Capital management strategy

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February 8, 2017

Agenda for this call

- Capital management strategy and scorecard
- Historical view of our capital allocation
- R&D allocation priorities
- Impact of manufacturing investments in 300mm Analog
- Free cash flow* growth results 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 disciplined allocation of R&D is delivering growth from the best markets; industrial and automotive. We have great diversity across all the sectors within these markets.
- Our 300mm Analog manufacturing strategy is a unique advantage and continues to drive free cash flow margin.
- We remain committed to returning free cash flow to owners.

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 best markets within the semiconductor industry: analog and embedded
  - Large and fragmented: $48B analog, $18B embedded*
  - Used in everything electronic: diverse customers and diverse products
  - TI has leading share in both: 18% and #1 in analog, 17% and #3 in embedded
  - Very profitable, strong cash generation

- Our business model is designed around competitive advantages:
  - Approach to manufacturing and differentiated technology
  - Broadest portfolio of Analog and Embedded products
  - Reach of market channels
  - All of which results in diverse and long-lived positions (high terminal value)

Source: 2016 WSTS* and TI estimates

Capital management: objective and strategy

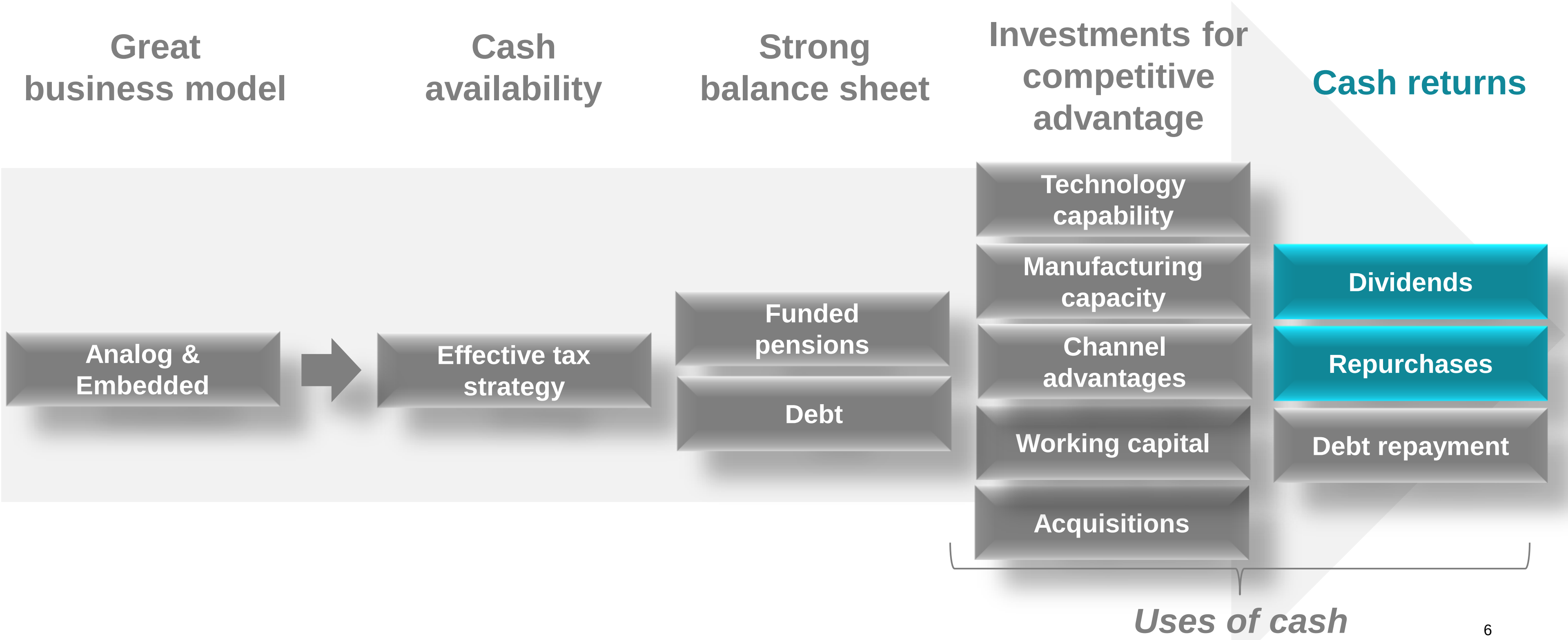
Objective:

Maximize long-term growth of free cash flow per share

Strategy:

Disciplined allocation of resources to generate the best returns

Strategy: disciplined allocation of resources

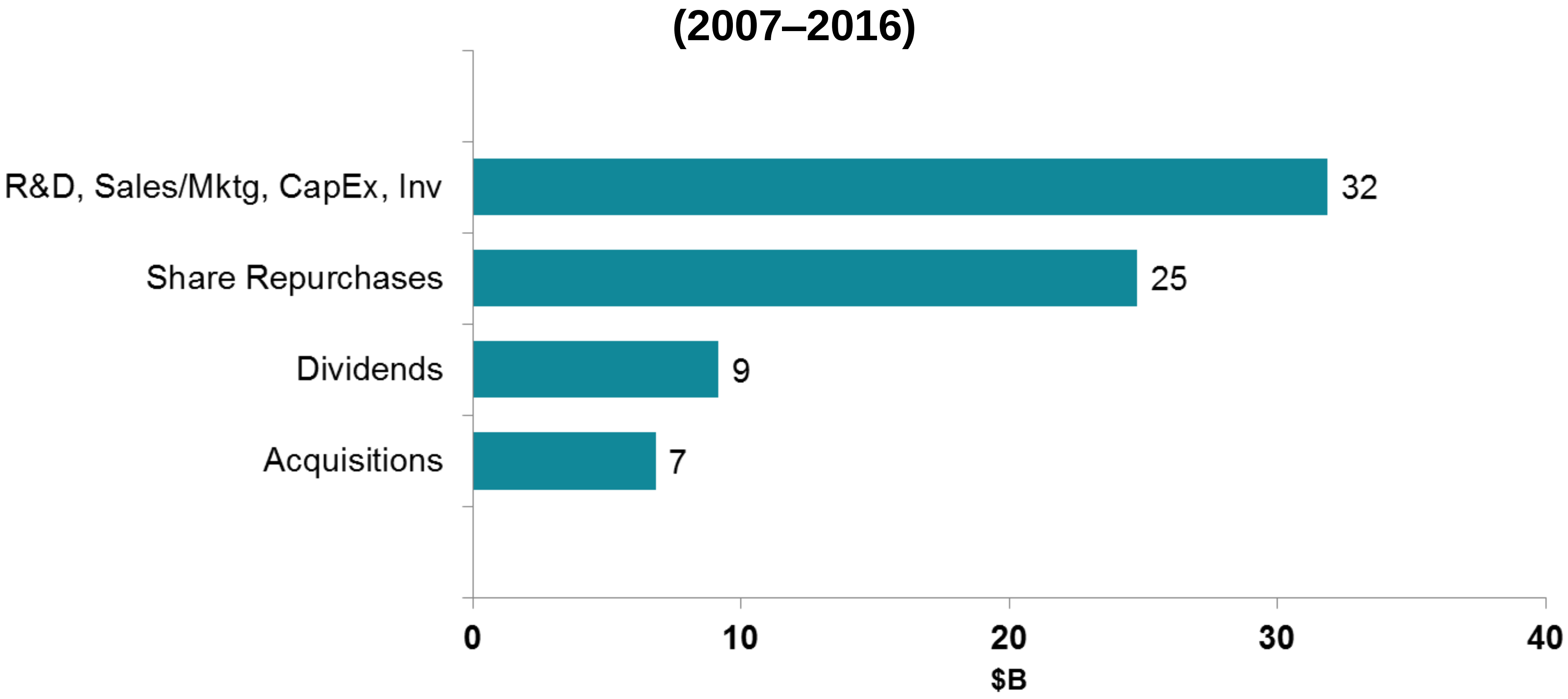


Capital management 2016 scorecard

Metric	Target	Result	
Free cash flow generation	20 – 30% of revenue (TTM)	30.5%	✓
Inventory	105 – 135 days	126	✓
Cash owned by U.S. entities	~80%	79%	✓
Cash plus short-term investments	10% revenue (TTM) + dividends (NTM) + debt (NTM)	88%	✓
Pensions	Fully fund on tax-efficient basis	99%	✓
Debt	When economics make sense	$3.625B @ average 2.22%	✓
Capital expenditures	~4% of revenue	4%	✓
Cash return	FCF + proceeds from exercises – net debt retirement (TTM)	93%	✓
Dividends	50 – 80% trailing 4 years average FCF	48%	✓
Repurchases	Cash return target – dividends (TTM)	89%	✓

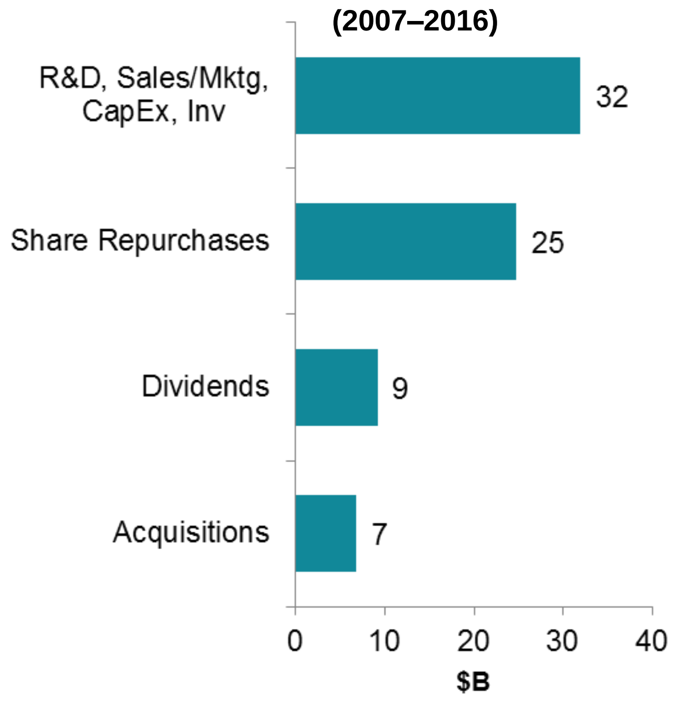
Ten-year view of our capital allocation

Where we've allocated $73B of capital over 10 years



Why we've allocated capital this way

Capital allocated: $73B	Purpose
R&D, Sales/Mktg, CapEx, Inv: 32	Organic growth of business
Share Repurchases: 25	Accretive capture of future free cash flow for long-term investors
Dividends: 9	Appeal to broader set of investors
Acquisitions: 7	Inorganic growth



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What we get from disciplined capital allocation

Category	Purpose	Focus
R&D, sales and marketing, CapEx and inventory	Organic growth of business	New products and technologies
		Strengthen competitive advantages
		Portfolio adjustments and re-alignment
		Execution (more output per $ input)
Share repurchases	Accretive capture of future free cash flow for long-term investors	Consistent repurchase when present stock price is below the intrinsic value, using reasonable growth assumptions
Dividends	Appeal to broader set of investors	Sustainability and ability to grow the dividend
Acquisitions	Inorganic growth	Strategic match (catalog analog, industrial, auto) that leverages or strengthens our competitive advantages
		ROIC > WACC within 3-4 years

R&D investments are allocated to higher-value and growth opportunities

Disciplined allocation of R&D strengthens portfolio

Market segment	R&D investments	% of TI revenue			
		2013	2014	2015	2016
Industrial	Up broadly	30%	31%	31%	33%
Automotive	Up broadly	12%	13%	15%	18%
Personal electronics	Down, but more selective	32%	29%	30%	26%
Communications equipment	Analog up slightly, Embedded down	15%	17%	13%	13%
Enterprise systems	Flat, at low levels	6%	6%	6%	6%
Other	Flat, at low levels	5%	4%	5%	4%

……and is driving growth in best markets

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42%

51%

300mm Analog manufacturing is an advantage

Progress on 300mm Analog

RFAB

2015	
RFAB capacity	~$5B/year
Utilization %	~45%
300mm Analog revenue	~$2.2B

DMOS6

2016	
RFAB + DMOS6 capacity	~$8B/year
Utilization % (combined)	~30%
300mm Analog revenue	~$2.5B

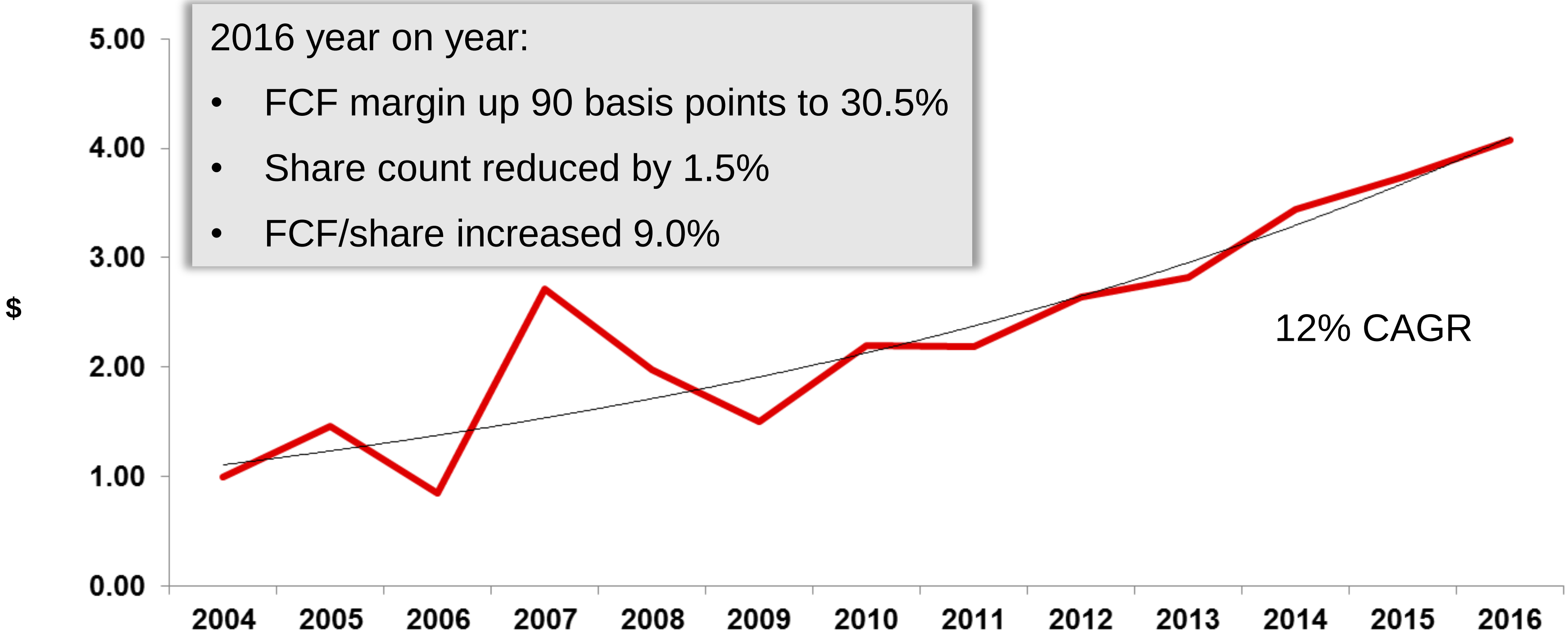
Chip cost is ~40% less on 300mm

Illustration of the GPM impact from 300mm

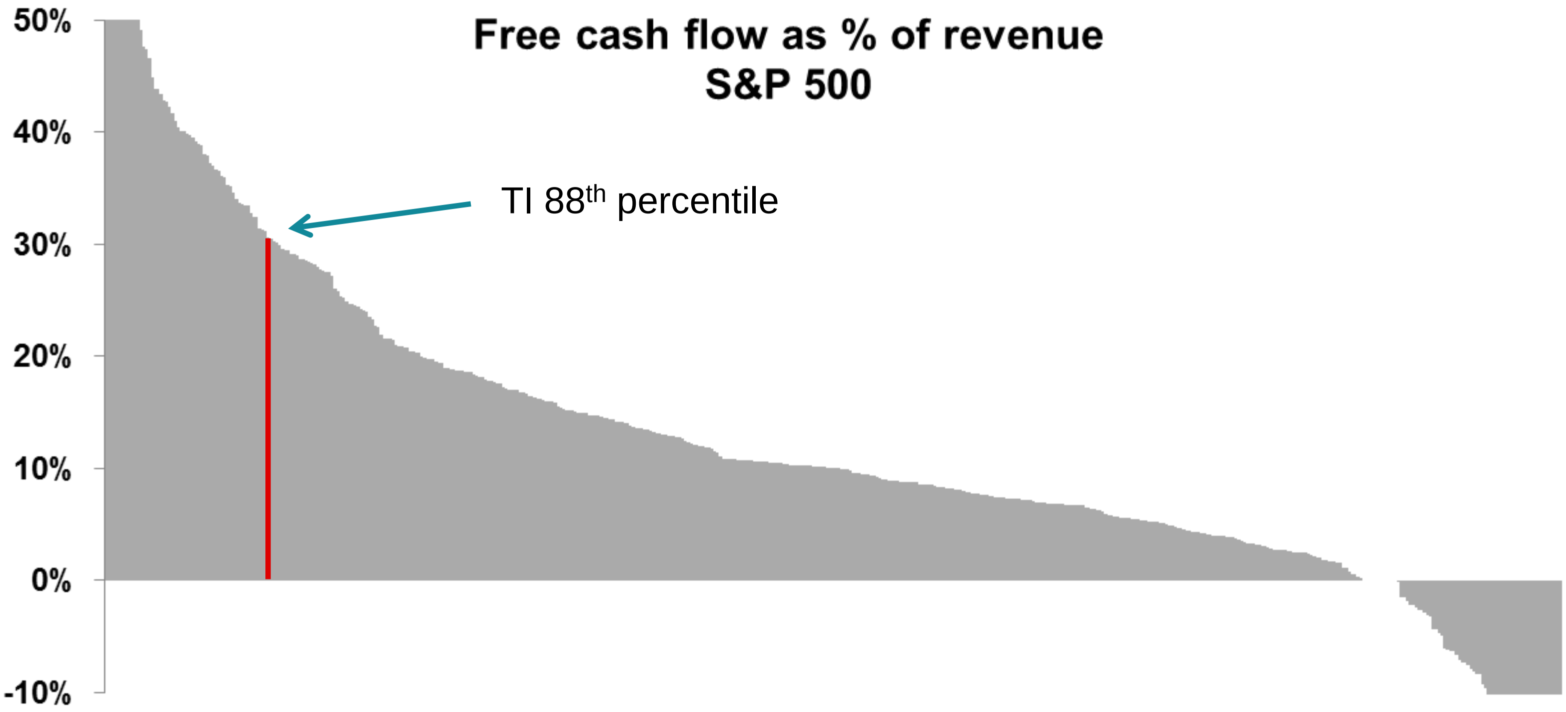
		Built on 200mm wafer	Built on 300mm wafer
Sales price of example part		$1.00	$1.00
Cost of goods:	Chip cost	$.20	$.12
	Assembly, test, other	$.20	$.20
	Total	$.40	$.32
Gross margin %		60%	68%

Free cash flow growth and outlook

Double-digit growth continues in FCF/share



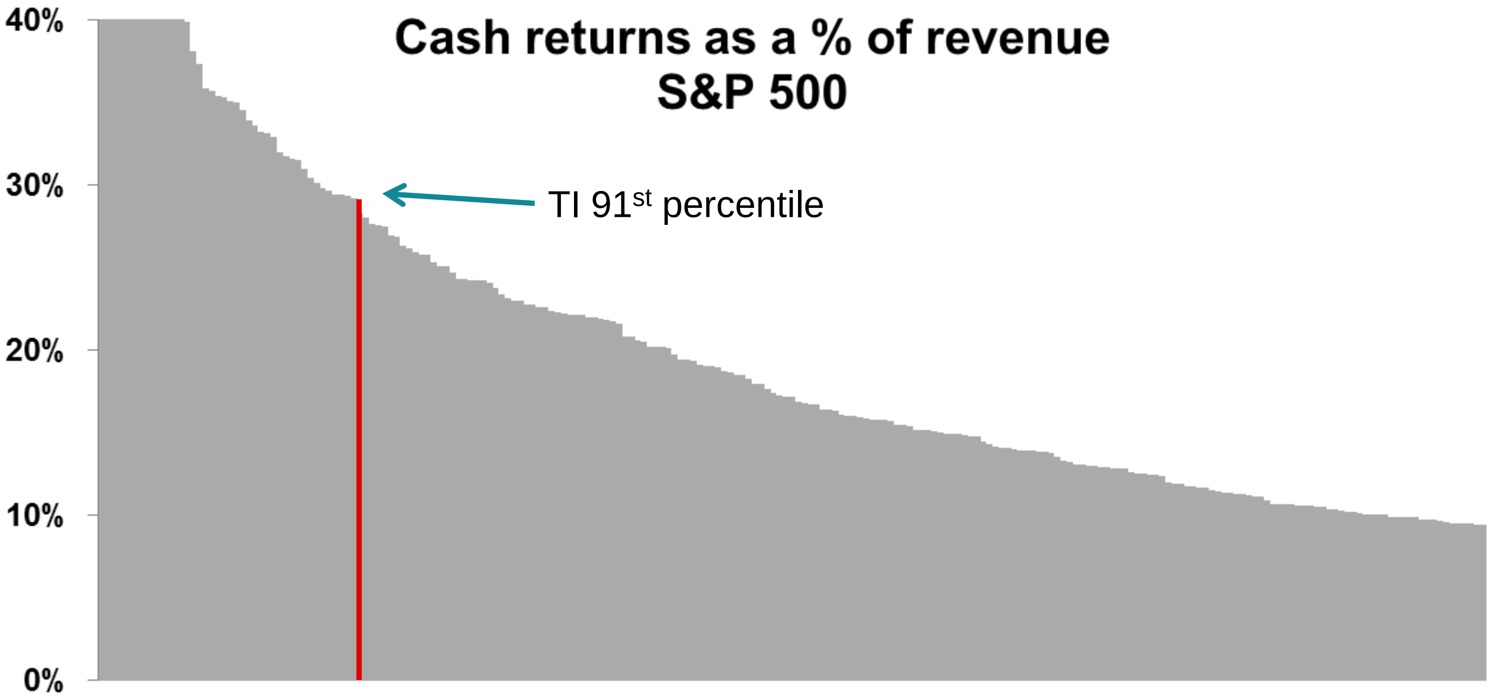
Free cash flow generation in top 15%



Source: S&P Capital IQ, TTM as of 1/16/2017

Cash returns

Cash return in top 10%



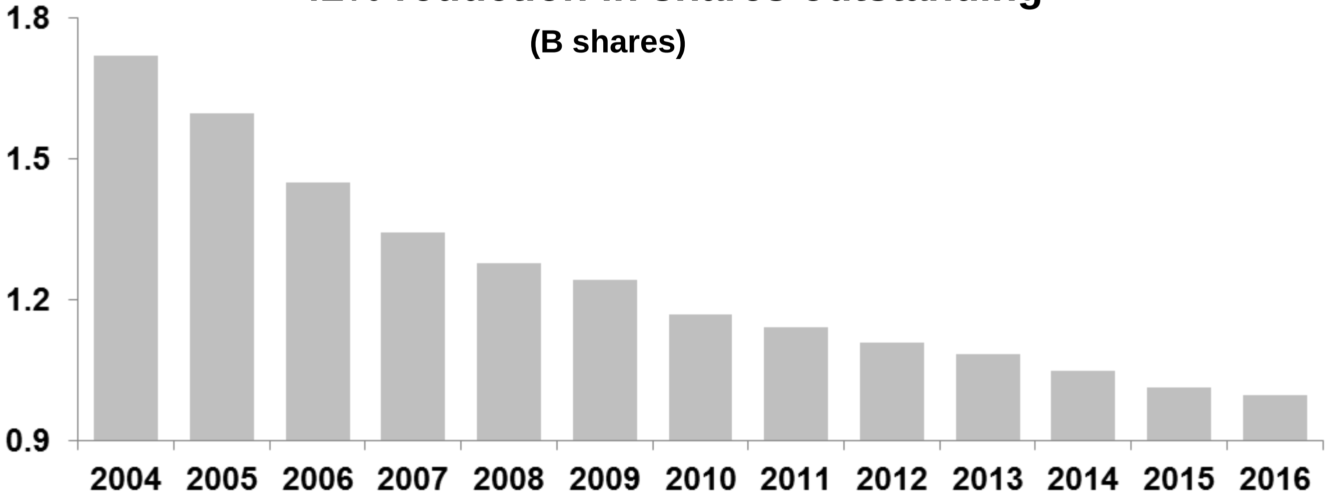
Source: S&P Capital IQ, TTM as of 1/16/2017 Cash returns = dividends + share repurchases

Share **repurchases**

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

42% reduction in shares outstanding

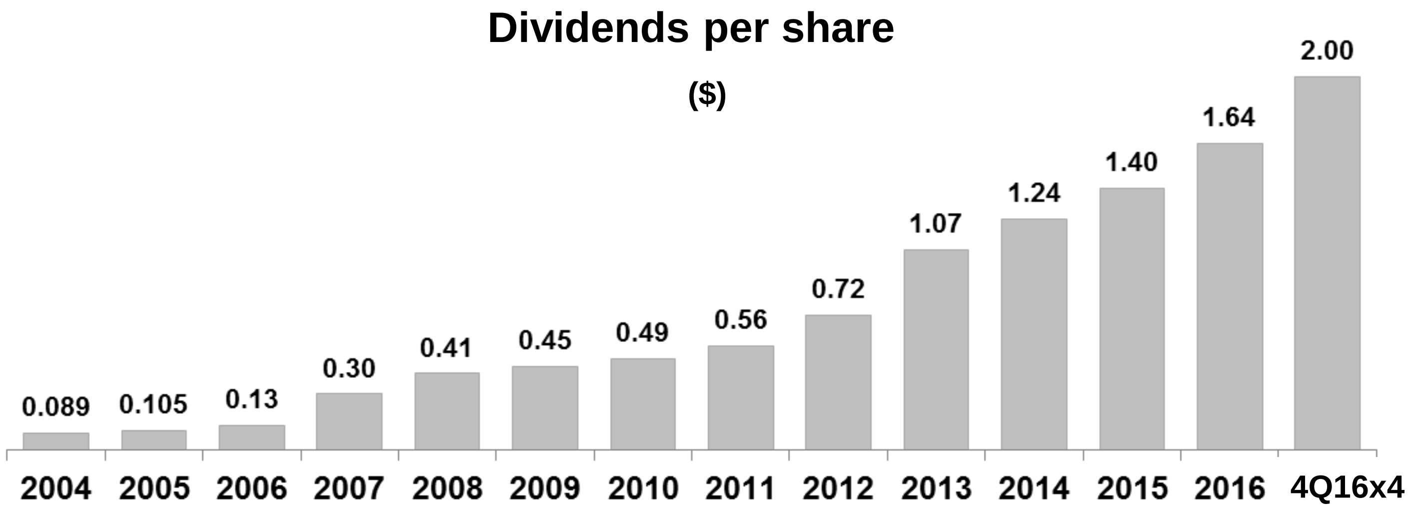
(B shares)



- Repurchase steadily when discounted cash flow value exceeds stock price
- Shares outstanding reduced by 1.5% over the last year, with $2.1B bought back in 2016, including $475M in 4Q16; shares outstanding now less than 1.0B
- $5.8B of authorization remaining as of end of 4Q16

Dividends

Sustainability and growth of dividends



- Increased dividend 13 consecutive years, including 32% increase in 4Q16
- 23% CAGR over last 5 years compared to S&P500 CAGR of 8%
- 2016 dividend payments used 40% of 2016 free cash flow
- Yield is 2.6%*

* As of 2/6/2017

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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 competitive advantages:**
  - Approach to manufacturing and differentiated technology
  - Broadest portfolio of Analog and Embedded products
  - Reach of market channels
  - All of which results in 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 Analog and Embedded
  - Free cash flow margin expansion as we build more 300mm Analog
  - 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. FCF/share is not an alternative to earnings per share as an indicator of TI's performance, and investors should not consider presentation of FCF/share as implying that stockholders have a contractual or other right to the cash.

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