

Capital management strategy

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Agenda for this call

- Capital management strategy and scorecard
- Historical view of our capital allocation
- R&D allocation priorities and results
- 300-millimeter Analog update
- Free cash flow* growth and outlook
- Cash returns
 - Share repurchases
 - Dividends

* Free cash flow (FCF) = Cash flow from operations minus capital expenditures

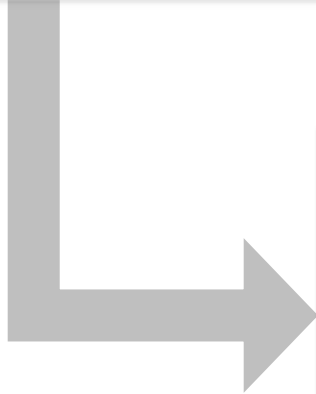
Key takeaways from our discussion today

- We remain focused on consistent execution of our capital management strategy.
- Our business model is designed around four sustainable competitive advantages. We invest with a long-term view to strengthen and leverage these competitive advantages.
- Our disciplined allocation of resources to R&D and our initiatives are delivering growth in the best products (analog and embedded) and the best markets (industrial and automotive).
- Our 300-millimeter Analog manufacturing strategy is a unique advantage and will provide benefits for a long time.
- We remain committed to returning free cash flow to owners.

Capital management: **objective and strategy**

Objective:

Maximize long-term growth of free cash flow per share



Strategy:

1. **Great business model:** built around four sustainable competitive advantages
2. **Discipline:** allocate capital to the best opportunities
3. **Efficiency:** constantly strive for more output per \$ of input

Grow, generate *and* return

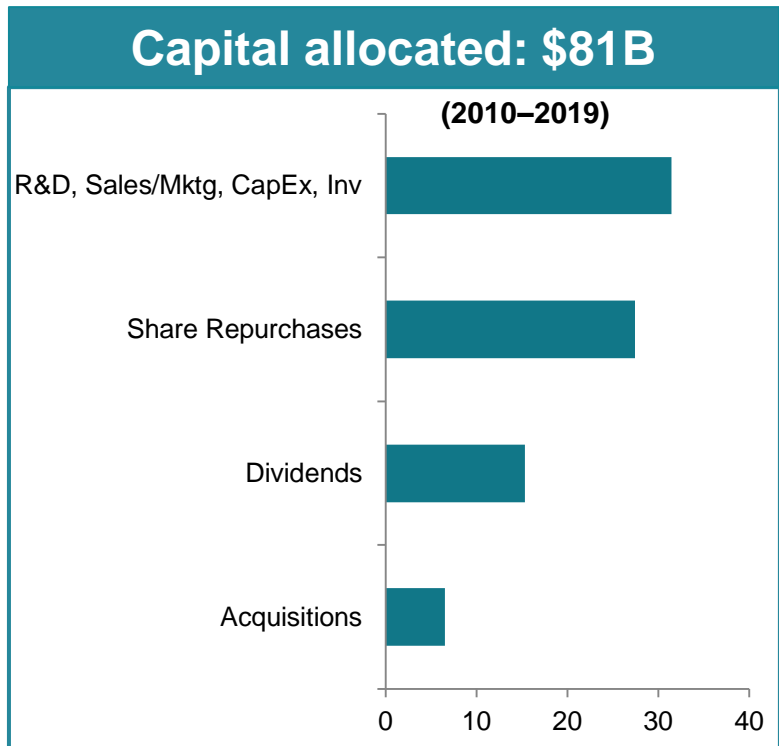
- TI is in a unique class of companies able to **grow, generate *and* return cash** to shareholders for a long time to come
- Focused on the **best products** and **best markets** within the semiconductor industry:
 - Best products: analog and embedded – large, fragmented, used in everything electronic
 - Best markets: industrial and automotive – fastest growing due to increasing content
- Our business model is designed around **four competitive advantages**:
 - Manufacturing and technology
 - Broadest portfolio of analog and embedded products
 - Reach of market channels
 - Diverse and long-lived positions (high terminal value)

Capital management 2019 scorecard

Metric	Long-term objective	Target	Result
Free cash flow generation	Maximize long-term growth of free cash flow per share.	25 – 35% of revenue (TTM)	✓
Capital expenditures	Invest to support new technology development and revenue growth. Extend our low-cost manufacturing advantage, including 300 millimeter. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~6% of revenue	✓
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on percent of direct revenue, market conditions and consignment levels.	115 – 145 days	✓
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for strategic buildup or drawdown of cash.	10% revenue (TTM) + dividends (NTM)	✓
Pensions	Be fully funded on a tax-efficient basis. Have annual free cash flow reflect what is available to owners by minimizing one-shot calls for cash, unless there is a P&L or cash advantage.	Fully funded	✓
Debt	Increase rates of return with some leverage on balance sheet when economics make sense. Avoid concentrated maturities and ensure strategic flexibility.	When economics make sense	✓
Cash return	Return all free cash flow cash via repurchases and dividends. Recognize there may be times for strategic build up or draw down of cash.	All free cash flow	✓
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 60% of current year free cash flow	✓
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)	✓

Ten-year view of our **capital allocation**

Where and why we've allocated our capital



Organic growth of business



Accretive capture of future free cash flow for long-term investors



Appeal to broader set of investors



Inorganic growth

R&D investments are targeted at the **best opportunities**

Disciplined allocation of R&D strengthens portfolio

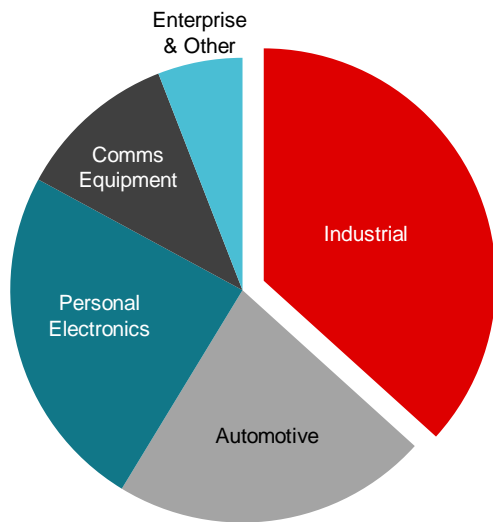
Market segment	R&D investments	% of TI revenue	
		2013	2019
Industrial	Up broadly	30%	36%
Automotive	Up broadly	12%	21%
Personal electronics	Down, but more selective	32%	23%
Communications equipment	Analog up slightly, Embedded down	15%	11%
Enterprise systems	Flat, at low levels	6%	6%
Other	Flat, at low levels	5%	3%

Disciplined allocation of R&D strengthens portfolio

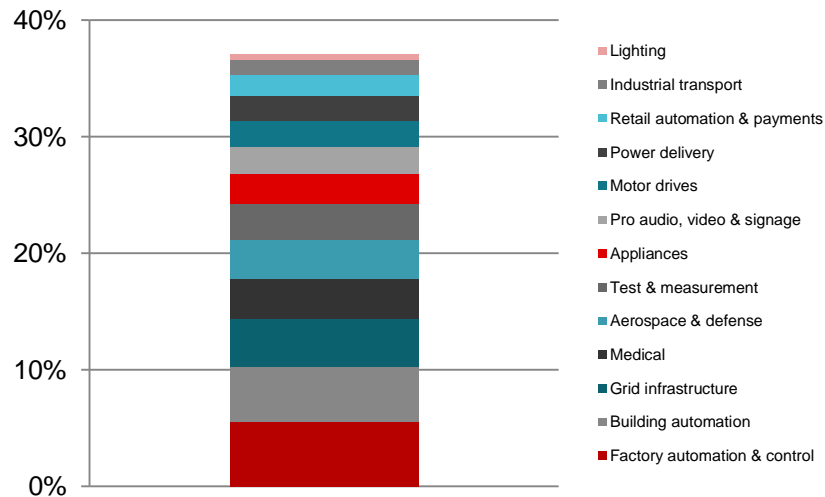
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Industrial: our largest and most diverse market

TI end markets
2019 revenue



TI industrial market
13 sectors



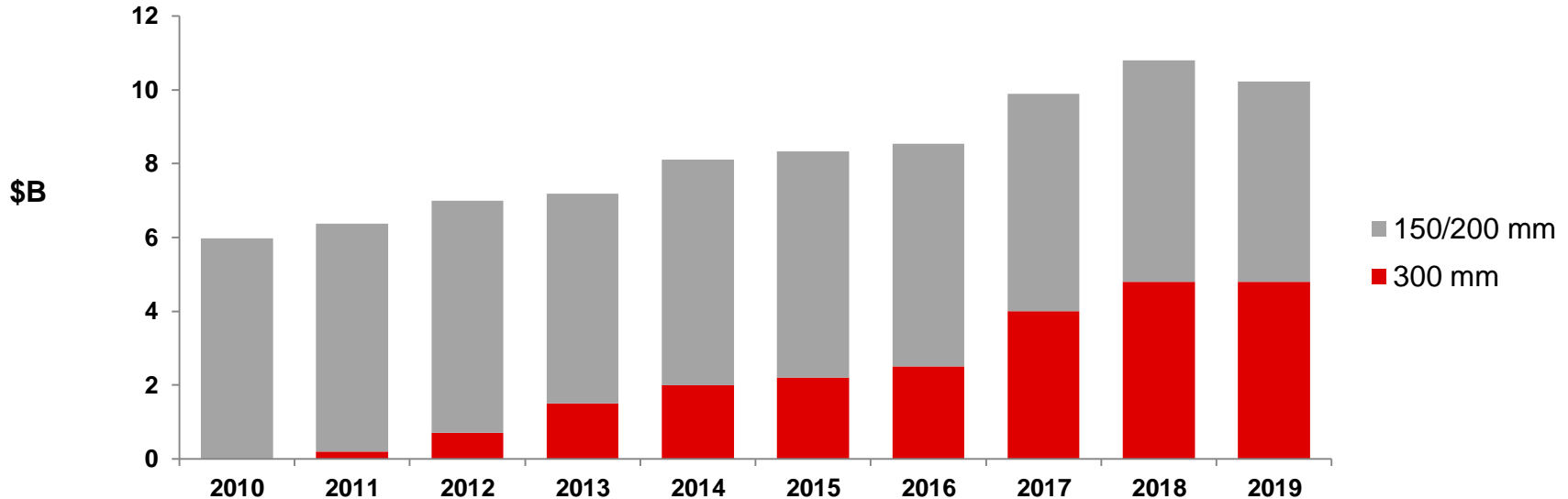
**300-millimeter Analog manufacturing
is an advantage**

Chip cost is ~40% less on 300 millimeter

Illustration of the GPM impact from 300 mm

		Built on 200-mm wafer	Built on 300-mm wafer
Sales price of example part		\$1.00	\$1.00
Cost of goods:	Chip cost	\$0.20	\$0.12
	Assembly, test, other	\$0.20	\$0.20
	Total	\$0.40	\$0.32
Gross margin %		60%	68%

Impact of 300-millimeter Analog **grows**



- 300-millimeter Analog ~47% of total Analog revenue
- Incremental Analog growth mostly on 300 millimeter

Investing for growth **300-millimeter Analog**



Next fab in Richardson, Texas



Rendering of future site

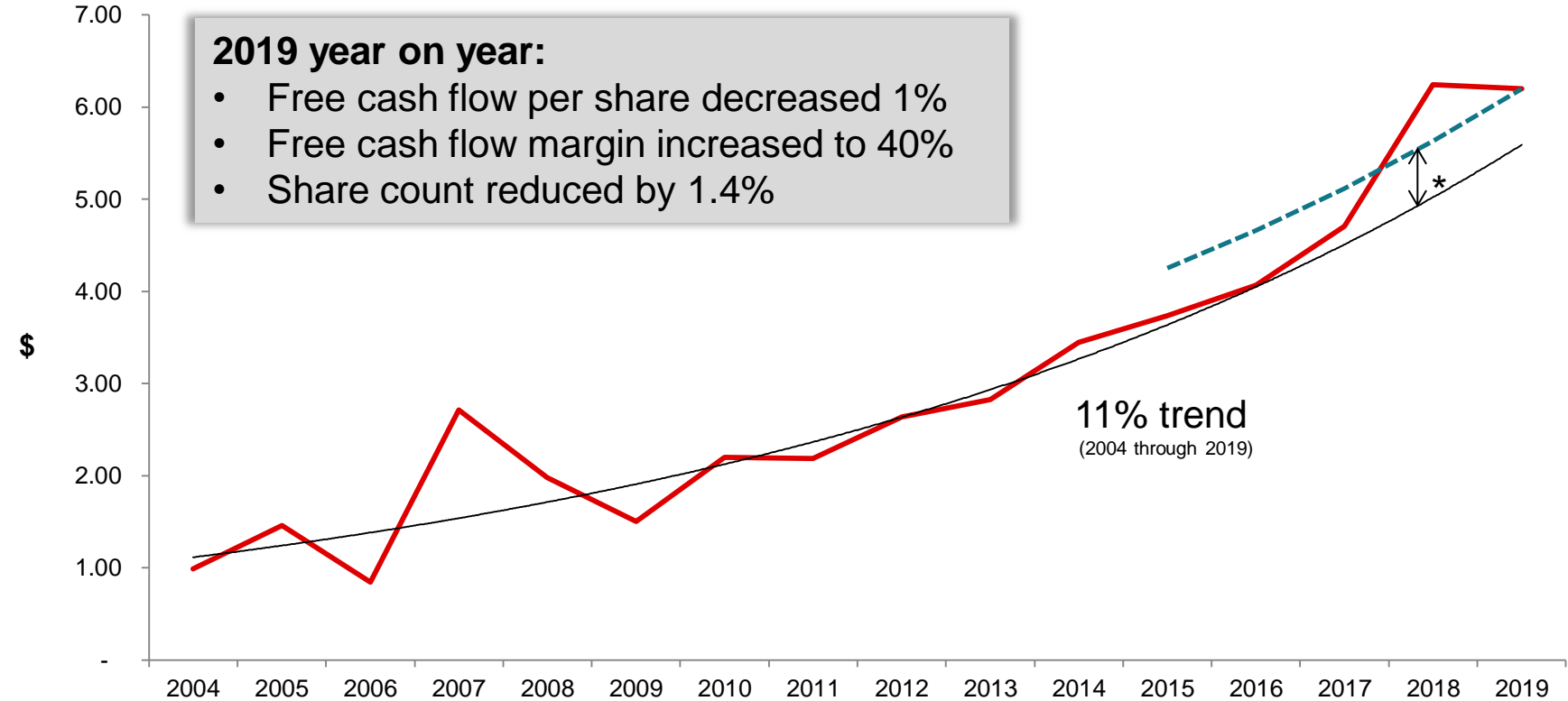


Existing factory and parking garage construction underway

 *New factory*
 *New parking garage*

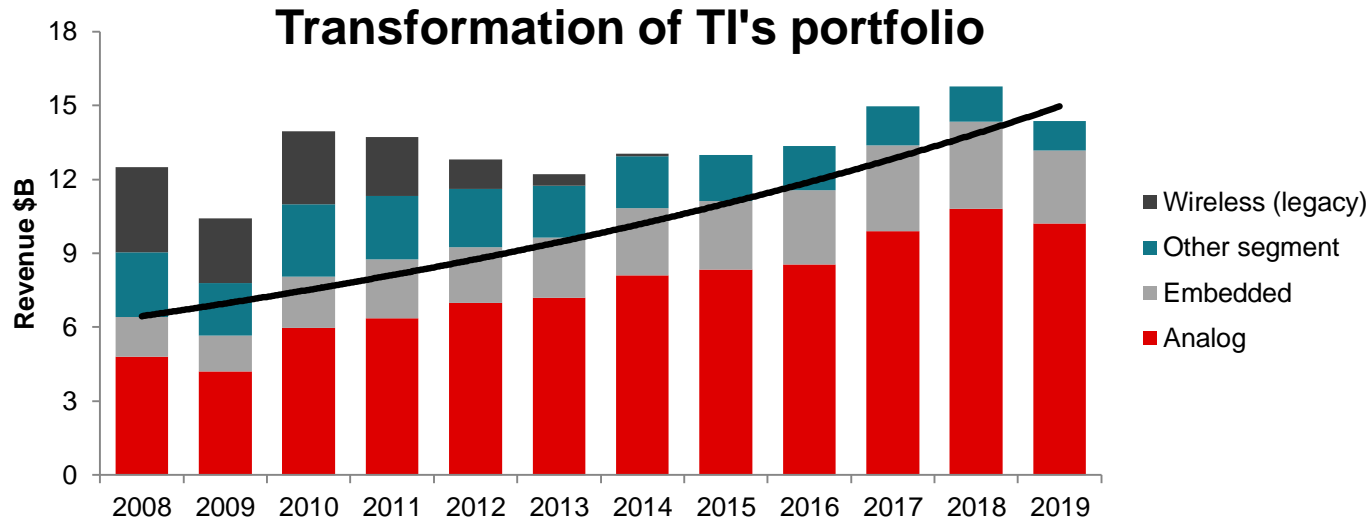
Free cash flow **growth** and **outlook**

Free cash flow per share **growth** continues



* Delta due to tax reform

Analog and Embedded have **proven growth record**

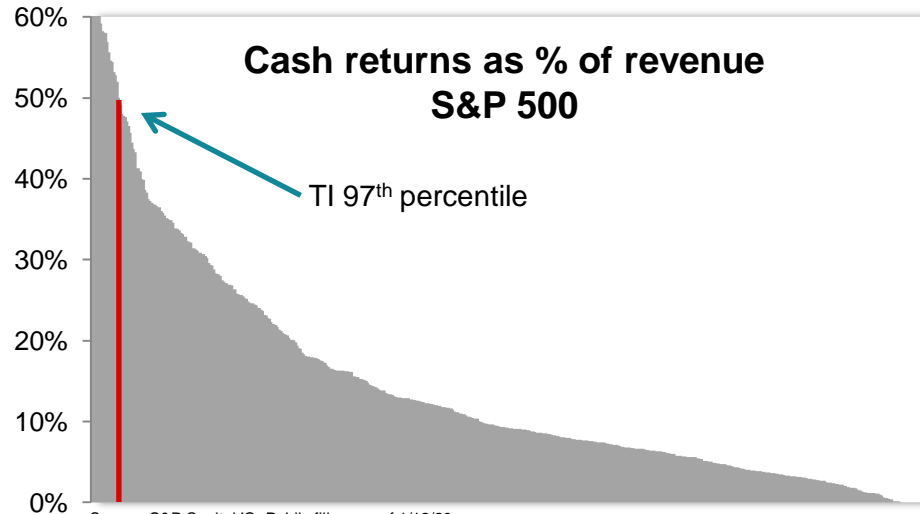
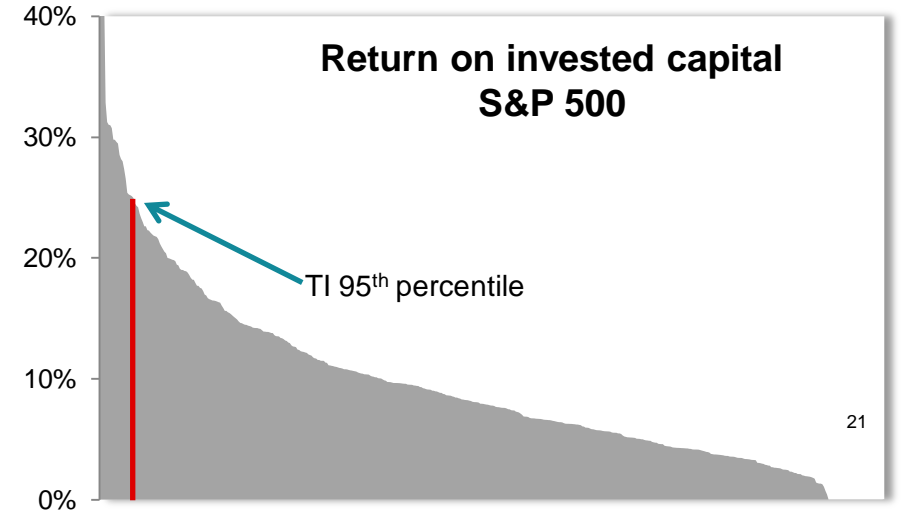
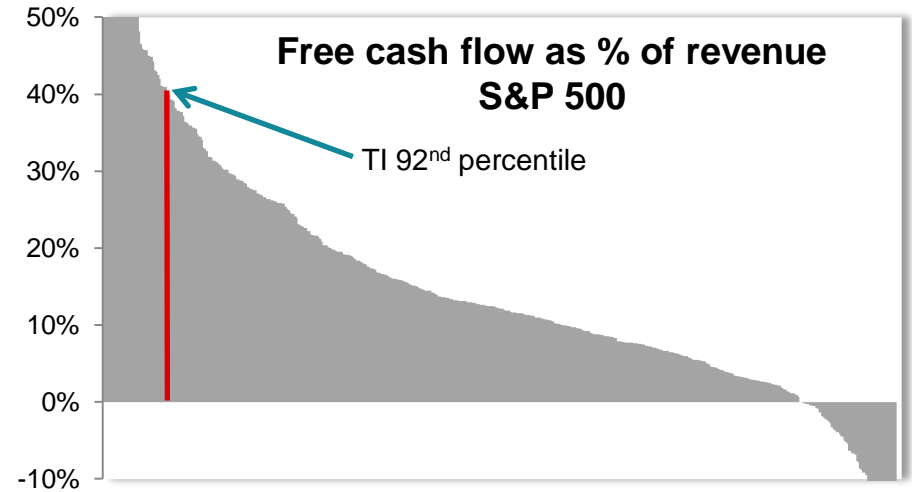


Analog and Embedded:

- 10-year growth trend of 6%, five-year 6%
- Gaining on average ~30 – 40 bps of market share annually
- Now >90% of revenue, can drive top-line growth

Cash returns

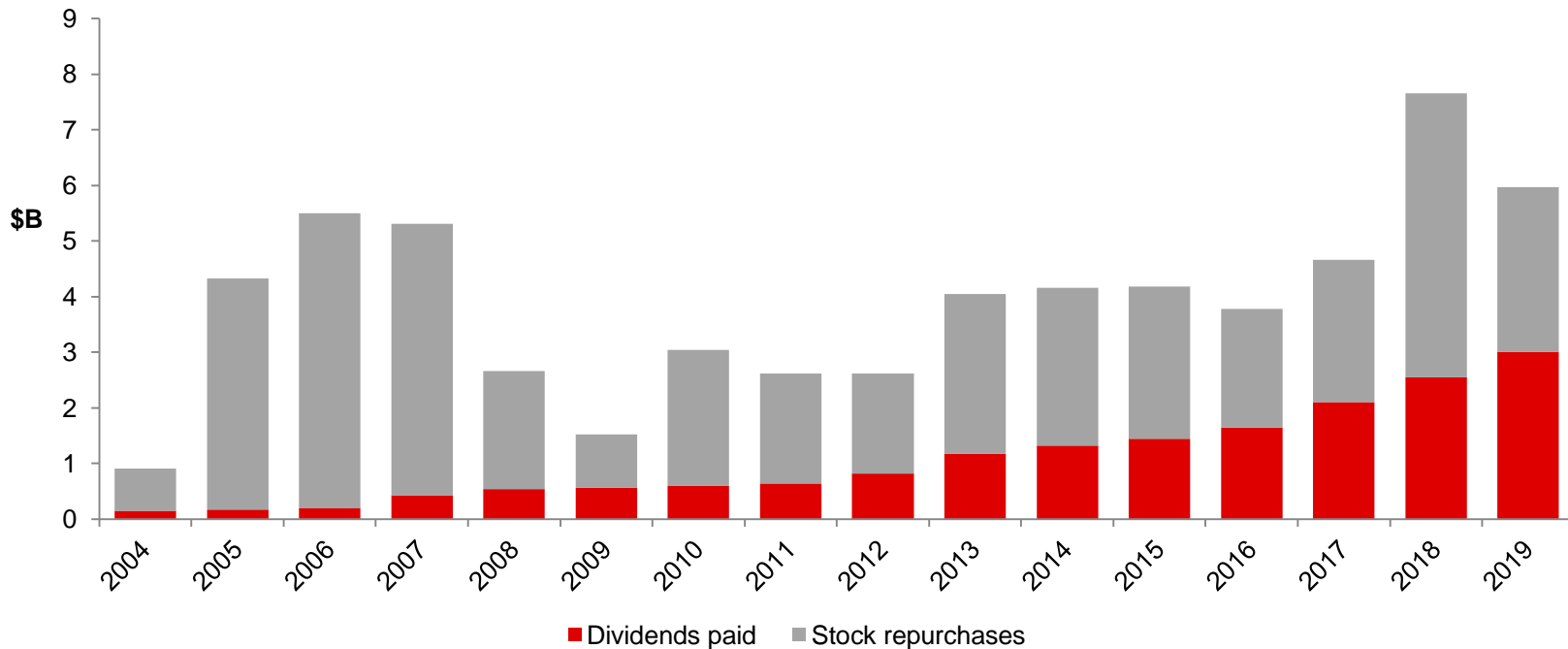
Cash generation and returns



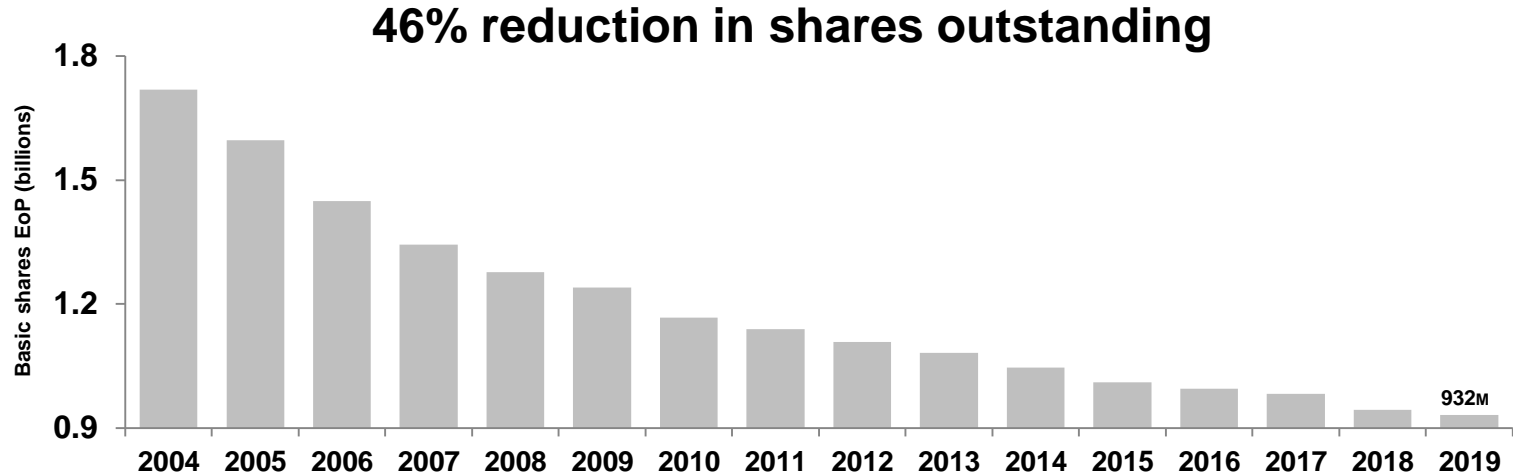
Source: S&P Capital IQ, Public filings as of 1/12/20

Cash returned to owners **continues to grow**

Total cash returned



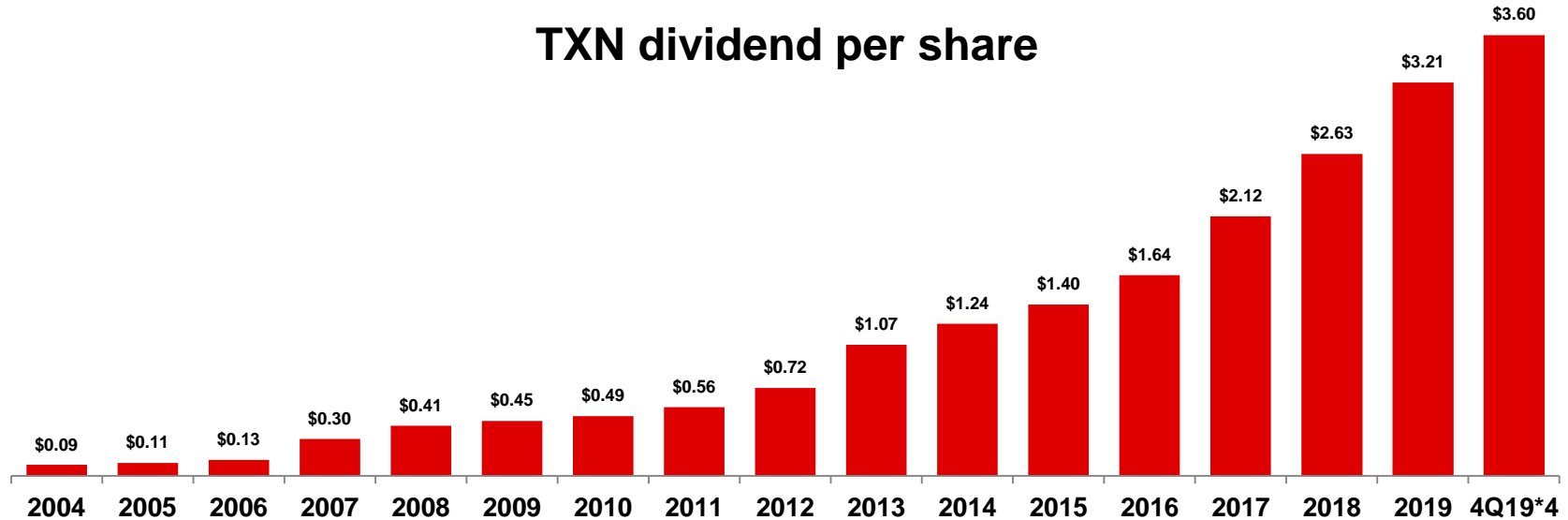
Accretive capture of future free cash flow for long-term investors



- Repurchase steadily when discounted cash flow value exceeds stock price
- Disciplined with stock-based compensation
- Shares outstanding reduced by 1.4% in 2019, 46% reduction since 2004
- \$13.2B of authorization remaining as of end of Q4 2019

Sustainability and growth of dividends

TXN dividend per share



- Increased dividend 16 consecutive years, including 17% increase in Q4 2019
- ~20% CAGR (5 & 10 year)
- 2019 dividend payments used 52% of 2019 free cash flow
- Yield is 3.0% (as of 1/31/2020)

Summary

- TI is in a unique class of companies able to **grow, generate *and* return cash** to shareholders for a long time to come
- Our business model is designed around **four competitive advantages**
 - Manufacturing and technology
 - Broadest portfolio of analog and embedded products
 - Reach of market channels
 - Diverse and long-lived positions (high terminal value)
- Looking forward: continued **growth of free cash flow per share** drives returns
 - Top-line growth driven by the best products (analog and embedded) and the best markets (industrial and automotive)
 - 300-millimeter Analog manufacturing strategy will provide benefits for a long time
 - Continued returns through share repurchases and dividends

Risk factors and non-GAAP measures

This presentation is a statement of management's intentions and describes a strategy that TI intends to pursue as management, in its judgment, deems appropriate. The application of this strategy during any given period may vary depending on market conditions and other factors that management deems relevant. This presentation includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. See Item 1A of TI's most recent Form 10-K for a detailed discussion of risk factors that may cause results to differ materially from the forward-looking statements. TI undertakes no obligation to update forward-looking statements to reflect subsequent events or circumstances.

This presentation contains non-GAAP financial measures, specifically free cash flow (FCF) and ratios based on it. See www.ti.com/ir for reconciliation to GAAP. Free cash flow per share is not an alternative to earnings per share as an indicator of TI's performance, and investors should not consider presentation of free cash flow per share as implying that stockholders have a contractual or other right to the cash.



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