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CORPORATE PARTICIPANTS

Richard K. Templeton *Texas Instruments Incorporated - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Joseph Lawrence Moore *Morgan Stanley, Research Division - Executive Director*

PRESENTATION

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Good morning, everyone. I'm Joe Moore. Very honored to have with us today the CEO of Texas Instruments, Rich Templeton. Rich?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Good morning.

QUESTIONS AND ANSWERS

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

So we'll just go straight into Q&A. I wonder if you could kind of start, obviously, a pretty unusual industry environment. We're a couple of years into a period of fairly severe shortages. Can you just talk about that from TI's perspective? And you guys, to some degree, I think during the downturn and are always thinking about what the next upturn is like and during the upturn looking a little further ahead than most, you anticipated some of this built a fair amount of inventory.

We're ready for it, and you still kind of gotten to the point where TI stuff's pretty tight. So maybe just kind of talk about what got us to this point.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. Demand is greater than supply. That leads to pretty much everything you see going on. And as you commented, even with the question, the area I spend my time, I find it, 1, more important, 2, more interesting is what do you need to be doing now to make sure you're well positioned, pick a date 2024 or 2025, through 2030 because that's the -- that's how you've got to think in this business to do well.

So I'm thrilled with how the team has navigated and how we've navigated in terms of investments we've made. You mentioned the capacity. We ran things in early '20 when the world kind of panicked and ran the other way, and it served us well. And I love where we are from a road map point of view of what we've got ahead.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Great. Maybe talk a little bit about the environment. And I know I feel like you probably should spend 90% of your time thinking 5 years out about where the road map is going and investor interest is always on lead times and tactics.

Maybe we could talk a little bit about that tactical environment. You've described this as kind of lead times are mostly normal, but there are pockets of where there are issues. Can you talk to that a little bit and maybe some of the selectivity of customers that you guys have talked about?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes, there's really -- it's been 6 weeks since earnings? No new update to provide. It's the same. And I think we're maintaining as I described it a pretty steady hand, making sure we're supporting a broad set of customers, a broad set of markets. It didn't get talked a lot a bunch on the capital management call.

But if you go back and look, and we tend to like to look at fourth quarter of '19 because it's kind of a clean pre-COVID period of time. And we've been able to grow revenue in every end market since fourth quarter of '19 through fourth quarter of '21 by making sure that we're doing the best we can across the customer set.

It's a lot of work. It's hard work, but our team has done that well and our team has done that and put a little bit of added emphasis on where we're going on industrial and where we're going on automotive. And I think you see that in the numbers when you just look at where our revenues are and where the support is.

So I think we've navigated it well, and I think it's going to set us up well for the long term.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

And how much of this situation of tight supplies is just demand being good versus supply disruption? Because obviously, you've had a lot to deal with on the supply disruption piece of it. When it comes to lead frames and back end and different people that dependencies that you guys have.

And we've dealt with Covid shutdowns and trade issues and buyers and cold spells and all these different things. I mean, how much of that supply disruption for you guys has been a factor?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

I think it's the classic when the river goes lower the rocks, fear. And when you have systems that run and can run reasonably well, but then they get stretched to where there's just less responsiveness in the system, any minor disruption from a supply chain point of view causes issues.

And I think it's not just what's happening in the semiconductor industry, but even go whatever upstream down, but out to our customers and what they're dealing with on supply chains and people are discovering that their inventories were too lean and just-in-time wasn't really going to work in a world that had some delivery issues in it.

So I think that's part of it. But overall, it's because you just don't have as much capacity as the world desires right now.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

And can you talk about that inventory planning process? Because I mean you guys were relatively early to say, okay, we're going to hold a higher level of inventory. And it seems like one of the real benefits of the analog model that you don't need to worry about that, that there's no obsolescence that you're -- you've got a broad set of customers.

You know you might be wrong on demand in any given month, but the demand is going to be there eventually. So why not hold more? You did that last year, it was kind of controversial. It's worked out well for you. Your competitors are now talking about doing more of that going forward.

And even from the customer standpoint, I mean, I think this just-in-time, at least for a while, it's not going to work for people. And I think with the dust settles from all this you'll see quite a bit of inventory. But just how do you think about all of that? And how do you -- how are you guys planning around this idea that maybe it's reasonable to hold more inventory going forward?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Well, it's -- I think your comments are spot on because if you've been around long enough, you can go back 15 years ago where wireless and big chips and few customers were the heart of what we did. And that's a very dangerous environment to build a lot of inventory because the bananas can turn brown and you can end up in a bad place.

But where we've been able to work towards and our portfolio allows us to do it, and you saw us take advantage of it in 2020, as you noted, we really -- because the breadth of our products, they sell to a lot of customers, they sell across markets. We can build that inventory with very little concern of obsolescence.

And we're making it and have been making it part of our strategy, and it's how we support customers. You see us doing -- building closer direct relationships with customers, the changes we've made with distribution over time. We talked even in capital management about the growth of the capabilities we're putting on ti.com. So customers can basically get serviced with 0 lead time when they've got a surprise that they need to cover.

And we just think that, that's going to be a tremendous benefit of convenience to our customers for the long term, get past the near-term environment, don't let that distract you that convenience that we can do by thinking that way is, I think it's going to be something that we can do quite uniquely as a company.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Maybe talk a little bit about those direct relationships with customers. I mean you guys made some shifts with the way you're thinking about the distribution channel and are trying to go more direct to the customers that want to be direct with you. Can you just talk a little bit about that initiative and how that's going?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. We've -- you know it probably, in some ways, bores people when they hear it, but Dave and Rafael probably a quarter doesn't go by. They don't talk about competitive advantages, manufacturing and technology, breadth of the portfolio, reach of the channels and diversity and longevity. And on that reach of channels, we've been working in a very methodical way for a decade now, okay, transitioning to where we want to have a direct relationship with our customers because we can support them better.

We know what they need. So it's a diminishing role with distribution. It also includes building out capabilities like ti.com to get that convenience even higher. So the -- we are thrilled in the past 2-year environment, we were really lucky to get a lot of that transition done before because it's just giving us better visibility.

Our customers are thrilled because they can work directly with us versus buffers that they've got to go through on that front. So I think this is just going to be another example of that, competitive advantage of each of our channel just gets stronger over time.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. And I feel like the distribution strategy is giving you a closer connection with maybe smaller customers that used to buy through a distributor. I also feel like the large customers are probably more aware of you guys now and even where a big automaker might have relied on its Tier 1 supplier to manage inventory. It seems like they are now reaching out directly to you and making sure do all my Tier 1 suppliers, have enough inventory, so this doesn't happen again.

Can you talk a little bit about that? And how do you take advantage of that to sort of build out those relationships longer term?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think -- and I've had the chance to meet and talk with a lot of customers the past year or 2 and even our customers' customers. So get to the end auto companies. And it really is a key aspect of what we talk about of here's the manufacturing road maps that we've got in place. This is why we're doing the things we're doing. And this is why we're doing the things we're doing with areas like replenishment planning, where we don't need long lead times or we don't need large backlogs, and we will be here to support you regardless of where you build, where you buy and how you do that.

And I just think that approach to our customers is going to be a very successful one because just looking in your life or your family's life, convenience, really does matter. And that's going to translate even to how you buy semiconductors over time. And I think we're off to a very fast start getting those capabilities in place.

Because you got to have your -- you've got to have the manufacturing road maps. You've got to have the planning systems in place, and you've even got to have the logistics investments, automated warehouses, the ability to pack and ship and small volumes, deliver 1- or 2-day delivery, and those are all capabilities that we continue to invest and build out.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

And we have a supply chain crisis that's like this, but so pervasive. How much of the attention is going into how do I get through the next 3 months and get what I need to build whatever cars, industrial come in, whatever the focus is.

And then how much of it is what do we do differently down the road so that we don't get into this again, particularly for companies where the semiconductor build materials is small relative to the product that they're building like a car. \$400 of chip content is keeping them from building \$50,000 cars. How are they going to ask differently?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes, simple answer is I think it's going to vary. And I think you've got to find just like in anything in this world, there's companies that are more thoughtful and planned and they use this to say we've got to get even better and others that will survive the crisis and go back to old habits.

And I think that what customers are figuring out is -- and it's the feedback that we get, it's why customers are so excited about the road map that we have in place is they like the idea that TI has got control of its manufacturing. It's going to be inside. We're not negotiating with other third parties that are either going to disrupt the availability or change pricing on a unilateral basis and it gives them comfort that we can be a supplier that they can plan on in a very significant way.

And it's especially true. And I know you know this from even your time in the industry, you get into industrial customers where the life cycle of products that they're designing are 5, 10, 15 years long and they don't want to have to make changes or redesign. They want to be able to make a decision and then count on it for the long term. And the solutions that we're proposing, I think, are very appealing to them right now.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. Maybe if we could talk a little bit about the manufacturing initiatives that you guys have. And you guys have had a lot of sort of change in focus over the years and you've really paved the way, I think, to show people where the barriers to entry are high and where corporate governance can go.

I mean you really set the gold standard for that. I haven't really heard you guys talk about manufacturing this much since the initial 300-millimeter initiative that you had. And obviously, manufacturing is now a pretty important focus for you. You're going to spend \$3.5 billion for the next few years.

What's driving that focus? Why -- is it entirely just the certainty that you're talking about? Or are there other areas that kind of have you excited about manufacturing now?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

No. I think, I bet there hasn't been a quarterly earnings call or a capital management discussion in 8, 10 years where we don't talk about 4 competitive advantages, manufacturing and technology kind of the foundational one inside of it.

So we've always thought it really mattered. And the way we talk about those competitive advantages is they've got to give you a tangible benefit. It's got to be something that's difficult to replicate. And in the long term, the real test of whether it exists or not is, can you grow your free cash flow per share faster than your best competitors.

And so we really look at all of them that way. And when we spend money, we constantly ask, are we strengthening a competitive advantage or are we leveraging it. And so manufacturing and technology has been a key one to us. And for years, I think when Dave or Rafael would present the material a 300-millimeter wafer can produce a 40% cheaper dye and everybody goes, okay, I got that. And then we also say, and you get better control of your supply chain and you kind of got, who cares. The past couple of years, people care.

And so I think it's just that the world comes in and says, wow, that does make sense, okay, because of the environment we're in. And so I don't think it's grown in our view of its importance. I think the external view is only macro, this really does have an impact now.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. That's fair. I mean it has inflected from the amount of spending. I mean even going back to last year and then the amount of spending that you're doing afford. And there's a little -- to a company that has been really focused on free cash flow per share, there's going to be a little bit less when you go through that investment process, I think you made the comment on the capital management call that that's because we -- the free cash flow going forward is kind of more from the growth of top line as well.

But how do you think about those trade-offs? And then to the extent that Rafael was saying look, this isn't a cyclical bet. This isn't something where if the industry has perturbations, we're going to change the strategy, this is a strategy. Can you just talk a little bit about that focus?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think it says I didn't -- Joe, go look at even the investor overview, we talk about 3 ambitions inside the company. And the first one is that like owners that are going to own the company for decades. And so when you listen to Rafael's answer on that, it's absolutely spot on. This is not about are we trying to outguess 2022, 2023 or '24, it's let's make sure we got a great answer for '24 to '25 and a great answer for '30. And let's make sure that for the owners, we can really deliver that long-term growth of free cash flow per share.

And that's what's so exciting about the plan that's laid out right now. And I think it really does that. It does -- we're excited about it as a team. I can tell you inside the company, everybody is just thrilled when they see that coming together and what it can do. And I've -- as I commented, I've had a chance to talk to a number of our customers. And when they see that road map, they're really pleased with what it looks like because they care about the long term, not just the next couple of years.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. I mean that makes a lot of sense. I guess, from the investor standpoint, people are worried about the economy plateauing and some of these challenges that you have and capital spending at the nodes that you're addressing is pretty high, I mean not just from TI, but like across the industry.

I guess if you're building proprietary products where you have a pretty good view of your own picture, do you care about that? I mean this is not a commodity where if other people have too much capacity, it has much effect on you.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. It's -- to that question, the key is what do we need to do, not what will the investment look like in the balance of the world. And I think there's still a wide range of what's going to really happen on that front.

Because I think a lot of the big numbers are still in the advanced lithography nodes and the amount that really can go into the sweet spot of what we do, I think, 45-nanometer through 130-nanometer, I think we're going to be well served with the investments we're making.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. Okay. And to what degree is the geopolitical aspect of this, a driver, whether it's the Chips Act and domestic subsidies, attentions about reliance upon international foundries.

Is that -- obviously, you guys take a pretty long view of these things. Is that a factor or is it sort of more your just TI focused?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

No, I think when I hear it from customers and we make and put road maps together in locations that we think are going to serve the owners and our customers well over the long term. And so you want them as resilient as possible for geopolitical environments, you want geographical diversity, especially on assembly test where we do have to run that in a number of countries.

So that road map that Dave and Rafael went through with capital management, I think it looks even wiser with the unfortunate tragedy going on in Russia and Ukraine right now where people are like, wow we like the TI, not only has control of their capacity, but we know where the heck is going to be.

And we like it because it's going to be in very cost-effective areas when you look at energy cost and what energy costs are going to do and the leverage we get for scale in the North Texas area. So I think these things have always mattered to us, but it all of a sudden becomes more visible when you have current events like we've got right now.

Chips Act to me is very simple. We've got a road map. We're very pleased with it. We've put it into places we think are going to make sense. We think it ought to get approved. We think it's wise for the U.S. And if it does, we'll take advantage, and we'll get some benefits from it. And if it doesn't, we still have a great road map that we're going to be thrilled to have for the long term.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. And this is really about setting TI up to be the best supplier that you can over the next decade. And in foundry, you've talked about your use of foundry being down from, I think, about 20% now to about 10% in 2030. Can you talk about which products are still you're going to focus on foundry for?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. We'll still have room to use foundries and clearly, if you go down to lithographies below 45 nanometer, we have the ability to -- as we think it makes sense, we could reach down lower. But if you've got some devices in 16-nanometer, we'll build those on the outside just because it's smarter in terms of the size and the scale that we operate on that front. So we'll still have room for some use of foundry, but we'll target where we do it.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Okay. Great. And then maybe shifting a little bit to the end market focus that you guys have. You've been pretty clear for, I guess, at least a decade that automotive and industrial is the focus.

But obviously, you have a lot of customers in a lot of markets. They all need parts right now, and there are bottlenecks everywhere. How do you tactically kind of manage that? And are you giving preferential treatment to one market versus another? You're just running your best to satisfy as much and managing...

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. As I commented before, I think -- and I give great credit to our team because they really have worked endlessly. And our customers have as well. It's a tough time to be in the supply chain, in the past couple of years. But we really, by design, we want to have broad markets. By design, we want to have broad customer bases because it really plays the competitive advantage of diversity and longevity.

And so we have worked to make sure that we've used the steady hand to support all customer, support all end markets. But we have made sure that we want to have even more support for key industrial and key automotive markets for the long term. And again, if you take a look even at the percent revenue breakouts that we gave even, I guess, with the January earnings call, I think you see it pretty obviously that we've used a pretty steady hand on that. So I think it will serve us well.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. And then the planning in those markets, I mean you think about automotive and you've sort of talked about having a catalog focus to your business. But in a market like automotive, there are a lot of system-level things that are happening and there are building blocks that are part of a bigger system.

How do you think about sort of catalog versus vertical as you approach a market like that? And if some of your big customers kind of want you to do something that's a little bit more tailored to their own systems requirements. Is that something that you're interested in doing? Or is it -- are you still trying to maintain that breadth?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

The answer is the religion that we believe greatly in is to be successful and grow free cash flow per share over the long term, and that tell you make that -- how you make that call.

But to the specific example, we work closely. We've got systems teams. We've got deep insight by the 5 different segments that we break automotive out, for example. And we've got ranging from kind of building block parts, the more sophisticated devices as you would think about them. So the range of -- that we can operate is probably broader than almost any of our competitors on that front.

And all of those capabilities matter because our customers want solutions to that full range of components. So I think both will be something that we can support for the long term.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Yes. I mean I think when you look at areas like autonomous driving, I go to hot chips every year, and there's a bunch of startups doing big chips designed at those types of applications. It doesn't feel like a TI type of market, and yet there's an awful lot of building blocks that go into those markets.

So if you -- it doesn't seem like you want to go to hot chips and pitch the latest big 7-nanometer chip aimed to cars, but how do you think about a market like ADAS and how do you think about supporting that? Is it kind of looking at the catalog requirements? Or is there something a little bit more tailored to those...

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

If your board go pull those ADAS solutions, take a look at that big old SOC and then start looking at what's around it. And you're going to have power devices to deliver the different rails that are required. You're going to find different communications or high-speed data links because you've got more data moving around the car.

You're going to have different converters and sensors that are required in these applications as well. Think of things like radar that have to come into that. So it's not you are, you aren't, it's how do you help deliver those solutions to the customers. And we end up because of the portfolio of products and technologies and packaging that we have ranging from analog to embedded, we're really able to participate across all those markets.

It could be the attention on ADAS. It could be the very high-profile work going on with electrification. It could be even areas that don't get much attention, but look at what's happening with lighting or like what's happening with 48-volt systems across vehicles and what you've got to do, drivers to be able to move seats, windows and doors. There's a lot of lower profile end markets as well in automotive that we spend a lot of time and attention on.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Great. So I have one more question and I'll open it up to see if the audience has questions before you get the mics ready. I guess, how do you go about prioritization. When you talk about automotive and industrial being important like this, I've covered small analog companies in the past where the CEO would sit on every single product review meeting and would -- and they -- those are companies that would put out dozens of products a quarter. So that's kind of all consuming.

You're talking about hundreds of products per quarter and so I don't think you're able to do that?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

I am not.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

And I know you have people below you that probably do, but like just how do you set the culture to sort of make sure that you're focused on the right things without having that level of I'm going to sit on every product review meeting.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think it's -- again, I think it comes back to structural advantage we have in terms of how do you use size as an opportunity. So we've got teams that work by customer because you've got to look at it that way. We've got teams that work by systems. So think of the specific application.

We're doing that in automotive and literally hundreds of different end equipments in industrial and then think of the product vector. And now what you want to do is make sure that all 3 of those teams have got very clear goals of growing your penetration of that customer, growing your market share in that particular end market or growing your product revenue.

And then you just have diligence and attention to make sure that the investments are going to the best opportunities. And that's the ongoing process that we use in the company. And we really are fortunate. The team has grown up together. They know one another well. And if you look at the track record of our automotive growth, look at the track record of our industrial growth, the recipe is working.

And that's what's comforting to me is past success doesn't guarantee future, but it's a hell of a good leading indicator. And if you look at our growth. It's not any one1 chip or any one market or any one customer, we've been able to do it across the broad set of markets and industries on that. So we keep doing that well. I think we're going to -- we'll be rewarded.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Great. Let me pause there and see if we have any questions from the audience.

Unidentified Analyst

Can you talk about the amount of capital intensity reduction onwards? I think Intel see their price reduction from subsidiaries. So do you see that as well? And would that make your free cash flow margin better onwards?

My second question is, is your CapEx guidance net of gross.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

I'll work backwards. The CapEx guidance we gave is gross. It's what we intend to spend. And if there's Chips Act, you guys all find out about them just about the same time we will in terms of what that will look like. So that's the way to think about that.

In terms of capital intensity, it's got -- the way I describe it, it's got more to do with growth rates as you look out over the next 10 years and what we've had growth rate rise for the past 10. And that's the primary driver of what you see with the numbers and the guidance that Rafael and Dave went through about a month ago.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Is there another question in the back?

Unidentified Analyst

I have a question regarding some of the new white spaces in EVs or renewables and things like that. In these kind of emerging spaces, do you feel that it's better to service with kind of the current supply constraints, the lighthouse accounts and then build brand recognition and credibility that way? Or do you still believe that in these emerging deals, we're going to do a scatter shot approach of giving up some capacity and product to everybody.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I'm not sure what lighthouse and scatter shot means when you go through it. But in general, you've got to make sure that you're working with the important customers in a market or in a segment. And you look at -- take your example of electrification in vehicles and there's a wide range of customers throughout the world.

And we believe being connected to them and working with them is something that's important to do. And it's also helpful that we've got control of our wafer fabs. We've got an aggressive wafer fab road map. We've got control of our manufacturing that we can make those commitments longer term and be able to be in support of our customers on that front. So I think I don't believe choosing or trying to pick narrowly new markets statistically, it's not a great way to do things.

Unidentified Analyst

I guess as a follow-up on that, what I mean by that is if you have a #1 and versus a bunch of other upstarts in new industries versus like 3 or 4 key players in the consolidated industry. How does kind of the go-to market really change in terms of your guys' products for, say, EV unicorns or upstart solar microinverter companies, et cetera, et cetera.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I'll repeat. You'll still benefit by having as broadened approach that you can take from a product point of view, just because just go look at the history and the ability to predict who are going to be the winners 5 years from now and 10 years from now. And so it's a bit of a theoretical question, but that's always going to be a better approach.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Great. That brings us up to the end of our time. Rich, thank you so much.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Okay. Joe, thank you. It's great to see everybody.

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