

Investor overview



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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 of the world 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. It's why we do what we do.

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.

Our focus on analog and embedded processing, industrial and automotive

Our strategic focus remains on what we believe are the best products in the semiconductor industry, analog and embedded processing, and the best markets, industrial and automotive, both of which offer solid long-term growth opportunities given their increasing semiconductor content.

Analog and embedded processing

Analog and embedded processing products share characteristics that make them very attractive businesses:

- Both are pervasive technologies. Every electronics device uses some form of analog, and most use embedded processing.
- Both markets are large and highly fragmented, and while we enjoy strong positions in each, we have ample room to grow our share.

- Both are highly diversified, with tens of thousands of customers who use these technologies in a wide range of applications.
- Both can be produced with long-lived manufacturing technologies and equipment and, as a result, are less capital intensive than many other types of chips.
- Both have product life cycles that are measured in years, and often decades, enabling a stable base of revenue and solid returns on investment.

Industrial and automotive

Turning to the end markets we serve, we see good opportunities in all of our markets, but we believe that industrial and automotive will be the primary growth drivers in our industry and at TI over the next decade.

This is because semiconductor content in industrial and automotive applications will significantly increase as companies use semiconductors to make their equipment smarter, safer, more connected and more efficient.

In automotive, the chip content continues to expand, as cars have more electronic applications than ever before. We're also seeing these applications become more pervasive as auto manufacturers deploy them throughout their fleets. For example, driver-assist and collision-avoidance systems, features that were once limited to high-end cars, are commonplace today. This trend toward higher semiconductor content will only expand as hybrid, electric and even autonomous vehicles become a growing percentage of the cars on the road.

We believe the growth opportunities are even greater in the industrial market, which is still in the early stages of semiconductor adoption. We see new, exciting examples of this market's potential emerge every day in applications large and small. For example, smart thermostats, door locks and appliances 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 addition, the requirements for industrial applications map perfectly with the capabilities we've built over the years with our broad portfolio of power management, sensing, analog signal chain, embedded processing and connectivity products as well as the broad reach of our market channel, both of which allow us to serve and support this broad and diverse market with system solutions. This is in contrast to our more specialized peers, who approach the market in a product-centric manner.

We view our unique ability to serve the industrial and automotive markets and the intrinsic diversity they offer as strengths, as we aren't tethered to the success of a single application or customer or limited to only large, highly-visible opportunities. These markets also tend to be long-lasting, meaning product life cycles are measured in years and decades versus an 18- to 24-month cycle typical of some personal electronics products. Once you secure the business, it tends to last for a long time, which translates into stronger, more stable business growth over time.

Bottom line, we expect analog and embedded processing products and the industrial and automotive markets to outperform the overall semiconductor market and to be our primary growth engines in the years ahead. It's why we're focusing our efforts and resources in these areas and why we've made accelerating their growth a priority. This strategic focus has already resulted in positive outcomes, creating a company with compelling financial characteristics: stability, profitability and strong cash generation.

Our business model built on our competitive advantages

Our business model is the result of a series of strategic decisions made over the years that include a set of unique competitive advantages that we believe are sustainable over the long term. In combination, these four competitive advantages provide tangible benefits, are difficult to replicate and separate us from our peers. These advantages are:

- A strong foundation of manufacturing and differentiated technology.
- A broad portfolio of differentiated analog and embedded processing products.

- A broad reach of market channels.
- Diversity and longevity of our products, markets and customer positions.

Together, they help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We continue to invest to strengthen and leverage these advantages with a view toward the long term.

Manufacturing and technology

We have chosen to make manufacturing and technology a core competitive advantage because it delivers tangible benefits. Our analog technologies have life spans that can range up to 30+ years, and we invest in manufacturing technologies that differentiate the features of our chips. We also do most of our production in-house as opposed to outsourcing it. Internal manufacturing gives us a structural cost advantage and more control over our supply chain to support our approximately 100,000 customers.

We also benefit from our 300-millimeter manufacturing. The larger wafer size translates into more chips per wafer and cost advantages because a 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.

~40% cost advantage
chip cost on 300-mm vs. 200-mm wafer

Because the majority of our manufacturing is done in-house rather than outsourcing and because of the inherent advantage of 300-millimeter, we enjoy a manufacturing cost advantage. Today, we have two wafer fabrication facilities dedicated to 300-millimeter analog production. The majority of our future analog growth will occur on this cost-advantaged capacity, and construction is underway to build a new 300-millimeter wafer fabrication facility in Richardson, Texas.

Broad portfolio of differentiated analog and embedded processing chips

The second competitive advantage is the breadth of our product portfolio. With leadership positions in most analog categories, we have more differentiated parts to meet our customers' needs than any of our competitors. It gives us the opportunity to expand beyond a single chip, which our customers might have originally sought, and provide multiple chips or a system solution to solve even more of their design challenges. This product breadth gives us access to more customers and more opportunities to solve their problems, potentially generating more revenue per system and putting us in a position to grow revenue faster than our competitors.

We've seen growth in both Analog and Embedded over time. Combined, they've recorded five- and ten-year growth of 6%. Comprising 92% of TI revenue, we believe Analog and Embedded performance will translate into top-line revenue growth for the company in the years ahead.

We invested more than \$1.5 billion in R&D in 2019 to develop new products, and because we focus on the quality of the portfolio, our products remain differentiated, are long-lived and generate good returns.

Broad reach of market channels

Our third competitive advantage is the size and reach of our market channels. Customers often begin their initial product selection process and design-in journey on our website, and the breadth of our portfolio attracts more design engineers to TI.com than to any of our competitors' websites. In addition to our presence on the web, our large global sales and applications support team means that we have more feet on the street to directly support more customers, selling more of our products into more of their projects.

Combined, our web presence and global sales and applications team are advantages that give us unique access and insight to about 100,000 customers designing TI semiconductors into their end products, and therefore, the opportunity to win more sockets in each project. It also allows us to get smarter about what our customers want, because with every interaction, we learn more about what customers need and how our chips can support those needs.

Diversity and longevity

Our fourth competitive advantage is the diverse and long-lived positions inherent in our markets and products. Diversity means we're not overly reliant on any one customer, technology or market. We view this diversity as highly desirable because, with it, our success is not singularly dependent on choosing the next winning application or market. Instead, we can participate in both high-profile, large-volume opportunities and innumerable smaller-scale applications that can span many markets and thousands of customers.

About 100,000 customers across the world use our chips, and more than one-third of our revenue comes from customers outside our largest 100. This diverse customer base means less dependency on any single customer or application and a longer tail of revenue coming from the broader market.

In total, diversity somewhat insulates us from the rise or fall of any one customer or market, which translates into higher and more sustainable long-term growth. Our focus on the industrial market, which is highly diverse, reinforces this strength.

Longevity means the chips we design and the sockets we win live for a long period of time. The chips used in the industrial and automotive markets, two areas of strategic focus, have long life cycles lasting years, especially when compared with the more turbulent profile of customized chips for short-lived personal electronics products. In addition, the process technologies and manufacturing assets used to produce our chips have long life spans. This longevity translates into higher returns on our investments.

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

We believe the combined effect of these competitive advantages – manufacturing and technology, a broad differentiated product portfolio of analog and embedded processing chips, a broad market channel reach, and diversity and longevity – sets TI apart from our peers and will for a long time to come.

Our capital management strategy

The choices we've made as we developed and honed our strategy have produced positive results. Over time, we've invested for growth, gained share, expanded our profitability and created a set of competitive advantages that generates sustainable free cash flow growth.

Our capital management strategy reflects our belief that free cash flow growth, especially on a per-share basis, is most important to maximizing value over the long term, and that free cash flow will be valued only if it's productively reinvested in the business or returned to owners.

Free cash flow growth

At the core of our capital management strategy is our business model, which, as we've already described, is firmly rooted in analog and embedded processing products and is combined with a set of unique competitive advantages that we believe are sustainable over the long term.

40%
of revenue
converted to free
cash flow in 2019

The net result is the sustainable capability for strong cash generation. Our business model and competitive advantages have enabled our company

to consistently generate solid free cash flow margins. In 2019, we converted 40% of revenue into free cash flow, placing our free cash flow generation in the top 10% of companies in the S&P 500.

Our free cash flow per share has been steady over the past 10 years despite, at times, difficult macroeconomic or market environments.

Our strong balance sheet enables us to fully fund pensions and have access to low-cost debt. With interest rates still low, we plan to continue to hold debt as long as it makes economic sense. Even then, we use debt judiciously such that we avoid concentrated maturities while we maintain our strategic flexibility.

Capital allocation

Combined, these elements allow us to invest for our future and still have excess cash available to

return to owners. Over a 10-year period, 2010-2019, we allocated \$81 billion across these areas:

- \$31 billion on R&D, sales and marketing, capital expenditures and cash used for inventory to support the organic growth of our businesses. Our R&D expenditures are disciplined and focused on markets we believe have the greatest growth potential. While every market has areas of opportunity that are important to us, we believe industrial and automotive will be key drivers for semiconductor growth in the years ahead, and therefore, are focusing more resources in these areas.
- \$27 billion on consistent share repurchases, intended to generate the accretive capture of free cash flow for long-term investors. We focus on consistent repurchases when the stock price is below the intrinsic value, using reasonable growth assumptions.
- \$15 billion on dividends, designed to appeal to our broader set of investors, with a focus on sustainability and dividend growth.
- \$7 billion on acquisitions to fund inorganic growth, such as our 2011 acquisition of National Semiconductor. We look at an acquisition opportunity through two lenses. First, it must be a strategic match, which for us translates into an entity that is analog- and catalog-focused with a high exposure to industrial and automotive. Second, it must meet certain financial performance levels such that it generates a return on invested capital greater than our weighted average cost of capital, as one example, in about four years.

Returning free cash flow to owners

Our goal is to return all of our free cash flow to owners in the form of dividends and stock repurchases. We have a robust model to allocate returns between dividend growth and stock repurchases.

\$5.8B
free cash flow
generated in 2019

In 2019, TI generated \$5.8 billion of free cash flow, or 40% of revenue, and we returned \$6.0 billion in total to our owners.

We also raised our quarterly dividend 17% to \$0.77 per share, or \$3.60 annualized, marking our 16th consecutive year of dividend increases. We have increased the dividend at a compounded annual growth rate of about 20% over the last five years. Furthermore, our dividend in 2019 consumed only about 52% of free cash flow, showing there's still plenty of runway ahead to support our objective of dividend sustainability and growth, an important element of our capital management strategy.

We focus on consistently repurchasing shares when the intrinsic value of the company exceeds its market value. Since this program was implemented in 2004, we've reduced our shares outstanding by 46%, including a 1.4% reduction in 2019.

16 years consecutive dividend increases

The consistency of our dividend and share repurchase practices demonstrates our confidence in our business model and our commitment to return excess cash to owners.

TI is one of the few companies that is both a top cash generator and returner among S&P 500 companies. We believe TI is able to grow, generate cash and return it to owners in a way that few companies can match.

Our capital management strategy has continued to serve our owners well. Free cash flow per share continues to grow steadily, while we continue to invest to strengthen and leverage our long-term competitive advantages.

Our financial segments

TI has three segments: Analog, Embedded Processing and Other. Our segments align with how we manage the company. We view Analog and Embedded Processing as our core businesses. Both offer us the opportunity for growth, solid profits, greater stability and compelling cash generation. Our Other segment also adds value to TI.

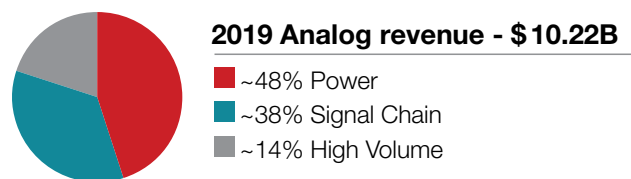
Although the product lines and revenue streams in this segment tend to have lower growth rates, they provide high returns given the relatively low level of investment they require.

Analog

Analog is our largest segment, with 2019 revenue of \$10.22 billion, or about 71% of our total revenue. The market is large – about \$54 billion in 2019 according to external sources – and growing, but it's very fragmented. We hold the leading position in this market with about 19% share, and we believe that we're well positioned to increase our share over time. We view Analog as a growth opportunity for TI.

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.

Our Analog business includes Power, Signal Chain and High Volume products. Power products help customers connect and manage power in electronic systems, and our portfolio does this across different voltage levels and requirements. Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Finally, High Volume includes integrated analog and standard products that are primarily sold into markets such as personal electronics, industrial and automotive.

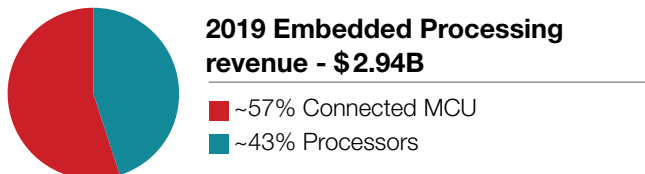


While we have many products optimized for specific applications, most of our Analog business focuses on catalog products that can be sold to many different customers who use them in a wide range of applications. We intend to continue to focus on catalog products, as the diversity and long life cycles typical of these products are advantageous.

Embedded Processing

Embedded Processing is also one of our core businesses, with 2019 revenue of \$2.94 billion, or about 20% of our total revenue.

Like Analog, this is a large, attractive market – according to external sources about \$18 billion in 2019 – also with a fragmented competitor base. Our 2019 Embedded Processing revenue represented about 16% of 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.

Our Embedded Processing business consists of two product lines, Connected Microcontrollers and Processors. Microcontrollers are self-contained systems with a processor core, memory and peripherals designed to control a set of specific tasks in electronic equipment. Processors include digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data, while applications processors are designed for specific computing activity.

An important characteristic of our Embedded products is that our customers often invest their own R&D to write software that runs on our chips. Once customers write software on our platform, they tend to want to re-use that software investment from generation to generation of their product. As a result, relationships with these customers tend to be long-lasting and strategic.

Summary

We believe we’re focused on the best products – analog and embedded processing – and the best markets – industrial and automotive – in the semiconductor industry. This is where we’re focusing our time, our energy and our resources as a company.

Other

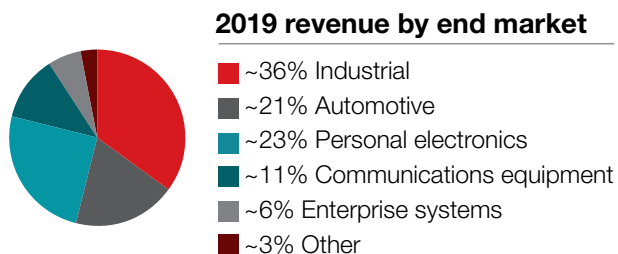
We group our remaining revenue in a segment called “Other.” This segment’s revenue was \$1.22 billion in 2019.

“Other” adds significant value to TI. Although there are some differences in the various business models represented in this segment, in general, these product lines have a profit contribution that is attractive, where our investments are minimal and aligned with our expectations.

“Other” includes product lines such as DLP® products, calculators and custom ASIC products. In addition, it can include other items such as acquisition charges, restructuring charges and certain corporate-level items

Our end markets

We sell our products into a diverse set of six end markets that we have identified and grouped by their life cycles and market characteristics. We also have identified more than 35 subcategories, or sectors, within these six end markets, reflecting the diversity of the markets and applications we serve. For example, in industrial we have 13 sectors, with no single sector having more than a mid-single digit percentage of TI revenue in 2019.



Together, industrial and automotive, which are areas of strategic emphasis for TI, represented about 57% of our revenue, up from 42% in 2013, when we first began tracking this metric.

We believe the ultimate measure for any enterprise is superior long-term growth of free cash flow. Our performance in 2019 showed what our business model can deliver, despite headwinds from trade tensions and an industry downturn. After investing in our people, products and capacity for the future, we again returned more than 100% of free cash flow to our shareholders in the form of dividends and stock repurchases. With free cash flow of \$5.8 billion, or 40% of revenue, we returned \$6.0 billion. Our quarterly dividend increased 17%, marking the 16th year of dividend increases. In addition, our balance sheet remained strong.

We will continue to be disciplined in executing our capital management strategy: investing in and strengthening our competitive advantages, growing free cash flow per share over the long term and returning free cash flow to the owners of the company.

Our work is not done, nor will it ever be. In the years ahead, we expect TI to be known for our flawless execution in product development and manufacturing, superior cash generation and cash return practices and our ability to create new and better product solutions to address our customers' needs.

We remain committed to pursuing our passion to create a better world by making electronics more affordable through semiconductors. You can count on us to do this by staying true to our ambitions to think like owners for the long term, adapt in a world that's ever changing and behave in a way that makes our stakeholders proud. When we're successful, our employees, customers, communities and shareholders all win.



Amount of our free cash flow we're committed to return to shareholders through dividends and stock repurchases.