seriously and one that has a significant impact on owner returns. You can see our largest category of capital allocation is investment in critical areas that drive organic growth such as R&D, sales and marketing, capital expenditures and inventory. With our approach of funding strategies, not projects, we spend significant time ensuring these investments are delivering long-term competitiveness and generating returns greater than our cost of capital.

The second largest category is share repurchases. Here, our objective is the accretive capture of future free cash flow for long-term owners. We focus on consistent repurchases when the present stock price is below the intrinsic value, using reasonable growth assumptions.

Next is dividends, where our objective is to appeal to a broader set of investors, and we focus on their sustainability and growth for obvious reasons.

And, finally, potential acquisitions are evaluated through two primary factors that have remained unchanged. First, it must be a strategic match, meaning catalog analog focused with high exposure to industrial and automotive. Second, it must meet certain financial metrics, such as generating a return greater than our weighted average cost of capital within about four years.

For simplicity, we have not included changes in net debt, which over this period increased \$2.1 billion.

With that framework set, let me ask Dave to comment on our investments in several specific areas.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Thanks, Rafael. I will first focus on our R&D investments that we've allocated to higher value growth opportunities.

Slide 11 summarizes the direction of our R&D investments across end markets, and also provides the revenue breakout for 2013 through 2018. This directional bias of our R&D investments has been consistent for a number of years.

As you may recall, our broad portfolio of Analog and Embedded products is an important competitive advantage. This breadth of portfolio allows TI to identify more customer projects, win more sockets and revenue on those projects and bring significantly more visitors to TI.com each year.

It is also critical that we continually grow and strengthen this portfolio with highly differentiated products that are developed with an eye to the best market opportunities over the next 10 years.

At the highest level, we see good opportunities in all of our markets, but we believe that industrial and automotive will be the best opportunities over the next decade. As I mentioned earlier, this is primarily because the semiconductor content in industrial and automotive applications will significantly increase as companies make their equipment smarter, more connected, safer and more efficient.

In industrial and automotive, we continue to increase investments broadly across sectors and product categories. We are excited to see the continued progress on revenue growth as these markets comprise about 56% of TI revenue, up from about 42% in 2013.

Personal electronics is an important market, and while investment level in total is down, we do invest selectively. In communications equipment, we announced several years ago that we were reducing our embedded investments, but we continue our investment in the expanding Analog growth opportunity, primarily focused on products for 5G macro base stations.

Our investments in enterprise systems and others have been flat and at low levels.

Given the importance of the industrial market, we wanted to include additional insight this year for investors.

As you recall from the prior slide, the industrial market is about 36% of TI's revenue in 2018. Industrial is also our most diverse market today. We break the industrial market into 13 sectors that are shown at the right side of the slide. Within each of these sectors, there are typically hundreds of end equipments and thousands of customers, and almost all offer a unique semiconductor content expansion opportunity.

To provide some sense of the opportunity in the industrial market, just take the example of a motor. Fixed speed electric motors have existed for over 100 years and used very few semiconductors. Motor designers discovered that by adding microcontrollers and analog semiconductors, they could make those motors variable speed, thus reducing power consumption by up to 40%. Continuing, designers are now adding sensors to the motor to identify vibration or temperature changes, and thus trigger service alerts for predictive maintenance.

This example repeats itself across all the sectors in industrial: from grid infrastructure to non-automotive transportation, so think of things like airplanes and high-speed trains, to power delivery, to medical electronics, to factory automation, building automation, digital signage and more. For customers who want to make their products smarter, safer, more energy efficient, the only way is to add intelligence, and adding intelligence requires semiconductors.

This is the heart of the semiconductor content story we refer to. The unit growth of our customers' equipment is compounded by the growing semiconductor content in each product.

Finally, connecting back to our competitive advantages; when you think about the industrial market, it starts to highlight the importance of our broad product portfolio as well as the reach of our channel. Our portfolio of products, including power management, signal chain, low power processors, wired and wireless connectivity and sensors all help our customers design and improve their systems. Our channel, which includes our direct sales and applications team and our website, lets us efficiently and effectively get to thousands of customers around the world.

These advantages have now translated into results with broad-based growth over the last several years across our 13 industrial sectors and hundreds of end equipments. Looking ahead, we believe the industrial market is one of the best opportunities given the content opportunity and our ability to address the needs of this large and diverse market.

We'll now walk through our manufacturing advantage.

As a reminder, for those not familiar with the semiconductor industry, a chip, meaning an unpackaged product, made on of 300-millimeter wafer costs about 40% less than a chip built on a 200-millimeter wafer, the size used by most of our competitors. This translates into a great competitive advantage.

The source of this advantage is because a 300-millimeter wafer has 2.25x more area, which, in turn, means we get about 2.3x more chips, but it doesn't cost 2.3x to process that larger wafer. This translates into a structural cost advantage.

To understand how a 40% less-expensive chip impacts gross margin, it's easiest to use an example of a part on a 200-millimeter compared to a 300-millimeter wafer.

This example shows a theoretical part that sells for \$1 with gross margins of 60%. The chip itself would cost about \$0.20, built on a 200-millimeter wafer, and this would be reduced to \$0.12 on a 300-millimeter wafer.

In this example, the remaining costs of assembly and test are the same, regardless of the size of the wafer. The net result is that gross margin improves by 8%.

As this example illustrates, our 300-millimeter manufacturing capability and the resulting cost structure provide a unique competitive



advantage for TI.

As we've discussed before, we currently have two 300-millimeter factories, our Richardson fab and DMOS6 located here in Dallas. In 2018, we built about \$4.8 billion of our Analog revenue on 300-millimeter wafers, which used about 60% of our capacity.

As we've said in the past, we put our 300-millimeter capacity in place to support growth. In 2018, we added about \$900 million of Analog revenue and most of that growth was supported by 300-millimeter. Moving forward, the majority of our incremental Analog revenue will continue to be built on 300-millimeter. We remain committed to strengthening and leveraging this competitive advantage for the long term.

To continue to strengthen this competitive advantage, we've indicated we would need to begin to invest in our next 300-millimeter Analog factory in the next year or two. At this time, we would envision that the new factory would be sized to support an additional \$5 billion of Analog revenue.

For now it's more likely that we will build a new facility versus purchase an existing one. As we mentioned earlier, we expect to fill this factor -- factory with mostly new 300-millimeter equipment. Based on this assumption, we anticipate our CapEx will run about 6% of revenue in the future.

We will keep you updated as our plans develop.

With that, I'll turn it back to Rafael to talk about our free cash flow growth and outlook.

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Thanks, Dave.

As we described at the beginning, our overall objective is to maximize long-term free cash flow per share. We believe this is not only the best metric to judge our performance, but it is also the one that owners ultimately care about.

2018 continued our long-term trend of growing free cash flow per share, which had been growing at about 12% through 2017. In 2018, we had multiple drivers of free cash flow per share growth: top line growth, incremental free cash flow margin expansion and share count reductions.

Additionally, the tax benefit we received will shift the longer-term trend line up into the future.

Specifically in 2018, revenue grew by 6%, free cash flow margin increased 720 basis points to 38.4% of revenue, and we reduced share count by 3.9%. Taken together, this resulted in free cash flow per share increasing by 33% in 2018. We believe these three drivers of free cash flow per share growth will continue.

Our Analog and Embedded segments have a proven track record of growth. Combined, they have recorded both five- and 10-year revenue CAGRs of 8%. Part of that growth are market share gains, where we have seen, on an average, 30 to 40 basis points improvement annually over time. With Analog and Embedded comprising more than 90% of our revenue, we expect they will be able to continue to drive the top line growth.

Now let me change gears and talk about cash and returns. It may be helpful to frame our performance versus others in the S&P 500. Our free cash flow generation, cash returns and return on invested capital puts us above the 90th percentile when compared to the S&P 500.

We believe our strong relative performance versus the S&P 500 is a reflection of our focus on growing free cash flow per share over the long term and the three elements of our strategy: First, by having a great business model that is built on four competitive advantages, advantages in which we're continuing to invest and make even stronger.

Second, by being disciplined in how we allocate our resources, focusing on the best product opportunities as well as areas that strengthen and leverage our competitive advantages.

And third, by striving to constantly increase our efficiency, which is about achieving more output for every dollar of input. We believe if we can continue to do these three things well, we should be able to grow free cash flow per share for a long time into the future.

As our cash returned to owners has grown, so too has our dividend. We continue to believe a sustainable growing dividend is an important element of our capital management strategy.

Our objective in repurchasing shares is the accretive capture of free cash flow for long-term investors. We focus on consistently repurchasing shares when the intrinsic value of the company exceeds its market value.

By using realistic discount factors and reasonable growth assumptions to calculate the intrinsic stock value, we are aiming to have confidence that investments made in stock repurchasing are, in fact, earning rates of return greater than our cost of capital.

While the ultimate assessment of return on investment depends on the future cash flow stream, the track record of this approach is encouraging.

We have reduced shares outstanding by 45% since 2004, including the 3.9% reduction in 2018. We ended 2018 with \$16.1 billion in open authorizations, having bought back \$5.1 billion worth of stock in 2018, including \$2 billion in the fourth quarter.

As we commented earlier, our objective with dividends is to appeal to a broader set of investors, and our focus is on both growth and sustainability. We have now raised the dividend for 15 consecutive years, including a 24% increase in 4Q '18. We have increased the dividend at a compounded annual growth rate of 21% over the last five years.

Our consistent growth of free cash flow resulted in our dividend in 2018 consuming only 42% of free cash flow, supporting our objectives of sustainability and growth of dividends.

Let me now wrap up my prepared remarks with a few summary comments.

TI is in a unique class of companies that can grow, generate and return cash. Our business model is designed on four competitive advantages that deliver tangible benefits unique to TI that are difficult to replicate. Those competitive advantages are: first, manufacturing and differentiated technology; second, breadth of products; third, broad reach of our channels; and fourth, diversity and longevity of products, markets and customer positions.

We will continue to focus on growing free cash flow per share. It is the ultimate objective, and we believe focusing on it will deliver the highest growth in the value of the company. In the coming years, we believe that we will have three drivers contributing to free cash flow per share growth: top line revenue growth, free cash flow margin expansion and share count reduction. Top line revenue growth will be driven by our position in the best products, analog and embedded, and in the best markets, industrial and automotive.

Our 300-millimeter Analog manufacturing strategy is a unique advantage and will provide benefits for a long time.

And finally, owner returns will continue to be driven by dividends and share repurchases.

We have a disciplined culture and processes to ensure that we are strengthening our competitive advantages and generating the maximum return for the investments we make.

Thank you. With that, I'll turn it back to Dave.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Thanks, Rafael. Operator, you can now open up the lines for questions. (Operator Instructions) Operator?

QUESTIONS AND ANSWERS

Operator

And our first question comes from Ambrish Srivastava with BMO.

Ambrish Srivastava BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst

Dave, I wanted to -- and Dave and Rafael, I just wanted to focus on the allocation methodology. You guys are, I think correctly so, averse to chasing after the next shining object. But if we were to dig a little bit deeper into R&D, just help us understand the portfolio location between segments that are cash generating, cash cows versus going after newer opportunities. How does that process work at TI?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Sure. Maybe I'll start off and, Rafael, if you want to comment. When we think, and I'll talk specifically about R&D. We can talk about other areas. But in R&D, really think of that as three major buckets: the first, which is probably about 2/3 or 60% or so of our R&D spend goes directly into product development. So we produce about 300 to 400 new products a year. Those decisions are initially made by our product line managers, who if -- we have about 65 to 70 product lines at the company. And if you've got a product line at TI, you've got your own design engineering teams and application team and marketing team, you're very close to your customer, very close to our field sales and application teams and you understand the market very well. And those product line managers, on average, will have three or four new products that they will generate a year. So as we go through and review the plans of those -- that those product line managers have and the results that they deliver, they will answer more qualitative questions on those opportunities. So they'll look at how is that product differentiated versus other products in the market? How long do we think we'll have that differentiation? How many customers? How many end equipments? How many sectors? How many markets do we think we can sell that product to over time? What's the longevity of that revenue? And we'll look at standard things like looking at return on investment as well, but the qualitative nature of those questions are probably most important. So as a product line manager, of course, we believe managers are always good at optimization decisions. So they're going to pick the best opportunity that they can find to invest in. And as they roll up into our business units, a typical business unit manager will have three to five different product lines. And they'll judge that and ensure that if one product line manager has two great opportunities and the next two don't look so great, they'll move that -- the resources inside of their business unit to the best opportunities that they can see. And I think our senior managers as they sit through that process, if there are more good opportunities on the table that we can get to, that's when we'll take up the level of investment overall. The other two areas, just real quickly, are centralized R&D, and think of that as our process technologies, our packaging technologies, the tools the engineers need to create the models, SPICE models and other things like that. And we get some leverage off of that versus our smaller peers because if we had 70 product lines or 10, that investment would be close to the same. And then finally, the last part of that spend is probably most interesting, which is Kilby Labs, named after Jack Kilby, who invented the integrated circuit. In that scenario where it's over the horizon investments, longer term in nature, higher-risk, and you really need to have that outside of the product line structure because you can't measure a product line manager on a three- and five-year type horizon when you've got higher-risk investments inside of their portfolio. So those are projects like our GaN-based semiconductors that are new materials, new techniques of designing, kind of breakthrough. So that's overall how we think about it.

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, let me add a few other things. That's a really good question, Ambrish. And it could probably be answered from multiple angles. Dave just gave you two or three angles of that. Let me give you another one. So first, step back, remember what are we trying to do? The ultimate objective is to maximize the long-term growth of free cash flow per share. So as we're making decisions, we have a -- it's almost a \$16 billion company, with 70-some product lines, so -- and each one of those product lines has multiple kind of product categories. So in a company that large, you're always going to have different areas that are in different cycles of their -- different stages of the life cycle. Some are growing, some are mature and some are on the downward slope of that maturity and you have to manage those differently, right? And that doesn't mean you take all resources away from the mature and put it all on the growth. Sometimes the mature need -- mature products need some resources to maximize, again, the free cash flow per share. Think of it as kind of the area under the curve into the future, right? All the cash that those products can generate, and in the case of industrial and automotive, that can be decades.



So we think in those terms. And then we'd reallocate resources through the life cycle of those products as it makes sense to maximize that free cash flow over time.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Ambrish, do you have a follow-up?

Ambrish Srivastava BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst

Yes, I had a quick one. The quick one is on the free cash flow targets staying the same. If I remember my free cash flow correctly, the way to think about the profitability or the way to think about the business is that CapEx is going up, working capital is not really going to help on the margin. So it's really a more profitable business longer term is the right way to think about it, right?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

If I understand -- I'm not quite sure I understood the last angle there. Maybe let me address that one and go back. Working capital -- so at the moment we're at the 152 days of inventory. That is above the target, so eventually, that will come back down. But you are right. Over the long haul, that stays within a certain range. So that's not the key driver. Now we have to be smart about and disciplined about allocating resources to drive free cash flow, and working capital is another source of -- or use of cash. So we have to be smart about that. The -- maybe the broader topic on free cash flow, so our goal, as I said many times, is to maximize long-term growth of free cash flow that's in terms of dollars, not percent. But it's helpful to think of the percent, and we have that target 25% to 35%. We think we can operate at the high end of that target in stable markets. We just delivered 38%. And that was a 38% despite having CapEx at 7.2%, right? So hopefully that gives you some framework on that.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And the context, which I think we talked about before was the three drivers: revenue growth, margin expansion and share buybacks. So even with our free cash flow margin being at 38.4%, there's no natural lid on that, that certainly as we build more 300-millimeter Analog, that number can go higher.

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

Operator

And our next question is from Vivek Arya with Bank of America.

Vivek Arya BofA Merrill Lynch, Research Division - Director

Just following up on the free cash flow. So you are keeping that free cash flow mid-point the same. You exceeded it last year, and I know, Dave, you said that there's no natural limit to that. But if I look at the effective tax rate that is expected to come down, I think, three or four points this year. So what is driving the conservatism? Why shouldn't free cash flow just that range have grown just because just from the benefits that you get from a lower tax rate?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, let me address that question specifically. As we have said last year at various times, maybe not in the last earnings call, so you -- that's why you may not be remembering. But the -- even though the tax rate in 2018 was about 20%, and it's coming down to 16%, on a cash basis, nothing is changing. Meaning, we were already enjoying the, call it, about 16% operating tax rate already in 2018. So there's not going to be a cash lift going into 2019. In fact, if anything, we have a little bit of a headwind on some one-time items that I mentioned at some point during various earnings calls in 2018. So -- but the bigger picture is our ability to generate free cash flow dollars and growing that over the long haul, not the percent. That's why -- even though we hit the 38% of revenue free cash flow, we are not changing that metric. We think the metric where it is, it's a good reflection of where we want to operate. As we say, we can operate at the top end of that metric in stable months.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Do you have a follow-up, Vivek?

Vivek Arya BofA Merrill Lynch, Research Division - Director

Yes. So probably an unfair question and sort of counterfactual. But in the last five years, TI has spent about \$15 billion in buybacks, and that has reduced share count by 10% to 11%. But when I look at a lot of the M&A and consolidation in semis, that has managed to drive that level of synergies within the first one or two years. So what gives you the confidence that buybacks have been a better use of cash than perhaps considering M&A? And how does that sort of inform you about how you should be thinking about M&A going forward?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

That's a very good question. First, let me step back and remind everybody, just said it during the prepared remarks, but just remind the audience how we think about M&A. It has to be strategic, first of all. There's two criteria. First strategic. Catalog, analog, industrial, automotive focused, so that we can leverage or even strengthen our competitive advantages. But the second piece is that the return has to exceed our cost of capital. So -- within a reasonable timeframe, let's say, four years. So think of it, you invest \$100, you want to get -- if your cost of capital is 10%, you want to get \$10 per year within year three or four, and then grow that beyond that. Well, many of the acquisitions that you see happening in the last five, six years, they invest \$100 and on day one, they are getting maybe \$2 or \$3, and it's difficult to see how they can get more than maybe \$5 or \$6 per year even after the synergies. At least the way we had looked at it, the way we had done the analysis, the way we've done the math. In our case, when we bought National, that was not the case. We actually -- we're confident that we got -- we have pre-acquisition free cash flow a year that was pretty high to begin with and then we were able to increase that beyond our cost of capital within two or three or four years. Now the other angle to your question is, well, how does that compare to buybacks? We actually do a thorough analysis -- every so often, we go back and refresh it -- of every share that we have bought over the last 15 years. At what price we bought it? What was the free cash flow at the time? And how that free cash flow grew from that point on? And that's essentially a return, right? That's a comparison to whether it's M&A or other capital allocation. And if we can get that return on that buyback because now every time I buyback now, that owner that just left is no longer entitled to the free cash flow that is not only high as a yield but it's growing. Then you can think of it as free cash flow saved from that purchase, so then that's the return that you get. And we have done the analysis on that and are confident and that has exceeded and continues to exceed our cost of capital. Now the purchases we just did in the past couple of years, that remains to be seen because that's dependent on what happens in the future with free cash flow. But the starting point at about 6% free cash flow a year is really good one.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And I'll just add. When you're allocating that much capital to buybacks, you really need to have a good understanding of what those returns look like. And as Rafael said, when we think of that -- acquiring that share, it really is the free cash flow that, that share will produce in the future, is how we look at that return. So that's a great question. Thank you, Vivek. We'll go to the next caller, please.

Operator

And our next caller is John Pitzer with Cr dit Suisse.

John William Pitzer Cr dit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

My first question is just on the CapEx intensity, Dave and Rafael. I just want to be clear, the 6% kind of the new target, that excludes the \$600 million to \$700 million the actual 300-millimeter shell will cost. One, is that factually correct? And two, when do you think you actually start to see cash flow expenditures for that shell this year?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, good question, John. So you are correct in that assumption. That is the current assumption of both the 6% going forward, and also that it does not include the shell. And as I said at the earnings call a couple of weeks ago, that shell would probably cost \$600 million, \$700 million, and we'll probably spend that over a couple of years. So on that, which is the second part of your question, we're looking at our options now. We think -- as we said during the prepared remarks, over the next year or two, we'll probably make that decision. There's still multiple options to look at from location and other factors that we want to look at. As you know from the presentation, we generate about \$4.8 billion of Analog revenue on our existing footprint, and we have a capacity of about \$8 billion. So we still have about over \$3 billion to go in our existing footprint. So at the moment, we have some room to maneuver on that.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And I will just add, John, when we look at that capacity footprint, we're looking at kind of three, five and 10-year views from a planning cycle. And once we make that decision, we expect to have that factory in use for decades, right? So it is something that we want to be thoughtful and work through all of the options that we have and ensure the best opportunity and the best path forward.

Do have a follow-on, John?

John William Pitzer Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head

Yes. I appreciate all the color you gave us on kind of where you're focusing your R&D dollars by end market. It's probably not appropriate to talk about R&D intensity by end market because I suspect given the growth profile you see in industrial and autos, that R&D intensity there might be higher than other areas. But I'd be kind of curious, longer-term, how should I about the ROI of that R&D dollar going into industrial and auto versus other end markets? I guess as you continue to focus on those two end markets, what's the implication on ROI? Because I'm assuming, the life product cycle of \$1 spend in R&D and those two end markets generates products with a significantly longer tail than perhaps other end markets, which would improve ROI. But am I thinking about that the right way?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, it does. That's why we're investing there, right. Because that's where the content is happening. So that's where the growth is happening. The -- maybe where you are going, the advantage is that it last for decades, it ramps up slowly. So that return happens over a long period of time but the experience that we have had with industrial for many years and automotive as well gives us confidence that when we invest there, we are going to get those returns. So the area under the curve, as I said earlier, is pretty sizable over those many years, even decades, as we get those returns from industrial, in particular, but also automotive.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And just to give you another view on that, John, I think as we look for investments in personal electronics, if I were to describe the home run investment, maybe it's a part that senses and pulls action off of a button on a smartphone, right? And all smartphones have buttons so that's a product that we can sell across multiple customers. The buttons from one generation to a phone, obviously, don't change much so you actually may get more than one model of a phone. So you get a little bit longer longevity versus if you're doing a product for one particular instantiation of a model. In addition, you can take manufacturers that make phones usually makes tablets, right? So those tablets have buttons, and PCs have buttons. And so now you can jump, what we call, selling across different sectors inside of a market and then in that example, (inaudible) things in industrial, things in medical device that will need to have that same need or a piece of industrial equipment, maybe in automotive. So again, this is the ideal type of investment that you could find in personal electronics. Not all of them look like that; we wish they did. And what we'd like to stay away from is a custom product that runs in one instantiation of a phone. Now out of the 300 or 400 parts that we do, because we're pragmatic, we do do some custom products in that mix, but the majority of them and what we're trying to look for and go to is that -- more of that ideal.

So thank you, John, and we'll go to the next caller, please.

Operator

And your next caller is William Stein with SunTrust.

William Stein SunTrust Robinson Humphrey, Inc., Research Division - MD

The call is very helpful. I'm hoping that you can remind us of the manufacturing strategy in the Embedded business. Is that all outsourced today? Is there any opportunity as you're buying new equipment for 300-millimeter in the next go-round that maybe we'd see more insourcing of that?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

You bet, Will, so a great, great question to clarify those that aren't familiar. So I'd say our Embedded footprint uses a mix of what I would describe as advanced CMOS. That's a footprint that we no longer invest in. It needs the latest manufacturing equipment in our industry. So when you hear of other peers on the digital side of the world going from 20 nanometers down to lower geometries, that's the footprint that they're talking about. And we outsource that part of our manufacturing. You really can think of anything that's at 45-nanometer and

below is outsourced. In total for the total company, is a little less than 15% of our total wafer needs. Obviously, that sits primarily inside of the Embedded space, and we just feel that we can get that manufacturing footprint from our foundry partners, and we also don't believe that one flavor of 45-nanometer is different than another flavor of 45-nanometer. So there's not much differentiation in that footprint. There is part of the manufacturing footprint that integrates -- products that integrate Analog functionality, especially in microcontrollers, and that part of the footprint we build inside, but we have peers do that as well. So, again, we don't see that as a major source of differentiation. If I contrast that to the Analog side, we continue to invest in process technologies and development because think of that as really the baseline tools kind of a rocket fuel in the engine that our engineers can differentiate our products with. So not only do we get benefits from owning and controlling those assets, but by being able to invest and differentiate on process technologies, we believe that incrementally, over time, our products will become more and more differentiated.

Do you have a follow-on?

William Stein *SunTrust Robinson Humphrey, Inc., Research Division - MD*

I do and it relates to the last part of your answer there. Some of your peers have talked about, while still potentially disclosing Analog and Embedded or Microcontroller revenue, we're sort of led to believe that perhaps the distinction over time will become somewhat more blurry because these products sometimes get integrated and then do they get allocated to the Analog bucket or the Microcontroller or Embedded bucket? Are you seeing that trend? Are you seeing that trend in your business where how you allocate the revenue is maybe becoming more of a judgment call, and maybe the distinction between these two segments is less important than it once was?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

I would just say, from us, it's not confusing because we have an Embedded segment. So that business generates a product even though it's basically a microcontroller and it uses either one of our proprietary cores or ARM core inside of it. And it may integrate some Analog, but we think of that as an Embedded product. It's the Embedded group that's developing. So we don't really have that line of confusion. And just given the breadth of our portfolio, we're introducing 300 or 400 new products a year; it's much, much wider than any of our peers in the industry would have. So anyway, that's not a source of confusion to us.

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes, I'll comment, and, Dave, please chime back in because this more of your topic. But my sense is in industrial specifically, you don't have a lot of verticals there because of the nature of industrial, right? You have hundreds of end equipments, each one of them with relatively low volume, so there are fewer opportunities for verticals, hence fewer opportunities for integration. So that's where our catalog portfolio works -- in Analog, our catalog portfolio works really, really well. So I think one angle of your question was, is there integration opportunities that could do away with some of the catalog opportunities? And my sense is the answer is, no. Specifically in industrial it's the case.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes, yes. Okay. Thank you, Will. Appreciate those questions. We'll go to our next caller, please.

Operator

Next caller is Stacy Rasgon with Bernstein Research.

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

First, I wanted to ask you about the cost reduction on 300-millimeter versus 200-millimeter. Do you think the magnitude of that cost reduction you've talked about is still valid when you're using new equipment to build out the new fabs rather than used equipment given the higher cost of the equipment itself?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes. The short answer is, yes. And the example that we use to illustrate it is as follows. A new factory, using -- or a factory using new equipment, ballpark would cost \$4 billion or so, \$4.5 billion all in when it's fully equipped, right? One with used equipment or a combination of used and new -- because you're always going to use some new equipment -- you're probably looking at \$3 billion or so. So maybe there's a saving of a billion, a billion and change, on that equipment. But remember that factory, virtually with all that

equipment, some of it you have to replace and, of course, there are spare parts and different things. But for the most part, with that equipment, you can operate 20, even 30, years. I mean the factory we're selling -- that we're shutting down in Scotland, and now we're selling, operated for 50 years, right? So -- and if every year, it could sell up to \$5 billion of revenue at very high cash fall-throughs and with the low tax rate that we now enjoy, do the math, \$5 billion times about 80%, times about 80% times 30 years and compare that to whether it's a \$3 billion investment or a \$4 billion, \$4.5 billion investment. At the end of the day, it doesn't make a significant difference. Now would I want to get it used and existing and save the billion? Of course, that's part of being more efficient and allocating capital in a more disciplined way. Those are key tenets of our capital management strategy. But in the big scheme of things, it's not a significant difference.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, and I'll just accentuate that illustration with the competitive advantage we have in 300-millimeter is just that. It is the structural cost advantage that we get; whether we buy new or used is more of a detail. Do you have a follow-on, Stacy?

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

I do. I had thought when you bought the assets from Spansion and SMIC, whenever it was, 10 years ago or nine years ago, I thought you had acquired empty 300-millimeter shells as part of those transactions. Is my memory wrong or was that true, or if you have done something else with those assets in the meantime? Because I'm just wondering why you -- if that was the case, why you still need to build a shell?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. So we did acquire from the Spansion an operating 200-millimeter factory. Sitting next to it was a partially equipped 300-millimeter factory. It is actually fairly small. I would just describe it as undersized. We moved that equipment to Richardson as we had talked about before. We have that and we've got an operating facility in Chengdu, China, 200-millimeter. We used that extra floor space for bump capacity and so it is in our manufacturing footprint. And we just have repurposed it for other needs.

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

The one in Chengdu. The one in Aizu, we talked about options, that's one of the options. But those are some of the things we're always contemplating. But good memory on that, Stacy. Do you have a -- was there any second one?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Thanks, Stacy. We'll go to the next caller, please.

Operator

And we also have Timothy Arcuri with UBS.

Timothy Michael Arcuri UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment

So I wanted to get an idea of what the target leverage is for the balance sheet? You said that -- I think you took on like \$1 billion worth of net debt last year. You're sort of back to where you were in terms of leverage back in the sort of early part of this decade. So is there a target level that you're marching toward? And sort of -- how do you think about that?

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, no, that's a great question, Tim. So no, there's not a target leverage. But let me back up and give you something to think about on that. As we have on our objective for debt, it is increased rates of returns with some leverage on the balance sheet when the economics make sense. So -- and then avoid concentrated maturities for risk mitigation and ensure strategic flexibility. So today, our net debt is about \$900 million, I think at the end of the year as our cash reduced to \$4.2 billion, and we ended up at \$5.1 billion of debt. So as you pointed out, maybe in the first time in a while, we have some net debt. But at the end of the day, still -- it's still pretty small. Our debt rating is A1/A+. And under that debt rating, we have plenty of capacity to go on that net debt. But at the end of the day, we step back and think about, can we increase the rate of return of the owners with some leverage on the balance sheet as it makes sense? So you've seen us do net last year was an extra billion dollars. I think the year before it was \$600 million or so net debt. So something in that range we think is reasonable given the economics. So economics is the interest rate that's available and that's -- we look at that compared to our free cash flow yield. And more importantly, where we think the free cash flow is going in the future. So that's one comparison. And then if

we can get beyond that criteria, the next one, we look at the yield curve and see where it makes sense. If we are going to borrow, where it makes sense to borrow, given the shape of the yield curve. So hopefully, I gave you some good framework to consider.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Maybe just to add the obvious, certainly as our free cash flow grows, that debt capacity opens up as well over time. Do you have a follow-on, Tim?

Timothy Michael Arcuri *UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment*

Yes, I do. So I wanted to ask about the mix between R&D and SG&A. If I just look over, say, the past three years, R&D has sort of tracked revenue growth, but SG&A is down about 4% on 22% growth in top line. So how have you done that on the SG&A line and sort of how sustainable is that, having SG&A so constrained when you're actually growing revenues that much?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

So let me first step back and give you a broader answer and then I'll try to get to some of the specifics. But OpEx, at the end of the day, is a knob that we have to drive long-term growth of free cash flow per share. As we've said many times in this call and many years, that's the ultimate goal, growing long-term free cash flow per share. And inside of OpEx, R&D is the obvious one that helps us strengthen the broad portfolio as we invest more in the various and certainly the product lines and also some of the things that Dave described earlier, that also go into R&D. But in SG&A, we also consider some parts of SG&A as investments. And the best example is the broad -- the sales force -- but more so what we're doing on the web to strengthen demand creation in the web and everything that goes with that. Over the last few years, we have been able to reallocate from SG&A. So decrease resources in SG&A, increase resources in R&D by a little bit. I mean, it's been a few percentage points over the years. Overall, OpEx has stayed about flat. I would suggest that you think of overall OpEx kind of together like that, versus the pieces, and our spend is, about where we're running now, is reasonable, given the opportunity that we have in terms of dollars. Could that grow a point or two over time, just given inflation pressures and so forth? It could. So maybe you could think of it that way. And ultimately, that is there to drive the top line growth, which then drives the free cash flow growth over time.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Okay. Thanks, Tim. And we'll go to the next caller, please.

Operator

And our next caller is Ross Seymore with Deutsche Bank.

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD*

On the 300-millimeter side, it's clearly a competitive advantage you guys have. How do you prioritize the market share benefits that it could yield versus the margin benefits it could yield? And shouldn't both of those metrics accelerate to the upside as 300-millimeter becomes a bigger and bigger percentage of your mix?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes, Ross, you've followed the Analog market for some time. And as our customers go through and decide which products they're going to use, there can be tens if not hundreds of specs that an engineer is considering. And the average sales price of a product in the market overall is about \$0.35. And out of those hundreds of specifications they're looking at, pricing is always a concern, but it just very rarely is one of the top concerns. So you can't sell a \$0.35 part for \$3.50. But that's just not usually one of the top things that a customer is concerned about. They're really looking at the functionality of the device and how it works inside of their design. So you've seen as we build more 300-millimeter, that has structurally lowered our cost, and you've seen how that's worked its way through our financial statements. The second part of your question, do you -- did I answer that? Or I'm not sure if I...

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD*

I think you answered both sides of it.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Okay, okay. Do you have a follow-on?

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD*

Yes, just on the days inventory target. I know you guys aren't changing the days, and you've been very clear why you are above it right now. But can you remind us what percentage of your business goes through consignment today? Is there any upside limit to how high that can go? And if it's going to continue to go up over time, would that rightly lead us to conclude that the days that you would carry would go up because what formerly was on the books of your distributors will now be on your books?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Okay. So let me start off, and then I'll hand it over to Rafael. So if you look at our amount of our revenue that goes through consignment last year, 2018, we ended the year with about 65% of our revenues in total. That's been drifting up over the last few years. And specifically, if you look at our revenues inside of distribution, which also happens to be 65% of our total revenues, inside of our distribution revenues, that number has moved up to 70%. We talked about, on our last call and the call before that, that we're implementing the next phase, as you talked about, to put more parts on consignment and in some cases, bring some additional customers or other distribution -- distributor sites -- onto consignment, and that will drive that number up overall. Now as it works its way through the finances, that will put upward pressure on our inventory days; even though there is not any more inventory collectively in the channel, it will just show as more inventory on our balance sheet. So, Rafael, you want to add something to that?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes. That's great and let me just add a few other things. First, step back and think about what's the objective for inventory. It's to maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. At the end of the day, inventory is one more knob in how we allocate capital. It's a use of capital, right? And I'm happy allocating capital there if it's going to drive -- help us drive longer-term growth of free cash flow. It's also part of that. That's one of the tenets of the manufacturing -- the capital management strategy. The other one is efficiency. We also want to be efficient in how we use inventory and from an operational standpoint how that inventory works in the company. So with that, we want to have more consignment because there's strategic value in owning that inventory. We get better signals from the distributors, from the customers. We can manage their inventory more efficiently. So as you pointed out, that does put upward pressure on the inventory days and, as Dave mentioned, the overall inventory in the entire chain doesn't change. We just have more of it on our books versus our distributors, right? At the same time, I just talked about efficiencies, right? There's probably some -- there better be some efficiencies as we make that change. So that would put downward pressure on the inventory. So it remains to be seen exactly where that ends. When it makes sense -- if it makes sense to change the inventory range target, we will. Just keep in mind at the end of the day, what we're trying to optimize is not that particular range, it's the long-term growth of free cash flow, and we will do whatever is necessary on the inventory front to optimize the very important metric of growing free cash flow per share for long term.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

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

Operator

And our next caller it is Harlan Sur with JPMorgan.

Harlan Sur *JP Morgan Chase & Co, Research Division - Senior Analyst*

On the growth and market share front, just trying to look at performance in 2018 with the recent release of WSTS data. If I look at the overall analog sector, it looks like it grew about 10% last year versus your 9%, and MCUs grew about 3% versus your sort of 1.5%, 2% for embedded. I know that we probably have to break it down further into sub-segments and there are mix impacts, but just given all of this, does the team think that they gained share in 2018 in your served markets?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes. I think, Harlan, when we look at those numbers -- and again WSTS is one reporting service. There's other analysts that follow the market. We look closely at the numbers posted by both our largest peers and smaller peers. And if you look over five and 10 and 15 years, we're -- we've been gaining 30 or 40 basis points of share a year, so not a lot. We believe last year we continued to gain share and we will

over periods of time. So we don't get caught up on one particular year, either get too excited or too depressed in either way because it really is something that takes place over a longer period of time. Do you have a follow-on? Thank you, Harlan, and we'll go to the next caller, please.

Operator

And our next caller is Tore Svanberg with Stifel.

Tore Egil Svanberg Stifel, Nicolaus & Company, Incorporated, Research Division - MD

First question, when you look at the R&D, you're allocating by end markets. Automotive is, obviously, a big area and for all these reasons, there is a lot of content growth there. I guess the other side of that coin is that a lot of your peers know that too. So it does sort of seem like it's going to be a market that will get pretty crowded over the next few years. Just wondering if you believe that? Or do you think there's plenty of opportunities for TI so that the automotive market can remain a good market for many years to come?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, I'll start, if Rafael wants to add something. I think, Tore, and, of course, the numbers for '18 aren't out yet of how much people are estimating content per car. But the year before, that was around \$375, and most analysts had that number doubling or tripling in 10 years. So that's driven by content going to places where it doesn't exist today. Some of that content growth is in new things like ADAS and other things that are new inside of a car, but a lot of that content is also going into places that are making things more reliable, taking out weight. If you look at cabling inside of a car, that's the second most heaviest item inside of a car after the power plant and the engine, and just reducing the amount of cables and using busing techniques to move information around the car, is just one small example of a great opportunity. So we've been investing in five sectors of growth -- five sectors inside of that market. ADAS, as I just mentioned, infotainment, powertrain, safety systems and body and lighting. We've seen growth coming from all five of those sectors, so very broad-based growth from the sector standpoint. When you drop down into that, we now have about 45 of our 65 to 70 product lines that are shipping product into automotive. So that's very broad based. We have got nearly 1,000 customers that -- OEMs that we ship to. And of course that's going to be dominated by the largest OEMs from a revenue percentage standpoint. But even those largest Tier 1 OEMs will ship thousand -- a couple thousand different devices into, so just think of it as very broad based. That's what gives us confidence that, that market will be a good market for us for a long time to come.

Rafael R. Lizardi Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO

Yes, I mean, just chime in. Here is how I think about it. It all comes down to our strategy. Let me take you back to the three elements: great business model, discipline, allocation of capital and efficiency. On the great business model, you have to have -- you have to have it, and then you have to strengthen it. And in our case, it's Analog and Embedded, auto and industrial, and built around the four competitive advantages. Now if it was only analog and embedded and auto and industrial, anybody could just raise some money and go start a company and go after it, and it would change the industry. But it's not just about those two. It's about the competitive advantages. So let me just name a couple to remind the audience, manufacturing and technology. If you're going to build a new factory, that's a -- you're not -- you've got to size it for \$5 billion of revenue per year. Otherwise it's not efficient. Very few companies -- in fact, I can only think of one, TI -- can do that. And then have a factory like that, that's cost efficient, it makes sense to have. And we have two of them, and now we're planning the third one, right? Let me give you another example, the broad portfolio. We have over 80,000 parts. That happened over decades of investing in this space. It's very difficult for new companies, or even existing companies, to go and try to achieve that portfolio. And by the way as they try to do that, we just expand in our lead. We are just continuing to invest in that space and expanding our lead on our broad portfolio. So that's where competitive advantages really come into play because they're unique, they provide a tangible benefit and they deliver results.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Do you have a follow-on, Tore?

Tore Egil Svanberg Stifel, Nicolaus & Company, Incorporated, Research Division - MD

Yes, that was very helpful. So on CapEx, I remember about a decade ago, when you went on and bought all this equipment for 300-millimeter, and I guess that's probably when you came up with the 4% CapEx target and now it's 6%. Is the main difference there just the fact that you haven't found sort of old depreciated equipment that somebody wants to get rid of, or is it something else?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

No, that's it, that's it. The availability of the equipment is less. It's an assumption that we're making right now with the 6%.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Great, Tore, thank you. I think we've got time for one more caller.

Operator

And our next caller is Shawn Harrison with Longbow Research.

Shawn Matthew Harrison *Longbow Research LLC - Senior Research Analyst*

Two questions. There was an announcement out yesterday of, I think, a fab that you were looking to close anyway being sold to Diodes. Just maybe you could elaborate a bit on whether that helps out capacity utilization at all of any significance this year. Any free cash flow benefit concerning I thought production was already transferred out of that fab?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes, I'll start and, Dave, if you want to chime in. There is a -- from a -- think, remember, the focus here is free cash flow generation; it's not particularly the utilization metric, right? So from a cash standpoint, well, first, we're going to get a gain -- well, cash, not a gain -- but we're going to get paid for the factory. It also avoids having paid some of the severance. So there's an immediate cash benefit of doing that. And then we are actually going to have availability of that factory with a supplier agreement for several years. So as we dwindle some of the production that we have there, that we are moving to other factories, it actually helps with that process of doing that. And as we move those products, the remaining ones to other factories -- because that factory was not as cost efficient as other factories -- that will actually improve our position to continue manufacturing those. Because the cost -- the variable costs -- the real -- the cash cost, if you will, goes down on a per unit basis at those factories where we're offloading versus the Scotland factory.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes. And maybe I will add, Shawn, we make these decisions on fabs and especially when we're building a new one, we talk about expecting to run that fab for decades. This one, next year, will be opened about 50 years ago. So that is a long time to have an asset in use. And certainly, we don't expect it to be a factory footprint forever. But that is a very long time. We announced that we were in the process of closing that fab or looking for an alternative to sell it three years ago. So this process, as Rafael said, it will have access to build products in that fab for several years. So it does take a long time to move those products into other factories. It's not something that we -- it's just not easy to do. I think it's a great example.

Do you have a follow-on, Shawn?

Shawn Matthew Harrison *Longbow Research LLC - Senior Research Analyst*

I do, brief, and just kind of following on a theme for fabs being opened decades. As you add in the new 300-millimeter capacity, maybe can you just speak about the P&L impact for the shell? It would seem de minimis, but as you begin to add in capacity, is there any significant P&L impact? Or is -- should it be also a kind of basis points of a potential hit over the next couple of years?

Rafael R. Lizardi *Texas Instruments Incorporated - Senior VP of Finance & Operations, CFO and CAO*

Yes. So first, from a CapEx standpoint, remember that it's all about investing to support new technology, revenue growth and extending our manufacturing advantage and ultimately, to drive longer-term free cash flow growth. Frankly, the depreciation how it flows through the P&L is almost incidental. Let me answer a specific question. The \$600 million, \$700 million of the shell, if we end up building a shell, that is depreciated over decades. So yes, the P&L impact will be minimal. And then the equipment is depreciated over five years, wherever we put it. But remember, it lasts a lot longer than five years. So back to the cash -- that's why cash is really the best way to look at it. But the equipment we would put in as needed, depending on revenue growth expectation. So the impact on the P&L also should be de minimis because you're only doing it as revenue grows, right? So -- at least over the long term. Of course, any one year, any one quarter, even any one year, that could swing. But that's a -- the long term is the way we're thinking about it.

But hey, before I -- since that was the last call before I turn it over to Dave, let me just finish the call with just a few remarks. I want to

thank all of you for taking the time today to go through our capital management strategy. Let me emphasize a few points. We remain focused on consistent execution of our capital management strategy. Our disciplined allocation of R&D is delivering growth from the best products, Analog and Embedded, in the best markets, industrial and automotive. We have a great diversity across all the sectors within this market. Our 300-millimeter Analog manufacturing strategy is a unique advantage and will continue to benefit TI for a long time to come. We remain committed to returning all free cash flow to the owners of the company. Dave?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Okay. Thank you for joining us. A replay of the call will be available on our website as well. Thank you, and have a great day.

Operator

And this concludes today's call. Thank you for your participation. You may now disconnect.

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