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PRESENTATION

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Good morning, everyone. Thank you for coming. I'm Stacy Rasgon. I'm Bernstein's senior analyst. I cover the U.S. semiconductor and semiconductor capital equipment space.

And it is my great pleasure to have our guests today, Haviv Ilan, the President and CEO of Texas Instruments. Before I start, I want to mention if you have questions you'd like to ask during the presentation on the inner cover of your program, there's a QR code to our Q&A forum. It's called pigeon hole and you can submit questions there, and we'll leave time at the end to ask those.

So TI, Texas engine is quite -- they sort of like to joke that they're boring. And they kind of like it that way. Although I think it's not easy to look boring. If you dig in, I think you'll find there anything but. And more recently, I'd say things have gotten a bit more exciting as they're embarking on a new CapEx and investment plan stirred things up a little bit versus the prior years. But I think long-term implications of that move might be very different from the near-term implications. And as always, they'll continue to run things like they do like they always say we run the company like owners and they mean it. Tell us all about that as well as many other things.

It's my great pleasure to welcome Haviv. So thank you so much. Thanks for today.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Thanks for having us.

QUESTIONS AND ANSWERS

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So look, you've been in the top job now 2 months. You're not -- totally not new to TI, you've been there 20 years or more.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

24 years.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

24 years, okay. Multiple decades at TI. But still things are a little different once you're finally looking around from the top of the pyramid. I mean, what surprised you at this point, if anything? And I guess I get questions from investors want to know if anything is going to change, given the leadership. My gut says probably not, but I'd love to get your view.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. Maybe on that, the internal joke in TI that the biggest change would be the accent versus Rich. But more seriously, I think, as you said -- when you look at from the top, it looks like a lot of change. But for us, the change has been continuous in TI, and that's part of our culture always changing and getting better. And we have gone through a lot of change in the last 10, 15 years, and I participated in a big part of it. And we are finding ourselves in a new phase of the evolution of TI. We are very excited about it.

And that's part of the reason we are making this CapEx investment that you've mentioned. And we can go deeper into it, but just being in TI for so many years, and looking at the amount of change we had to go through, I can't be more excited of where we are right now, looking at our future.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes, it's really funny. So people do talk it's boring, but it hasn't been boring, right? I mean I remember when I first started, it was 15 years ago, and the big thing was the mobile exit. And it was kind of a gutsy move. It was like we have this business, it's 1/3 of our revenues, where it's \$4 billion with a biggest base. It wasn't Qualcomm back then it was TI.

It was the biggest base. We're going to run it for cash into the ground, right? Gutsy move and it worked, and then the whole 300 millimeter, I still remember where I was when you first announced the RFAB investment in like September of '09 or whatever it was. And people thought you guys were saying. And I remember you had aspirational targets to get to 55% gross and 30% operating margins like someday. And that's come through. And then the whole auto and industrial focus and 100% free cash, which I think a lot of folks are focusing on those same things now.

You're probably the first to clearly articulate that story. So like under the service, like I said, if you dig a little bit, I'm -- boring is the wrong word. It's been exciting.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Didn't feel boring inside. I can tell you that.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I want to talk about all -- I do want to focus a little -- just to start a little on some of the near term. And at this point, I don't really like it, but it's hard to avoid it in this environment. And I think just -- 1 of the big questions people have had is at least until maybe recently, your near-term results have been somewhat at odds with many peers. Again, maybe not quite as much anymore, given what we've seen in this earnings cycle. But even in magnitude, it's been more -- I always have a heart to believe that you guys will be seeing something going on in the market that's not actually happening. I mean you sell kind of everything to everybody everywhere.

But why do you think you were seeing maybe some of these terms in industrial and some of these other end markets earlier than others?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes, maybe start a little bit with what we have seen. So -- and I think we talked about it even last year, I remember Rich mentioning and this amazing prediction that the market will go up and then it'll go down, it'll go up again. So far, it went up and then down, that happened. But for us, it happened in a way that was kind of a synchronous in terms of the market. And it started with PE or consumer personal electronics, as we call it internally. And we've seen weakness already at the kind of a year ago.

And typically, Q3 is a big quarter for us, and it did the opposite last year. And we've seen continuous decline in Q3 and Q4 and Q1 again, you kind of guided flat into Q2. But it's already almost a year of weakness in PE. We have seen industrial comms, enterprise following up maybe a couple of

quarters after. And so far, automotive is holding. So it's a little bit different than the previous cycles in the sense of the markets are a little synchronous to each other. They don't behave the same at the same time.

In terms of the real -- of the way it comes into our results versus the competition, I do believe that our approach to market, the way we have supported our customers, the way we've done or not done special deals with them. I believe or our belief is that we see the results more real time. That's our estimation, especially in the markets we operate in industrial and automotive, they don't move share very quickly.

And the belief is that we have to go and wait and look at market share over the long term, and you started to even hint that lately, we are hearing more voices that maybe it wants to correct itself. I do believe that we've seen things a little bit earlier based on the way we supported our customers.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Is this just a fact, I mean, you guys -- you don't run as much of a backlog model and you're more direct and there's clearly less of a distribution buffer in between you and your customers. Is that -- your lead times have been pretty normal also for most of your products, right?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Lead times are improving. Still, of course, there are always some hotspots, and we always have them, but they are diminishing in a growing rate. And I will say that the way we go to the market, not only the direct business, but also the terms of the way we do business. It's very, I think, customer-friendly in terms of the convenience and support to our customers. We don't try to force them to take parts. We want to write NCNRs with them, noncancelable, nonreturnable type of agreements because to be fair, customers don't really know what they need and what they want. And our job is to support them in a convenient way.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. I don't think there's any such thing as a noncancelable order personally...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

We believe the same. And if you insist, it just makes the tension too high. So we prefer not to have them.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So -- it is interesting, you're talking about market share. And it's a factoring if I take your analog revenues, I look at sort of industry analog revenues. On that rough metric, you have been losing share "over the last like a year or two." Is that just more -- I mean, you can make the argument that your competitors do run backlog models and I mean maybe there's stuff in the channel and you're not. I mean, is that the kind of dynamic that we ought to be thinking about here? And I'm talking the analog -- right now...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

No. Yes, for us, and it's the way we think about it internally. We would spend time on market share over really a long-term period because, again, that's the way we like to measure stuff. I think it (inaudible) right now.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

How long?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

To us at least 5 years through cycles. And I think if you look at TI and look at the rest of the -- I look at it, of course, every quarter, I don't have long -- a lot of concerns on our analog performance. It's always better to be ahead of the competition in the short term. But I think when you let the cycle run its course, we say where we are, I think we'll be in a good position.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Do you have any worries about like double ordering or anything? Or would you even care? It's like we ship it today, we ship it tomorrow, like it doesn't matter.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Less care about it. And the way we also, as you talked about backlog, the way we prepare and that's part of our execution areas right now. We need to prepare for the next opportunity. And for us, the way to look at how much, for example, inventory to have and how to have it across parts and at what level? Is it in [TI bank] or is it in finished goods. We have to go deeper into the real demand of the product.

So you look historically of what the parts did. You look at the trend line, and I think Dave showed in our last capital management, kind of the way the market is and the cycles. And our mind is on where could be the next up cycle B, how noisy could it become? And that derived together with some other parameters, like cycle time of parts, how much inventory we want to have for each and every part -- we have tens of thousands of them.

So that's where the focus is right now. We don't put a lot of attention on backlog.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Okay. Let's talk about inventories because this is something -- and maybe I'll ask you to articulate your current inventory strategy because you just took the targets up and you're running well above the high end and you've even talked about -- we actually want to run even higher than that.

And it is scaring investors somewhat, although again I think the makeup of your portfolioing and your inventory itself is probably safer from that standpoint than others. But maybe talk a little bit about what you are doing with inventories and why?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And first, that is kind of the lessons we took from the last cycle. As you remember, in the beginning of the cycle, when we ran our factories open, and I think you guys talked about it last year, even it was counterintuitive to many in the street, but it served us very well. And we only wish we had more. And we now look at the next opportunity and say, "Hey, these parts have a certain behavior. They have -- they run through a lot of customers. They've run for many, many years. We have a signal that we can analyze and say, what do these parts -- what can these parts do in the next 2, 3 years or in the next cycle, and that derives our decisions of how much we want to have.

It's also a more sophisticated in a granular way of where do you want to have the inventory? Do you want to have it in TI banks? Do you want to have it in finished goods and it all relates to how long it takes to build a part when you see a surge in demand. So that's how we approach our problem. This is why we don't have a definite days number or even an inventory dollar amount...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So the target was 130 to 190, right?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

We upped it in the last February to about 200, which is endless, right? But it's not endless to make everyone feel better about it. We have a very granular plan for each and every part, how do we bring it to the right level so it can serve us very well in the next up cycle because we want to take market share when we -- when the market surges.

And to your point, the composition of our portfolio is very different compared to 10 years ago. We have now a very diverse portfolio and more than 75% of it can be built with almost 0 risk of obsolescence. So I see us taking advantage of that opportunity in preparing not only getting capacity ahead of demand, but also have inventory to serve the short-term demand from customers. We want to be the best supplier in terms of convenience and availability at the next opportunity.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So I'm going to ask you like during the pandemic when the shortages were happening, and you guys had inventories. Even then, though, at least anecdotally, TI was called out as part of the issue, and there was [P] mix and other things that were -- was it just you didn't have -- you didn't quite build the specific things that were needed? Or like why was TI called out given where the inventory levels were.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I think statistically, we serve many times tens of sockets on a board. So just in terms of presence, especially in industrial and automotive, you would find our name from time to time. And we have heard these escalations, and we have learned the devil is in the details. And that's part of the way we want to prepare for the next opportunity.

How do we make sure that each and every technology part, package, process technology is, first, we have sufficient supply ahead of that demand. And second, we have enough inventory. Now I think -- when I talk to customers, just came back from Europe in the last couple of weeks. I had 0 discussions on escalations, meaning I think the situation is much more healthy now, and that's very good for us because we can talk about '25 and '26 and how do our long-term investments serve our customers as they think about what the market can do for them.

And who are the potential suppliers and how TI could be even a bigger or larger supplier for them moving forward. So I'm excited about that because instead of just solving short-term problems, we can kind of focus on the future.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Let's talk about some of those long-term things. So again, going back to the original 300-millimeter strategy, it was a long time ago. So effectively, we bought 10 or 15 years' worth of capacity through a number of transactions back then at \$0.10 on the dollar, give or take, whatever it was.

And -- because of that, you were running capital intensity at the low single digits for the better part of last decade or even beyond, and that's changing now. There's not a lot of -- I guess, during that cycle, we had bankruptcies, right? And lots of like freely available capacity, we just don't really have that. I guess that's good.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I don't really have that at this time.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

You did buy the Micron fab, we (inaudible).

I'm assuming it wasn't a \$0.10 on the dollar either although it should have been attractive, presumably.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

It was attractive.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

But in general, you've got to build fabs. And I'll get to the mechanics of the fabs and the model. But one thing that's really got people wondering is the growth targets. And I guess, as far as I understand, they're not specifically growth targets. You're not committing to any specific target for growth.

But what you have said is that we want to put capacity in place that is sufficient to support growth. Originally, it was 7% and now it's 7% to 10% -- it is 10% -- so it's not 7% to 10%?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Correct.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

What gives you the confidence to start on a strategy like that? And I guess what drives that kind of growth? And like how -- like especially at this point is that everybody is freaking out because you're adding a ton of capacity in what looks like a cycle peak. So like how do we parse all of that? And where do those targets come from?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes, we can go through that, and I'll say the way we talk about it internally, and of course, you can go and we can go deeper as needed. But let's start with Industrial and Automotive.

And when we started, I remember the days when we said, hey, we are not going to be a wireless player, it's going to be industrial and automotive, and I said, what, and that was kind of before the end of that decade. And then we went into a very tough execution period of winding down wireless and then shifting some of the IP, industrial and automotive absolutely at least -- by the way, helps you also on capacity because when you get away from revenue, some of the capacity, let's take DMOS6 our first 300 millimeter wafer fab. It was a [Nokia] fab supports analog growth, right? So that also happened in between.

But we just look at industrial and automotive and what it did for us. And it's actually on our website. We talked with some folks earlier today you go back to 2013, and I think that's the earliest we put it on our website and you look at our industrial and automotive business, it was 42% of our revenue.

It was 65% last year in 2022. But if you just look at the dollar amount because you can do the math, you will see between -- for the company industrial and automotive grew at 11%, almost 11%.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Since -- from 2013?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And that's where embedded did not have its best days. So when I think about what we have done -- before we put all the R&D effort, acceleration into these markets before we got to learn these markets in granularity. We have, I think, overperformed, I think we took some market share over the years. And we've done okay.

You look at the opportunity in the next decade, the exciting part is the market is also changing. So we are seeing an acceleration of secular growth in Industrial and Automotive. We saw it also on the ICE or the combustion engine areas of automotive, but it's accelerating with EVs. There is more content per vehicles with EVs and EVs are in the -- if not completed the adoption curve into the market. And also, you see acceleration in industrial in areas like factory automation, medical, aerospace and defense and electrification, which is really accelerating immensely in the last few years.

So when we look at what the market wants to do, we look at how we did in the last 10 years before, we had some fixes ongoing in our portfolio in our business. And the time we spent with the teams in industrial and automotive learning it going deeper into it, I give ourselves a good chance to continue that trajectory at least. It just meant Stacy, if you just take the same growth rate from 2022 for Industrial and Automotive, run it at 11%. And just hold all the other markets flat, you'll get to about 8% growth for the TI.

So 10 doesn't sound crazy when you do that math. Of course, it looks weird because we've not done it before, but this is where you have to look under the hood and see where the opportunity is. The second part of it, how are you going to support that growth? And this is where the tougher because you can all put trajectory growth out there, but how are you willing to support it. We're just trying to support it internally.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Everybody wants growth for free...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

No one wants to invest. But I think the bold decision, and that's where Rich, again, carried us through it, and we spend years discussing it until you saw the plan coming first in '22 and then updated in '23. The best way to do that is internally because of cost advantages and because of control of our destiny of our supply. And that control part was kind of always kind of -- no one paid a lot of attention on it. I can tell you in the last 12 to 18 months, our customers are paying a lot of attention to where is that supply coming for us.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

We'll get to that.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Absolutely.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

So I guess just maybe if you want to just remind people in the audience who aren't maybe not as familiar with the current plan. What is the current plan for these builds?

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

Yes. So again, the -- as you said rightfully so, we said, okay, we want to be prepared to support growth of about 10% for the company. The reason we feel confident is the growth of the industrial and automotive markets, our position in these markets at 65% end of last year day, right? And I think higher now because they're holding better than the rest of the market.

And then the feedback of the customers. So -- and which is a big (inaudible) for us because when he came out there with a 7% growth plan and show the investments, the feedback for customers was we think we need more. And when you look and talk with customers about '25 and 2030 and what they are willing to do with TI, if we are willing to be a little bit more ambitious and bold about our investment gave us the confidence that we want to take that plan to 10%, which we don't talk about it as a 10% plan.

By the way, we want to support \$45 billion of revenue by the end of the decade. And to do that, we have to start to invest now. We can't wait for the cycle to decide what it wants to do to be able to support it. We know, if we knew that if we don't start now, we have no chance to get there. So that's what we are embarking upon. You're seeing RFAB2 right now in production, and that's something that has happened in the end of the third quarter of last year, but it's now producing wafers in a higher rate and...

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

That takes a few years to ramp to full volume.

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

Correct. About 2, 3 years to ramp up. But it is now -- every day, the wafer starts is giving us a big chunk of delta.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Where are the wafer starts now, have you given that number?

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

We don't provide that. But I would say we are half a year or maybe 3 quarters in, maybe another couple of years to go. But the slope of the ramp is behaving nicely. It's like everything is like [an S] curve, right? And Lehi, which is the investment we've made with Michael or the acquisition of \$1 billion that we had to put in more equipment and new equipment to make that factory serve our technologies. It ramped ahead of schedule with a great team in Lehi in December of last year.

And the beauty of Lehi that every wafer I can build over there for MCUs, for real-time control systems with embedded flash, every wafer we can build is sold into customers. That's an area that is still a hotspot in the industry and for TI. And we are very pleased with that execution. So that's going to be -- give us the first wave through '25 of that capacity addition.

The next phase of addition is going to be first in Sherman, Texas. This is where we announced the 4 sites. They had the 4 wafer fab. We haven't given a time frame of how we are going to ramp them, but it depends on what the market wants to do.

And we are going to build the first 2 shelves in parallel. That's -- again, we want to be ready with the brick-and-mortar ahead the equipment. We'll equip Sherman 1...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And then you'll equip as you see need as they're ready to go.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I mean right now, the plan of record, and that's what we run with our RFAB2 will ramp somewhere to production somewhere in 2025, and we will want to have Sherman 1 continuing that growth in the middle of '25. And Sherman 2 it depends. And the last announcement was Lehi.

We expanded Lehi, and this is actually a big expansion from call it x wafers per day or wafers per month where you want to measure it to almost 4x. That's an \$11 billion investment, which also gives you the confidence that we have. And TI, by the way, we don't like to spend money, okay? So when we do it, we look very carefully on what's the risk versus reward. And to us, it was almost like an asymmetrical bet. There is more opportunity than risk, and we are going to go build it internally. And I always joke internally, when we did the Lehi and we did the make versus buy analysis, we had a certain wafer fabs from the foundries, guess what they have done in the last couple of years. They actually went up tremendously.

So that return on investment of Lehi 1 was very, very favorable versus our original plan. And I think Lehi 2 will be also, again, a great team and the continuation of Lehi 1 wafers will run in between the factories. So it's going to be an expansion. So that gives you in a nutshell, the decade of investment. This did show in the slide that somewhere in '25, '26, when I would say that's where we have to see through the next cycle, we can have a checkpoint and say, "Hey, are we ahead of ourselves, should we slowed down the investment plan, and we gave kind of to option or funnel of how we want to invest, but we want to see it through the cycle. Let's see what the cycle wants to do, let's see it recovering, let's see what the market wants to do our assumptions.

Are they correct or not? Is the world still saying in terms of what's going on? And then we can make a decision should we slow down or not. We always joke that we want to have 2 years. It's not a joke, actually, it's an important thing. We want to have 2 years -- we prefer to have 2 years ahead of supply rather than 2 quarters later because it's very painful, and we felt it to you during the COVID cycle. When you don't have enough supply to support your customers.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. I think you guys ran into that '08 as well, right? That's kind of where you learn some of these initial assets.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Absolutely. But again, even in 2019, when we decided to continue with RFAB2, the same are you guys crazy. Boy, if we had that factory ready a couple of years earlier that would have been a great moment for TI, but I think the opportunity will come in the future.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So I do want to talk about the financial impact of this because there is an impact. And so the CapEx is going up pretty considerably, over the next several years. I think it was \$5 billion on average to '26?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

'23 to '26, about \$5 billion ramping.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And '23 is lower than that because it takes time.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes, every quarter will probably go higher because equipment also is coming in and lead times are becoming more reasonable. So...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I know you guys don't guide to gross margins, but you've been fairly transparent on how to model the impact of this. And it seems clear to me that gross margins, all else being equal probably need to come down. And I assume you guys don't care. You don't run the company to a gross margin target anyway. But we...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I don't think that way because it doesn't drive the right decisions. Again, the decisions are driven by, hey, we need to have that capacity ready for the demand so we can serve our customers and grow market share, right? And that's why we make the investment. And if you start to dwell on what margins are going to do that can yield the wrong decisions.

So having said that, when we build these factors, we want to do it very efficiently. And these are great variable cost factors. So when we have wafers coming out in RFAB2, every wafer we can move from 200 to 300 [dose] there, right? These are tactical decisions that I monitor on a weekly basis that are we utilizing that capacity at entitlement and so far, so good.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. How much of your capacity will be on -- given these numbers, I think, but how much will be on 300-millimeter in internal by the end of the decade if this plays out?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

So I think in 2022, it was 40 on 300, going to above 80 in 2030. I will also say that the internal versus external is, I think 80% in 2022, almost 95%, we said about [90] in 2030. The big mover is that Lehi embedded processing. So this is where our confidence in that business is higher, it's a no-brainer to take that technology and move it internally. So that will be the biggest mover because analog is almost already...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I'm going to talk about embedded in a minute.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Absolutely.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

But first, would I like to be -- one of the drivers of this clearly is also the CHIPS Act. And you are -- there's 2 pieces of this. There's the tax credit and then there's the subsidies. And my impression of the increase in your outlook for these investments was effectively that you were taking the tax credit and reinvesting it -- the entirety of the tax rate into more CapEx. Is that too simplistic? Like would you have upped it even if the tax credit wasn't there?

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

It's hypothetical, so I would never be able to answer because we took the plant higher once the chief sector was in motion, right? So we never -- but again, the driver of the investment is our excitement about the opportunity of the 10%. We do like to say that it helps, right? It makes us more competitive. This is something that our competition around the world is getting help and if U.S. companies are going to be competing for market share worldwide, globally, I mean that government health is less. And we like it not only because of the capacity help that we can get or the support, but also the R&D behind that CHIPS Act. So -- we think it's historic. We are excited about it, and it's definitely going to help us implement our plan. Yes.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

And I guess there's another like maybe longer-term implication of people are worried about trying to decoupling. And I suppose if China or Asia are no longer attractive places to have semiconductors maybe you guys will be sitting here in the U.S. with a good amount of, so we say, geographically attractively located capacity. That had to have been a driver of what you're doing and maybe even a driver of the increase.

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

I would say that give us the higher level of confidence. And again, we've done it through our customers. So we've learned the importance of that point through the discussion with customers. And usually, when I think about automotive or even industrial, our parts -- our AUP is less than \$0.40. Usually this started at a very low level.

But now with semiconductors becoming a bigger part and bigger importance of these customer end systems and equipment. As building our capacity in the U.S. and the diversity of the back end, the fact that we control it is a big important to this -- important for these customers. And we are meeting with CEOs, CPOs that we would never met before to talk about '25, '26, and they like our plan. And they're all kind of scenarios of what the world wants to do. But when we look at it and we analyze it internally kind of like our chances in if the world wants to stay, and I hope it actually does that and stays open and everybody can compete everywhere.

All the world want to work case the [couple] or whatever. I think we can do well on both cases and also all the in between options, and there are many of them that you can envision, that is part of this dependability or we call it the geopolitically dependable capacity that we are putting together for our customers.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

When will we know about like the more direct subsidies? I presume like I think the initial plans were during February and...

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

It's very early in the phases. So we are starting discussions right now. And again, we are learning as we go. So I have not even had the latest on that. I think it's early phases probably by the end of the year, we'll have more information on that.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

But to be clear, what you're doing doesn't depend on any of that, correct?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I mean we cannot wait, right? We have to move forward because, again, we have to get prepared as we talked at the beginning. But to say that we are not counting on that, it's going to be a mistake. Of course, we think it's important. We think it's part of what we hope to do together with the government and we think it's going to put U.S. companies on a level playing field with the rest of the world. I think it's super important.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. I guess if there was ever a time if you had plans to build a lot of capacity in the U.S., now is was the time.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Sometimes you get lucky.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. I want to talk about embedded more rather than I want to talk about some specific opportunities within your various end markets. But embedded has been -- obviously, clearly, it's -- I wouldn't call it a subscale business but versus analog, it's much smaller. The margins are lower. And I always have a question is that simply because like if embedded was as big as analog, would the margins be the same? And then there are broader questions -- because I think it's -- maybe it's gotten a little better recently, but embedded over the last several years, and you kind of alluded to it a little bit. It has underperformed.

But you're making this massive investment in Lehi which clearly suggests that you believe that, that business is on the mend and the opportunity is strong. So maybe you could talk a little bit about embedded relative to analog and some of those points.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

No, we can. And you can go as deep as you want to Stacy, I'll start with the last point you've made. Again, TI, and I've been in the company for 24 years, I know how we look at efficiency and capital allocation very seriously. So we don't just wake up 1 day and say, let's put a \$15 billion investment in an embedded -- mainly embedded factory, right?

And to say that we are excited about the business is 1 thing, but to go and put our dollars out is different or actually shows, I think, the evidence of our confidence. And I think we've done a lot of work in the last 4 years. So first, they're analyzing what could have been done better before. And it's really what is -- what are the competitive advantages of the company. Can we build it internally? Can we have a broad portfolio? Can we reach many, many customers.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Maybe just look like what is embedded for the people in the audience that may not know...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Okay. So for us, embedded would include microcontrollers, real-time control, which is another way to say DSPs, but these are specialized MCUs for specific tasks, mainly motor drives, power conversion, which is an exploding area.

And our old IP of DSPs is being put together with MCUs or a processor to solve a more specific problem. It goes by old business, wireless connectivity that you took away phones into the embedded or the analog and...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

You sold the wireless IP that's where kept the...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Started to call it IoT. We don't like to use that term. For us, it's really wireless connectivity in many, many standards, proprietary on into the broad market. And then there is our radar business, which is, again, a real-time control business with some DSP is part of embedded and the other 2 are processors, usually low power. So you won't find us doing big compute. But processor that can run on processor we run even in Lehi and some of them that are more advanced that we'll still use foundry. So that's more or less the 6 businesses in embedded.

And we have started to -- when we took the decision to restructuring in 2019, we said, "Hey, let's aim, let's not stop anything, but let's bias the investment towards where our strength is." So can we build it internally? Can it serve multiple markets, multiple customers, multiple commitments. So it has that diversity and longevity type of characteristics.

And also taking advantage of our channel that we can touch with many customers. And typically, these are the lower AUP type [of parts] because they can be -- they're less specialized. They can be adopted by a large set of customers of R&D teams, and that's what we have been doing in the last several years. To the point that we said, hey, now we have such a big confidence, let's move them from TSMC, UMC into Lehi.

And that's part of the execution that we are embarking upon now. With already more than, I think, 15 parts have moved in, and we have a long plan moving forward. So at the end of the execution phase, all of these types of parts, think about radar system, real-time control, connectivity, MCUs, they're all going to be run in Lehi. And yes, so far, so good. You're starting to see the business stabilizing. We are not pleased yet.

Our ambitions are higher. And I don't think it can -- it needs to perform very differently than analog. Once you get the cost structure advantage and moving it internally, once you focus on I'd like to call it lesser concentration of revenue per socket, that's where you can get the margins. I mean we've learned, the higher the AUP and the higher the volume per socket times AUP, the more competitive the market is, it's hard to maintain margins. I will say that when you serve a \$0.25, \$0.30 a socket, price is not the biggest thing. It's a performance of the part. It's the power of the part. It's a feature that -- and I think embedded is the same.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Are you \$0.25 to \$0.30 parts higher margin on a percentage basis than like \$10 parts?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

We don't share that. But we are as excited about the lowest size and even at -- when you sell a part at \$0.05, but you can bill it for 1, it adds up nicely. And they get less attack because who cares about a \$0.05 part. So they have these characteristics of they're more defensible.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Interesting like the gamut of the stuff that you guys sell. I mean, what's the range in like ASPs and things? I mean it must go from like \$0.05 to hundreds of...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

It actually goes below \$0.03. I can tell you. We make good margin on this. And it goes all the way to tens of dollars, I would say. I don't think we have Oh, yes. On the Aerospace and Defense (inaudible) but that's very niche type of high-speed ADCs and stuff like...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

What's your average ASP?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

\$0.35 or \$0.40 somewhere in between. Right now, the mix is a little changed, less personal electronics, so it went more to the \$0.40, but...

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I mean the entire industry is like \$0.40, give or take, if I take -- if I include (inaudible).

I want to ask about some specific areas within end markets. So like within automotive, particularly EVs. So -- what's the EV play for TI? People don't look at TI specifically. And I would say, like, you was happy to sell like the headlight controller typically as you are anything else. But what is the EV exposure within your auto and auto is about what, 20% or 25% of total revenues right now.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

25% and growing actually the fastest-growing business for us in the last 10 years. We have good view on what it can do in the future, as we said before. And EVs for us, it's a big -- it's a large opportunity, hundreds of sockets. This is why you won't hear us talking about one end equipment, even whether it's battery or DC to DC or onboard chargers or traction inverters, we play in all of them in a material way.

Because when you look at the board and you open up a box in the automotive market, you see the breadth of the parts and actually, the dollar amount that we can sell into a vehicle. It's very large. And even on ICE it's hundreds of dollars. On EVs, it's probably 2x to 2.5x higher. And we do pretty well.

So we like our position. We like the breadth of the opportunity, and we are also internally teaching the team to stop talking about specific sockets because that means that your discipline is lacking on the broad opportunity. Because they add up, and you don't want to just put all the efforts on the 1, 2 big sockets rather than the entire board.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Do you guys still use the term look left, look right?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

I don't -- I have not heard that, but we call it what -- we heard this -- you know it. But the way we look at it, don't be blinded by the sparkling object because people like to have the big socket, big AUP and forget about the rest. We don't like that.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. That makes sense. And the other areas and now you have like 5 -- you talked about like 5 segments in auto, I can't remember safety and lighting...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

It has infotainment, powertrain, which is a lot of the EV content is body. And again, Body is a great area for us as well. I mean think about -- you can see actually body. You think about the lights you can see, think about the ambient lighting, think about the seats and the (inaudible) in a seat. It's the record I've seen.

And each (inaudible) has to be driven, has to be sensed, has to be controlled, has to be powered that the breadth of the opportunity in a vehicle is immense. And just on lighting, for example, with tens of dollars per vehicle opportunities. So this is why you see TI, and this is what we've thought in the last 10 years, Automotive has to be broad for us. It has the characteristics of actually industrial and it needs a lot of granularity work, and that's what we have done in the past 10 years go deeper.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I think like last year or the year before, you were talking everything in auto do really well except for maybe safety was a little...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Because safety, if you think about the history, it's mainly was like airbags and that's not where you see a lot of content growth. So -- and it used to be a lot of custom business. But there is a future also in braking systems. They are now -- if you heard about brake -- like wires and stuff like that.

So these are opportunities for the future investments. So safety could also be a growing business for us in the future. But this is where we traditionally our custom ASIC business was, and we are going away from that type of business. We wouldn't like to have catalog parts, could be a very simple one, kind of general purpose ones, could be very sophisticated ASSPs, and we do the breadth of them, not only specific ones.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. And within industrial [CF] I can't remember, 15 different end markets that you -- at least that you put on the slide in the capital...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Maybe 550 or end equipment or higher in industrial -- 13 sectors, each sector is end equipment. And by the way, that's the way the industrial customers, they don't think about themselves even in a sector perspective. They think about the end equipment that they make. That's their vertical. And you have hundreds of them. So the breadth over there is much higher and the granularity you have to adapt into your machine is much higher, but -- as we said, we are kind of 15 years into it. So we've learned a lot.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Is there any way for investors are going to handle on "industrial" I mean it's...

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

I can give some -- we can go and [let's] here, but I can give some anecdotal things let's just talk about factory automation because it's an area that is close to my heart. And 2 months ago, we had a chance to go visit our assembly and test factories in Malaysia, in the Philippines, and you start to see these AGVs moving around, these are these automated guided vehicles, small robots that kind of carry [regs] and move inventory from 1 place to another.

And in our case, in our factories, the return on this is immediate, like in 1 year, sometimes 18 months, you already return the investment of the robotic arm or the AGV and just save it on labor. So that is something that is accelerating. You see labor is hard to get. There is also inflation, you replace it with machines. So that's an area where we see a great opportunity. It's becoming a very sizable business for the company. And I think it's only the beginning of it. And also our investment, I just take the AGV, for example, investments in automotive are very applicable to that type of end equipment.

Electrification is a big part of industrial. It's now probably our fastest-growing sector. Even now when industrial has slowed down in the last couple of quarters, that sector did not. It stayed very strong and simply because energy and renewables. And if you just look at the solar energy from the panels, to the inverters, to the storage system, to the distribution, these are thousands of dollars of opportunity per system when you look for the company.

And it's very early in the adoption curve, but growing very, very fast. So these are a couple of sectors that are showing the example of industrial, but you have to go really into hundreds of them to see. And each and every one of them is being redesigned into more electric -- electromechanical system, whether the mechanical or gas based or whatever. So we are excited about that.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Got it. So there's a question from the audience, but I was going to ask it anyway, so I'm going to ask it now. Look, every company these days needs to have an AI story. Like what's the TI AI story?

Haviv Ilan - Texas Instruments Incorporated - CEO, President & Director

We have an allergy in TI for big words like AI, IoT and 5G and all that. So we usually don't talk about it. But look, the biggest opportunity in terms of the market, and it's not new, we've been spending effort on it, and we are expanding our presence there -- is all these compute -- they require a lot of apps and you start to talk about kilowatts, right? So the power opportunity is high. It's growing. It's actually in 2 areas. First, on the -- to power the server, you have a high-voltage power delivery box, and that's more in our industrial business to call it power delivery sector. And you take energy, you take AC and you make it into DC for the right consumption nodes. And then you have the processors themselves more and more phases, more inputs of power, and it has to be controlled, it has to be very efficient. And this is where our RFAB2 investment, the new processor technologies, we put there for power. The Sherman factory and also this dependable capacity because these servers are going to serve some critical -- mission-critical tasks. That's our story on capacity.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Do you have the capacity?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

We do have a growing road map over there. It's a small part of our business enterprise, it's a small part that is growing fast and most of that enterprise business is going into this cloud and enterprise compute and most of it is power. There's also some signal change stuff on monitoring, sensing, measuring and all that and some embedded. But the main opportunity is power. And I think power will grow with data. It will grow exponentially. So that's going to be important and controlling at cost and our analog processes is going to be important.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I want to ask about competition. So this is a market where you said market share doesn't tend to move around all that much. But like how do you differentiate against a player like I guess, like a major scale player like ADI, for example, I also want to ask about China, and I'm going to maybe ask that question separately. But maybe just broad strokes. Like what is it about...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

If you don't mind, I would like to start with China because I think (inaudible).

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I get a lot of concerns from investors about Chinese competition, in particular, especially now and TI as Texas right in the name and...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

And I think rightfully so, Stacy, in the sense of -- and I've spent many years in China supporting customers and some of them very large, some of them up and coming. And you cannot -- and I'm coming from a culture of moving fast with urgency and aggressively, and that's kind of the way I think I'm wired. And you go to China, you see that these are fast-moving, bold, not fearing to fail customers and also competition.

So what we teach internally, and I spend time on it myself, it's part of our culture also. And when we talk about competitiveness, you don't downplay these guys as they just do simple stuff, "commodity" copying. You actually go and adopt them as a competitor. And we run a list of more than 50 competitors in China. Local, that some of them run at a very low single-digit million dollars per quarter, some of them run at hundreds of millions of dollars, and we watch them and we watch them for the last 3, 4 years.

And you can -- 3, 4 years. That's because most of them were actually not public before, so it was hard to get data. So of course, there are some known ones that we look at the spend of the customer -- of the competitor base, it's grown tremendously and there is more visibility. And what we do there is teach our businesses to compete because to me that's our conditioning room. That's where we get stronger as a competitor because I say to my team, if you go to Shenzhen, and you win a socket on an air conditioner versus a local competitor, is it an OPAP or an LDO or DC to DC converter, and you have the cost, the features, the power level that customer wants, you can win everywhere.

And I think it strengthened your muscle. I think the mistake is -- and that was sometimes the mistake we've done in the past was, we are big, we have the scale, they could not compete. And that's a very dangerous assumption to make. Now having said that, we do have some competitive advantages versus them in terms of just think about cost. All these guys are working with foundries, with OSATS. They have margin stacking. We don't. We have a breadth of technology and portfolio that they don't, but you don't want to underestimate them, and that's what we are doing.

What we have learned is that when we do that well over there, we can also reapply that against our traditional competition. And that's our plan moving forward. I believe the level of competitiveness has to be higher. And we talk about it internally to the team. China is an opportunity, but it's going to be tougher. And you better not run a tie with a local competitor because you lose the focus. So that's where the focus is. I think it's moving well. I think it strengthened the company. It allows us to compete versus each and every competitor, including our traditional ones.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. A lot of your competitors have been trying to grow -- I make the arguably general growth for the industry is more important than it was in the past. I think the opportunities of margin expansion that we've seen in the past are probably not there to the same degree that we've seen, which means growth has to be a bigger imperative. You've had competitors that have -- who have been taking the inorganic route. You guys have not, do you think that's been a mistake? Not...

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Short answer is no. And to be fair, the National acquisition helped us a great deal because it really helped us get to this broad automotive reach that we did not have before. And I remember, I mean, getting some of these product lines into my signal chain business at a time and learning how you can sell automotive in many more end equipments that we originally envisioned and also the change in automotive to more catalog business. So that helped a lot.

But once we have done that and once we've put our efforts in organic growth for industrial and automotive, I don't see us lacking a big ingredient in that sense. So we like our portfolio. We like where we are. We worked very hard to get there and position ourselves there. And right now, yes, top line is going to be the largest contributor to free cash flow per share growth, and that's where the focus is.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. So we've got about 1 minute left. Got a room full of folks here. I will give you your soap box. What's the pitch? Why should investors buy your stock?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. I mean nothing new here. So you can answer it yourself, but I think I focused on a good, an important part of the market in Analog and Embedded. That's where the focus is. We worked many, many years to get to that point. And we are now well positioned, including early signs of embedded starting to perform.

We are at the right market. And again, people think TI likes industrial and automotive because they are safe or they have longevity. No, we like them because it will be the fastest-growing market. And I think there is more and more evidence that indeed they will. And the position we have built there is strong, 65 going higher percent of our revenue. And if you just run the math, the math of mechanically growing these markets in the same way, the results or the top line future of TI could be very appealing.

You couple that with an efficient manufacturing plan, which is dependable and customers are appreciating that. That could be a decade that in the -- when we execute our plan, I've seen the -- our internal model numbers that are exciting. There is a lot of execution between us and then -- between us now and then. But I think we control our destiny. So that's the exciting part, and I'm excited about the future.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Got it. I think that's a great place to leave awfully it there. Thank you so much.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Thank you, Stacy. I appreciate it.

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