

Investor overview



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.

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Financial performance highlights

- **12% free cash flow per share annual growth (2004-2020)**
- **18 consecutive years of dividend increases, 26% CAGR (2004-2020)**
- **46% share count reduction (2004-2020)**
- **89th percentile in S&P 500 free cash flow margin (2020)**
- **97th percentile in S&P 500 cash returns as percent of revenue (2020)**
- **95th percentile in S&P 500 return on invested capital (2020)**

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 became more reliable, more affordable and lower in power, semiconductors were used by a growing number of customers and markets. This passion is 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. 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.

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

Investors today are embracing environmental, social and governance (ESG), or sustainable investing. At TI, we refer to this as a commitment to being a good corporate citizen, and for many years we've published a [Corporate Citizenship Report](#) that provides insight into how we think about and how we perform in various ESG and sustainability areas relevant to our business.

The foundation of our approach to citizenship is a belief that in order for all stakeholders to benefit, the company must grow stronger over the long term. This is why our ambitions are so powerful – because when we're successful in achieving these ambitions, our employees, customers, communities and shareholders all benefit.

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. 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 and help our customers innovate to create a better world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

Our strategy to maximize 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 delivers tangible benefits of lower manufacturing costs and greater control of our supply chain.

Our most recognized manufacturing advantage is 300-millimeter wafer production, which describes the diameter of the wafer on which our chips are produced. An unpackaged chip built on 300-millimeter wafers costs about 40% less than an unpackaged chip built on 200-millimeter wafers, the size used by most of our competitors. Today, we have wafer fabrication facilities dedicated to 300-millimeter production in Dallas and Richardson, Texas, and Lehi, Utah, and another 300-millimeter wafer fabrication facility under construction in Richardson, Texas.

At TI we produce about 40 billion units annually across approximately 80,000 different products, and we deliver them reliably to more than 100,000 customers around the world every day. So while 300-millimeter is our most recognized manufacturing advantage, we're also advantaged compared to most of our competitors since we perform the majority of assembly and testing internally, versus externally. This gives us cost advantages and greater control of our supply chain, and our geographically diverse manufacturing site footprint provides greater business continuity, which was proven yet again through the recent COVID-19 pandemic.

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 greater than our competitors' portfolios. Just as importantly, we have leadership products within many of the hundreds of product families that make up the analog and embedded markets. Our broad portfolio is about quantity and quality of our products.

Most customers' applications use tens, if not hundreds, of chips in each system. Our breadth of product portfolio gives us access to more customers because there is high probability a customer will visit TI.com while designing their system. It also means that we have the opportunity to sell more chips into each customer application.

We invested more than \$1.5 billion in R&D in 2020 to develop new products. This investment expands the portfolio by about 500 products annually, increases the number of leadership products and ensures long-term return on investment, given that many of our products can live for 10 to 20 years, or longer.

Reach of market channels

Our third competitive advantage is the reach of our market channels. Market channels consist of our online presence through TI.com and our global sales and applications team. Our breadth of portfolio means we have tens of millions of visits to TI.com annually, which is more than our competitors. Because of our broad portfolio and size of revenue, we're able to invest in a global sales and applications team that is bigger than our competition. Additionally, we're focused on making it easier for our customers to buy online, a trend that's accelerating for semiconductor purchases.

Similar to our broad portfolio, the reach of our market channels is about quantity and quality. We work on a daily basis to make TI the most convenient place for our customers to search, select, design, ramp to production and eventually purchase their chips. This advantage means we have access to more customers and more of their design projects, leading to the opportunity to sell more of our products into each design. Additionally, broader and deeper access gives us better insight and knowledge of 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, on any one customer or on any one market. More than 100,000 customers across the world use our chips, and more than

one-third 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 means the investments we make in manufacturing equipment and process technologies, which are typically used for 20 years and more, make our business less capital-intensive. 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.

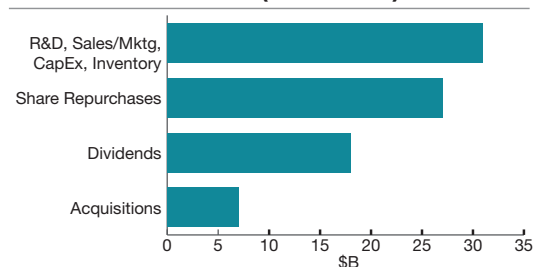
Because of the diversity and longevity of our products, markets and customer positions, owners can have confidence in the high terminal value for our portfolio.

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 a 10-year period from 2011 to 2020, we allocated \$83 billion, which reinforces the importance of discipline in capital allocation.

\$83 billion allocated (2011-2020)



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.

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, acquisitions are for inorganic growth, which we last did in 2011 when we acquired National Semiconductor.

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 quite obvious: 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

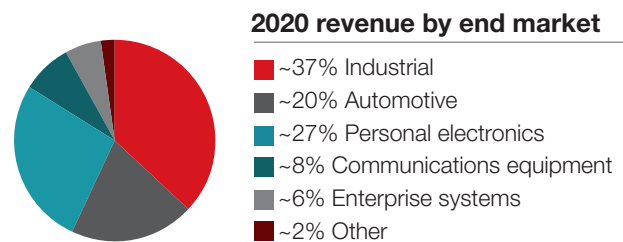
\$55 billion and \$18 billion markets respectively in 2020 within the semiconductor market. They share characteristics that make them both very attractive businesses:

- 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 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 technology to make their end products smarter, safer, more connected and more efficient. 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 13 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 found in factories can range from smart motors that use less energy, to robotic assembly lines that use sensing technology to operate more autonomously and precisely, to sensors in tanks that gauge fluid levels and dispatch an automated alert when a refill is required.

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 about 57% of our revenue in 2020, up from 42% in 2013.

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 2020 revenue of \$10.89 billion, or about 75% of our total revenue.

As noted previously, the analog market was about \$55 billion in 2020. 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.

Summary

As engineers, it's 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. Building a great company required a special culture to thrive for the long term, and we continue to build this culture stronger every day. The desires of ESG and sustainable investors are aligned with our long-term ambitions and have been part of our formula for success for decades.

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

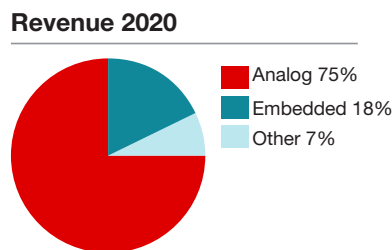
Embedded Processing is also one of our core businesses, with 2020 revenue of \$2.57 billion, or about 18% of our total revenue. As noted previously, the embedded market was about \$18 billion in 2020. We hold a leading position in this market, and we believe we're well positioned to increase our market 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 \$1.01 billion of revenue in 2020. 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 other items such as acquisition charges, restructuring charges and certain corporate-level items.



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.