Executive summary

At Texas Instruments:

• We run the company with the mindset of being a long-term owner.

• We believe that growth of free cash flow per share is the primary driver of long-term value.

• Our ambitions and values are integral to how we build TI stronger; when we're successful in achieving these ambitions, our employees, customers, communities and shareholders all win.

• Our strategy is comprised of a great business model, a disciplined approach to capital allocation and a focus on efficiency.

• Our business model is built around four sustainable competitive advantages: manufacturing and technology, broad product portfolio, reach of our market channels, and diverse and long-lived positions.

• After accretive investments in the business to grow free cash flow for the long term, the remaining cash will be returned over time via dividends and share repurchases.

Our ambitions

For decades, Texas Instruments has operated with a passion to create a better world by making electronics more affordable through semiconductors. We were pioneers in the transition from vacuum tubes to transistors and then to integrated circuits. As each generation has become more reliable, more affordable and lower in power, semiconductors are used by a growing number of customers and markets. Our passion continues to be alive today as we help our customers develop electronics and new applications, particularly in industrial and automotive markets.

Three ambitions guide our decisions

Our founders had the foresight to know that passion alone was not enough and that building a great company required a special culture to thrive for the long term. For many years, we've run our business with three overarching ambitions in mind. First, we will act like owners who will own the company for decades. Second, we will adapt and succeed in a world that's ever changing. And third, we will be a company that we're personally proud to be a part of and would want as our neighbor. When we're successful in achieving these ambitions, our employees, customers, communities and shareholders all win.

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Financial performance highlights

• 20 consecutive years of dividend increases, 24% CAGR (2004-2023)
• 47% share count reduction (2004-2023)
• 83rd percentile in S&P 500 operating cash flow as percent of revenue (2023)
• 93rd percentile in S&P 500 cash returns as percent of revenue (2023)
• 87th percentile in S&P 500 return on invested capital (2023)

For more detail about our ambitions and values and how they guide our decisions and behavior, visit Living our values.

Being a good corporate citizen

We take great pride in our commitment to being a good corporate citizen, which impacts our communities and the world in two ways. First, our ambitions guide how we run our business and are foundational to ensuring that we operate in a sustainable, socially thoughtful and environmentally responsible manner. Central to these ambitions is a belief that in order for all stakeholders to benefit, the company must grow stronger over the long term. Second, semiconductors will play a critical role in creating a better world and helping to reduce the impact on the environment. For example, they reduce energy consumption by making electric motors smarter, they electrify vehicles for a cleaner environment and they make factory robotic machinery with advanced sensors for better precision and employee safety.

For many years, TI has been disclosing strategies, programs and performance in our Corporate Citizenship Report using the reporting frameworks developed by the Global Reporting Initiative (GRI), the CDP, the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).
We solicit input from internal and external stakeholders throughout the year through regular engagement. We also examine third-party sustainability assessments and benchmark disclosure trends and best practices. We then compare these inputs to our company priorities to determine what topics and disclosures to include in our annual Corporate Citizenship Report.

There is a growing list of the ways that semiconductors help create a better world. With our ambitions guiding our decision-making for the long term and our products helping to create a better world, we are confident that our collective efforts will be impactful and long-lasting.

**Our objective and strategy**

As engineers, we’re fortunate to work on exciting technology which helps our customers innovate to create a better world. Technology is the foundation of our company, but ultimately, our objective and the best metric for owners to measure our progress is through the growth of free cash flow per share over the long term.

Our strategy to maximize long-term free cash flow per share growth has three elements:

1. **A great business model** focused on analog and embedded processing products and built around four sustainable competitive advantages.

2. **Discipline in allocating capital** to the best opportunities. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or how we think about acquisitions and returning cash to our owners.

3. **Efficiency**, which means constantly striving for more output for every dollar spent.

**Business model built on competitive advantages**

The first element of our strategy is a business model that’s focused on analog and embedded processing products and built on four competitive advantages. This business model is the result of a series of strategic decisions made over the years and that continue today. In combination, these four competitive advantages provide tangible benefits, are difficult to replicate and ultimately separate us from our best peers.

The four sustainable competitive advantages are:

- A strong foundation of **manufacturing and technology**.
- **A broad portfolio** of analog and embedded processing products.
- The **reach of our market channels**.
- **Diversity and longevity** of our products, markets and customer positions.

Together, these competitive advantages help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We make our investments with an eye towards long-term strengthening and leveraging of these advantages.

**Manufacturing and technology**

We invest to make manufacturing and technology a core competitive advantage because it provides us with tangible benefits of lower manufacturing costs and greater control of our supply chain, which has been of growing strategic importance.

Our most recognized manufacturing advantage is 300mm wafer production, which describes the diameter of the wafer on which our chips are produced. An unpackaged chip built on a 300mm wafer costs about 40% less than an unpackaged chip built on a 200mm wafer, the size used by most of our competitors.

While 300mm is our most recognized manufacturing advantage, owning and controlling our supply chain is an important element of this advantage. First, our investments provide the capacity necessary to support growth. Second, we have more control of our supply chain and plan to have more than 90% of our wafers and assembly and test manufactured internally. Third, our process technology is focused on 45nm to 130nm, which is optimal for analog and embedded processing products and vital for the industrial and automotive markets. All of these benefits allow us to provide geopolitically dependable capacity for our customers, with equipment and process technologies that last for decades.

We continue to invest to strengthen our competitive advantage in manufacturing and technology as part of our long-term capacity plan. In the semiconductor industry, given the time required to expand capacity, it is important to have a long-term capacity roadmap. Today, we have wafer fabrication facilities dedicated to 300mm production in Dallas and Richardson, Texas, and Lehi, Utah, with additional 300mm wafer fabrication facilities under construction in Sherman, Texas, and Lehi.
Our 300mm roadmap will allow us to support our customers over the long term, as semiconductor growth in electronics, particularly in industrial and automotive markets, is expected to continue well into the future.

**Broad portfolio of analog and embedded processing chips**

Our second competitive advantage is the breadth of our product portfolio.

We have a portfolio of approximately 80,000 products, which is more than our competitors’ portfolios. Just as importantly, we have leadership positions across the hundreds of product families that make up the analog and embedded processing markets. Our broad portfolio is about quantity and quality of our products.

Most customers’ applications use tens, if not hundreds, of analog and embedded processing chips in each system. Our breadth of product portfolio gives us access to more customers, which also means that we have the opportunity to sell more chips into each customer application.

We invested about $1.9 billion in R&D in 2023 to develop new products. This investment expands the portfolio by about 600 products annually, increases the number of leadership products and ensures long-term return on investment, given that many of our products live for 10 to 15 years, and often longer.

**Reach of market channels**

Our third competitive advantage is the reach of our market channels, which allows us to have closer direct relationships with our customers. Market channels consist of our online presence through TI.com and our global sales and marketing team. The breadth of our portfolio attracts tens of millions of visits to TI.com annually, which is more than our competitors.

We believe that our customers increasingly desire the convenience and productivity of online relationships along with skilled customer and commercial support. This is a broad secular trend we see around us in our daily lives.

Our multiyear investments in our sales and marketing team, TI.com, business processes and logistics uniquely position TI to lead this transition in the semiconductor industry. With these investments, customers have the choice of buying direct from TI via traditional backlog or for immediate shipment on TI.com, where they enjoy the convenience of online ordering and get the best price and availability.

In 2023, we continued our progress on building closer direct customer relationships, averaging almost three-fourths of our revenue transacting direct. This compares to about a third of our business transacting directly in 2019. TI’s reach of market channel advantage results in higher growth through access to more customers, projects, sockets per project, and better insight into customer needs.

**Diversity and longevity**

Our fourth competitive advantage is the diverse and long-lived positions with our products, markets and customers.

Diversity means we’re not overly reliant on any one chip, customer or market. More than 100,000 customers across the world use our chips, and more than 40% of our revenue comes from customers outside our largest 100. Diversity allows us to participate in a wide variety of growing markets and somewhat insulates us from the rise or fall of any one customer or market. Diversity is particularly important in the industrial market, where secular trends are increasing the semiconductor content across a broad customer base.

Longevity has two dimensions. It refers to the investments we make in manufacturing equipment and process technologies, which are typically used for 20 years or more and therefore result in good returns on our capital investments. Longevity also means the revenue associated with products and customer design sockets we win typically lives for a long period of time. Depending on the market, products and customer, sockets can last from several years to several decades, with personal electronics cycles being shorter and industrial and automotive cycles much longer.

Because of the diversity and longevity of our products, markets and customer positions, owners can have confidence in the high terminal value for our portfolio.

We believe that our business model with the combined effect of our four competitive advantages – manufacturing and technology, a broad portfolio of analog and embedded processing chips, the reach of our market channels, and diversity and longevity – sets TI apart from our peers and will for a long time to come.

**Disciplined allocation of capital**

The second element of our strategy to maximize free cash flow per share growth is disciplined allocation of capital. Over the 10-year period from 2014 to 2023, we allocated $94 billion, which reinforces the importance of discipline in capital allocation.
The largest allocation of capital over this period was to drive organic growth, with investments in R&D, sales and marketing, capital expenditures and working capital for inventory. In this period, we allocated just over $15 billion to capital expenditures. Our increased capital expenditures support future revenue growth, which will be a greater component of free cash flow per share growth going forward.

We also allocated capital to dividends and share repurchases. Dividends are designed to appeal to a broad set of investors, and share repurchases are made with the goal of the accretive capture of future free cash flow for long-term investors. Lastly, for inorganic growth, we allocate to acquisitions that meet our financial and strategic objectives.

We provide investors with an annual Capital Management update. In this presentation we review our objective, strategy and capital allocation and provide prior year performance on the key financial and operational metrics.

Efficiency

The third element of our strategy is efficiency, which we think of as always striving to get more output per dollar of cost. The guiding thought on efficiency is best anchored in our first ambition, that we will act like owners who will own the company for decades. This is about getting our investments (spending) in the most impactful areas to maximize the growth of long-term free cash flow per share; it’s not just about optimizing cost cutting to get to the last dollar of expense.

In manufacturing, the focus of this effort is driving higher yields, achieving better quality or developing new methods and automation to improve throughput or reduce material cost.

In R&D, the focus is on defining and developing great products and getting them to our customers on time. Efficiency manifests itself in many ways, including increased reuse of intellectual property, and robust methodologies, simulation and qualification to ensure first-pass success and a growing success rate for new products.

But we also bring this philosophy of efficiency and continuous improvement to all areas of the company, including the corporate functions.

As owners, you will see this focus on efficiency contribute to revenue growth, improved gross margins, disciplined R&D and SG&A expense, free cash flow margins and ultimately to free cash flow per share growth.

Our products and markets

Our focus is on the best products in the semiconductor industry, analog and embedded processing, with a strategic emphasis on the best markets, industrial and automotive.

Analog and embedded processing

Analog and embedded processing chips were approximately $81 billion and $31 billion markets respectively in 2023 within the semiconductor market. They share characteristics that make them both very attractive businesses:

• They’re pervasive; analog is used in every electronic device, and embedded processors are used in most.
• The markets are large, and while we enjoy leading positions in both, we have ample room to grow.
• They’re highly fragmented and diversified markets, comprised of hundreds of thousands of products and customers.
• They’re produced on manufacturing equipment that lives for decades, making the business less capital-intensive.
• Many of the products often last for decades, increasing stability of revenue and returns on investment.
• They both have history over decades of strong cash generation.

Today analog and embedded processing chips make up more than 90% of TI’s revenue.

Our end markets

We sell our chips into six end markets that are grouped by their life cycles and market characteristics. The six end markets are industrial, automotive, personal electronics, communications equipment, enterprise systems and other.

We see good opportunities in all of our markets, but we place additional strategic emphasis on industrial and automotive. Our industrial and automotive customers are increasingly turning to analog and embedded processing technology to make their end products more reliable, more affordable and lower in power. These trends have and will
continue to result in growing chip content per application, which will drive faster growth compared to our other markets.

In industrial, we’re investing in 12 sectors and hundreds of end equipments in support of tens of thousands of customers. Examples include smart thermostats, door locks, and appliances that can sense motion, humidity or temperature and then transmit diagnostic information wirelessly to initiate a service call. More complex applications can range from smart motors that use less energy, to robotic assembly lines that use sensing technology to operate more autonomously, to precision sensing, control and communications for grid automation and protection.

In automotive, we invest in five sectors: infotainment & cluster; advanced driver assistance systems (ADAS); hybrid, electric & powertrain systems; passive safety; and body electronics & lighting.

Our strategic emphasis on industrial and automotive revenues has produced long-term results. Revenue from the combined industrial and automotive markets was 74% of our revenue in 2023 and has grown at about a 10% compounded annual growth rate since 2013.

2023 revenue by end market

<table>
<thead>
<tr>
<th>End Market</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>40%</td>
</tr>
<tr>
<td>Automotive</td>
<td>34%</td>
</tr>
<tr>
<td>Personal electronics</td>
<td>15%</td>
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<tr>
<td>Communications</td>
<td>5%</td>
</tr>
<tr>
<td>Enterprise systems</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Our financial segments

TI has three financial segments: Analog, Embedded Processing and Other. Our segments align with how we manage the company.

Analog

Analog is our largest segment, with 2023 revenue of $13.04 billion, or 74% of our total revenue. As noted previously, the analog market was about $81 billion in 2023. We hold the leading position in this market, and we believe that we’re well positioned to increase our share over time. In a world where everything is “going digital,” we often get asked why analog is a growing opportunity.

Every electronic product requires analog technology because analog provides the power to run devices and is fundamental to how technology interfaces with human beings, the real world and other electronic devices. Therefore, every time a system is “digitized,” there is growing need and opportunity for analog chips.

Our Analog business includes power and signal chain types of products. Power products help customers manage different voltage and current levels and requirements in electronic systems, and our portfolio does this both for battery-powered and plugged-in systems. Signal chain products sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control.

Embedded Processing

Embedded Processing is also one of our core businesses, with 2023 revenue of $3.37 billion, or 19% of our total revenue. As noted previously, the embedded market was about $31 billion in 2023. We hold a leading position in this market, and we believe we’re well positioned to increase our market share over time.

Embedded processors are the digital “brains” of many types of electronic equipment. They’re designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application.

Other

Our third segment is titled “Other” and represented $1.11 billion of revenue in 2023. The Other segment is not expected to grow revenue, but these businesses do add value to TI with their profit contribution. Consistent with our commitment to disciplined capital allocation, these businesses receive minimal investments.

The Other segment includes DLP® products and calculators. In addition, it can include items such as acquisition, integration and restructuring charges as well as certain corporate-level items.
Summary

It is a privilege to get to pursue our passion of creating a better world by making electronics more affordable through semiconductors.

We were fortunate that our founders had the foresight to know that passion alone was not enough and that building a great company required a special culture to thrive for the long term. We continue to build this culture stronger every day. The desires of sustainable investors are aligned with our long-term ambitions and have been part of our formula for success for decades.

We will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value. To achieve this, we will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies.

You can count on us to stay true to our ambitions: to think like owners for the long term, adapt and succeed in a world that's ever changing and behave in a way that makes us and our stakeholders proud. When we're successful, our employees, customers, communities and shareholders all win.