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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Richard K. Templeton** *Texas Instruments Incorporated - Chairman, President & CEO*

## CONFERENCE CALL PARTICIPANTS

**Christopher Brett Danely** *Citigroup Inc., Research Division - MD & Analyst*

## PRESENTATION

**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

Hi everyone. Thanks very much. I'm Chris Danely, your friendly neighborhood semiconductor analyst here at Citi. It's my distinct pleasure to kick off the tech conference semiconductor-wise with the reference standard company, in our opinion, for semis, Texas Instruments. Today, we have the Chairman, President, CEO. There's probably a few other monikers and initials after his name. He does so many things around there, Rich Templeton. As those of you who have followed my research over the years now, TI has been one of our favorite semiconductor stocks for at least a decade, if not more, for a combination of really 2 factors: one, the market they're in, high-end analog, which we consider the best market in semi, is one of the best markets out there; and then number two, this man standing to my left, Rich Templeton.

If you look at these statistics, which even a semiconductor sell sider like myself can determine, the margins have gone up for, I believe, basically 20 years since Rich took over, hitting new highs every upturn and hitting higher lows in every downturn. And then more importantly, he gives that cash he generates back to you guys in the form of both dividends and buybacks. And I think other than some other semiconductor companies that try and be a growth company, Rich has never pretended to chase any of the various shiny new pennies in semiconductors. So it's really my pleasure to welcome him. So take a seat, switch mics.

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

Chris, we could end right there, call it a day.

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## QUESTIONS AND ANSWERS

**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

Exactly. Rich, I spent some time. You've been doing this for a while. You've been on the circuit for a little bit this year. I wanted to think of a question that you have not been asked before. And this is the one thing I came up with is several years ago, you had the shortest retirement this side of Michael Jordan. And at some point, I would imagine that you'll give up the reins to the next generation at TI. What would you like your legacy to be at TI?

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

Well, Chris, it's very simple to me. And I think we'll probably even touch on different themes of it today, and that is, have a company that's stronger 10 years from now. And that's not legacy. It's always the way that I've thought and really think our Board and our whole leadership team thinks, which is make sure you're making the right choices to build the place stronger, and that includes leadership you put in place.

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**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

And I wanted to ask you about another -- I don't know if it's urban legend or if it's true, that things I hear in and around Texas Instruments is that every sort of new employee at TI gets to, I guess, the TI handbook, which is something that you implemented. And when I think of TI and what sets

you guys apart from some of the other, what I would call, higher-end or premier semiconductor companies is you guys have taken a business high-end analog that is one of the better businesses out there and have introduced process and a striving-to-do-better culture to a business that, frankly, a lot of folks within high-end analog tell me they don't need that. So if you could just talk about the culture at TI and what you guys have done so well to just keep pushing on the margins and the returns there.

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think it's embedded a little bit. I'll go 2 places with that. First, if you look at the -- it's in the Investor Overview, and you'll see it in other materials that we have. We talk about a passion in general, and it literally describes my passion as I was coming out of high school and want to be an electrical engineer of semiconductors, making electronics more affordable and making a greater world and a better world, and that remains. If you look at most people joining TI that want to be in the semiconductor business, it's -- it really is the passion.

You then drop down to more executable is are the ambitions. And that's this whole desire to make sure you're going to operate like an owner and an owner that's going to be around for a decade. This whole concept of making sure, back to the point you were making of getting stronger and succeeding in a world that's always changing, okay? Just look at the world around us now and you've got a good example.

And then finally, make sure that you're a company that you're proud to be part of and you'd want as neighbor. And people get very complex in this world with how do you build culture well. Just focus on a couple of simple things like that, and it's really easy to communicate.

But to your more detailed question of process, I think there's a couple of things that we've done. And we're just talking to a group even earlier on this, and they just serve us amazingly well. First is that we did put a set of processes or playbooks in place, and it's probably been a dozen years. And it just -- in a way, what it gives you is a common language. And when you've got 30,000 people around the world having a common language that you can speak in terms of your business or how you're running, manufacturing or your factories is very, very powerful.

The second thing, and maybe the more important thing is we've really operated in long term with a general belief of build a relationship. Interns coming out of college then make a high percent of your new hires being people that had an intern experience because there's no better way than younger people getting to know you and you getting to know them. And those processes have really served us well, and they served us amazingly well because we even kept the interim work underway during COVID. Obviously, it was virtual. It's not as good as being elbow to elbow at a bench with somebody. But many, many companies stopped their intern programs, for example, in '20 and '21. So those steps, I think, have really helped just drive a long-term view of how to build the company stronger.

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**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

Yes. So on that note, I want to touch on a few things that you guys have done sort of regardless those cycles. I remember sitting down with you 12, 13, 14 years ago, the last big downturn. And you guys were buying up used equipment, buying up any piece of capacity you possibly could to be able to not let your customers down. So as we look at what's happened in this cycle, we did have some shortages out there, and we'll talk about the possible fixes. I guess, I get this question all the time: How did we end up in this big-time shortage situation? And then how do you feel that TI was prepared for that?

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

I think we're well prepared for that. And we've had a tremendous number of customers turned to us during the process. And I give as the best example of that is fourth quarter '19, so take the last "clean quarter" pre-COVID and second quarter '22, we grew the revenue over 50%. In fact, I think it was close to 55%, which hold it up against any other large semiconductor company, and it's going to stand strong.

But even more importantly, within that, we grew revenue to every end market. And so personal electronics, automotive, industrial, enterprise, and it wasn't by accident. It actually -- I can't tell you how painful it was to have a very steady hand, not let the loudest, noisiest customer commandeer capacity and make sure you're supporting a broad set of customers. So I think we've really been able to respond well in a very stressful environment.

And we've seen more and more customers turn to us as a result of both that response. But probably equally, when they look at the work we have underway of the next 10- or 15-year path of investments, they just see: one, the ability to support their growth; and two, they see the ability to provide what I'll describe as geopolitically dependable capacity.

And they liked it its own bias, they like where it is, and it just ends up more and more important in every discussion that I'm having at high levels today. So we're pleased with how we're -- and that holds our goal is you get stronger through these stressful periods because that's when the important relationships are built.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

And do you think that the severe shortages we're seeing now, I get this question all the time, are a result of the pandemic and the pandemic induced, whether it's shutdowns or supply chain snafus or whatever and future upturns or shortages won't be this bad? Or do you think we could see something like this in the future? And how does TI plan for that?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. So I think there's a few things. First is that -- and there's more experts on this. But I think COVID, in many way, probably accelerated trends in terms of what we see. And of course, we've talked about it for a decade now. We've been absolute believers that if you're going to be well positioned as a semiconductor company, you better be in industrial, you better be in automotive because the secular semiconductor content growth is just going to make them the fastest-growing markets.

10-plus years ago, we had 1/3 of our revenue in those 2 combined markets. And last year, it was over 60%, not by accident, by absolute plans. And I think those trends are going to absolutely continue. Regardless of what the rate of macro GDP is trying to do, I think it's going to be very positive on that front.

And so then back to what will the supply environment be, that's what we'll determine, okay? What will the pressure look like over a 10-year period on that front? And it's why -- in some ways, I look at our -- what we've done is just extraordinarily simple. With RFAB1, we had great growth coverage from 2010 through 2022, and we didn't have that much top line growth because we were working revenue down from a wireless business during that period. And then we needed to have the next 15-year road map. And that's what you saw presented at capital management back in February.

And we've made that road map to where it has the flexibility to where we can bring things in or it can ride out a little bit at the macro level. Just for example, we'll build the first 2 modules in Sherman to remove the 2-year construction lead time with the second building. And so I just think those types of choices are the ones that they cost a little money, they have some time value of money, but they're tiny investments in terms of what the potential upside would be if the market needs it.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

From a general capacity perspective, are you basically taking the blueprint from '08-'10 and just expanding it this time around? Or over the last decade, are you changing anything from a broad perspective as far as your approach to capacity expansion goes?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. To me, it's identical and that we've just looked at, okay, what is -- 10 to 15 years of growth, what could that range be? Let's make sure we have a robust road map that can handle those variables and now go get things in place. What's different is we're not going to be able to rely on used equipment. You're going to have to do that new. But the (inaudible) that's not a big change and that the magic has always been 300-millimeter, not what did you pay for the 300-millimeter. So that's not going to change the rates of return on that.

And the other difference is it's not one wafer fab's worth of growth. You may need 5 or 6 wafer fabs' worth of growth to be able to handle the next 15 years, which is a great problem to have.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

And do you think that the CHIPS Act is going to help? I don't think any of us are under the illusion that it will prevent any shortages in the future. But do you think that it's going to help, I don't know, ease the burden of shortages in the future?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. I don't connect it to shortages, even though I understand the headline. I think it's historic. I think it's a great choice. And I think it not only accelerates semiconductor manufacturing in the U.S., which will also attract the feeder supply chains that go into manufacturing. But the other piece that doesn't get talked about very much is the R&D aspect in the CHIPS Act, which if it goes at least according to, I think, some thoughts, you'll see a reasonable percentage of that R&D go through university systems for precompetitive R&D. And I think that does great things for long-term health of the semiconductor industry and the semiconductor industry in the U.S. So I think it was a lot of hard work, but I think it was a very important work.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

That's a good point. I haven't heard that one before. And what does it mean for TI? Are you -- does it change anything with you? Are you changing any part of your business practices? Do you expect -- I guess we're seeing the Chips 4 Alliance in Asia. There's a European CHIPS Act. Do you think that this is the first of many government, I don't want to say interventions, but help for the future?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. I think we -- as you said, we've already seen a number of them throughout Europe or even India and other places. So who knows how that will continue. We're a bit of an anomaly as a company in that the road map we showed, okay, the plans of completing RFAB2, building out Sherman, the acquisition and growth of Lehi. We said very clearly that we're going to do those regardless of the CHIPS Act. And so even in those discussions with the government, I said, "We're going to do them." And they're like, "Okay." But it's really important that we do the CHIPS Act as well.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

You're not going to turn the money down, right?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

And if there's opportunity that we could do things quicker, do things sooner, we'll certainly take advantage of that. But the great news is that the choices that we're making that we're going to pay off even without it, and they can only get better is what happens with CHIPS.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

If you were in charge -- I know you've been on the Board of the SIA, et cetera, et cetera, if you were in charge, would you be changing anything about the CHIPS Act? Or what would you do for the future? What do you think the U.S. needs to do to remain competitive on a global level? And we'll get into the China threats in a second.

**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think -- we've talked about it both at the SIA Board and with the administration and with elected leaders. I think it's great what's been done. I think the piece that is still not being addressed, and it's for the U.S. is -- it hurts the U.S. is we've got to get a welcome sign back up for high-skill migration. And we've got to be a country that says, "We welcome the best and brightest from around the world to be here." And that's still politically not a very popular topic. We're going to have to get through that because we're only 5% of the world's population, which says by definition, we've only got 5% of the smartest people in the world here. I'd like to have a higher percentage over time.

And the history -- just look at the history of the semiconductor industry, let alone tech, and how important have high-skilled folks from around the world been in creating that. So that piece is still work to be done.

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**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

And TI was one of the pioneers of taking your inventory levels higher in anticipation of these future shortages. Now granted, you do high-end analog. It's not exactly DRAM so the price fluctuations aren't nearly as bad. I think you guys raised your target inventory level earlier this year. How do you see that going forward? Do you think it continues to move up? And then as far as the channel goes, do you foresee coming out of this cycle as your customers will keep a higher sort of normalized level of inventory?

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So a couple of pieces. We took up the range, particularly the high end of the range, and Dave can flame me. I think it was actually in early '20 when we took that up. So it was actually pre-pandemic that we took that up to the 190 days.

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**Christopher Brett Danely** - *Citigroup Inc., Research Division - MD & Analyst*

COVID blended everything together for me.

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**Richard K. Templeton** - *Texas Instruments Incorporated - Chairman, President & CEO*

And yes, time does -- became one long year, I think most of us reflected. And bear in mind that compared to 15 years ago, our ability to do that is we're just in enormously different position. 75% of our portfolio we can build because we sell it to multiple customers across multiple markets. So you have no risk of shelf life obsolescence. 15 years ago, when you're running a Nokia business with essentially custom parts, you didn't have that luxury. And so it's not by accident that we're in the place we are, and you can take advantage of that.

It certainly served us well as the market slowed in the second quarter of '20 and really gave us a big leg up. And that inventory, boy, if we could have only had more, carried us to early '21. It just ran out of gas in '21. And so yes, I think that -- you've heard Rafael say, he's more than comfortable with even going above that "high end of the range." We don't sit there running the operating plan with that as a ceiling. And so if the environment says it makes sense to build more, we certainly will and can.

It is different. Customers have learned more from a supply chain point of view through this downturn than they ever have in terms of what they've got to change. Our customer is going to have a different attitude in terms of inventory. I've certainly encouraged all CEOs that I've talked to, look at your own internal processes before you just look for an outside factor of what you're doing. And so I'm going to guess that there is some longer-term change in that.

But at the same time, memories do tend to be short in this world. And you go from yelling about not having parts to people yell about having too much inventory. And so humans are still going to be with us.

**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Oh, they never do that, Rich. One thing about this year is you -- TI was one of the first companies to see the slowdown. And now it seems like every week, somebody else sees it. What do you think was unique about you guys and your ability to see this coming first?

**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Well, I don't know if there's uniqueness or just -- I haven't been around long enough...

**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Call it like you see it.

**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

And pay attention to it. And when everybody says, no, the sky is the limit. There's no end, you probably ought to be concerned that they aren't looking. And there could be that through construct of now over 60% of our revenue direct, things like ti.com online to where -- that is real time of consuming natures. We just haven't had something like that in prior cycles. Can they assist us in being able to see it in addition to looking? Those are probably the only ways I think about it being different.

It's also a slightly different cycle in that it's not a synchronous downturn. And just look at second quarter, where one extreme, if you were in PCs, it was a pretty miserable quarter. And if you were in automotive, there was no change. And typically, if you go back to the bigger changes in late '08 and bigger changes in late 2000 and early '01, those were highly synchronized end-market corrections. And this one is a little different on that.

**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Yes. I know you -- Rich has been through even more cycles than I have. Hard to believe. But as you sort of see this one playing out, like you said, it's a bit of an asynchronous downturn. Does TI do anything differently to prepare for the downturn? Or are you out there -- clearly, your CapEx plans haven't changed. What do you guys normally do to prepare for the downturn? And could this one be as bad as, say, in '01, '02 or '08? Or what signs are you looking for besides the old order rates to tell us that it's as bad, not as bad?

**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. So as you've heard me say for many years, I don't spend that much time focused on cycles because to me, the more interesting discussion is what's going to happen in 2025 and '26 and 2030 because those are the choices you're making. Those are the decisions you're making today to really get positioned for them. And so that dominates 90-plus percent of what we do. So it's preparing in this downturn is actually about getting capacity online and getting these things built out so that you're in a position in 2025 to make sure that you can run very hard, depending on what that market wants to be.

And the other thing, Chris, I know you're a historian in terms of trying to keep track of this stuff. To me, potentially the different -- the cycle you may want to go back and look at is '95-'96 and -- because 2000-2001, the Y2K cycle, emerged into a really pretty weak personal electronics market. The 2008-2009 cycle emerged into a pretty weak global economy because of the structural impact from global financial crisis.

And if you go back to '95-'96, you actually had what turned out to be an 8-year -- 7-, 8-year secular run with the growth of PCs and cell phones. Well, it isn't going to be PCs and cellphones in this secular run. It's going to be industrial and automotive because of semiconductor content. And so that may be -- and if you actually look at how pricing -- and it's a dangerous thing because of the way it's calculated as an average.

The last time you had 3 or more years of increasing AUPs per WSTS was back in '92 through '96. So I just -- that may be more instructive as to how to think about things.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

That would be great if we get '97 to 2000 coming out of this downturn, I'll tell you that.

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

'96 wasn't too bad, except if you're a memory business, which we were still at that time. We did fix that finally. But...

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Yes. I still have PTSD from those DRAM years. Two questions that I got up and down the halls today that I wanted to ask you. So in terms of your capacity expansion plans, CapEx, if the downturn gets really bad, would that potentially change?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

No.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Good. And then the other one is, I get this from a lot of your holders and ask myself this question, your margins are -- they've been hitting all-time highs for quite some time, which we all know and love. But now you're entering an elongated cycle of increased CapEx, which should bring on higher depreciation. What can give us confidence that your margins can get back to the previous highs? Or do you even think about that? You'd say even margins are going to be the margins, and this is what I need to do for the next decade.

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. They'll be what they'll be. But the thing you do look at, and it's not that we operate in ignorance, is if you look at free cash flow per share and you started asking how are you going to grow it over 10 years, revenue growth is just going to be a higher contributor. You're not going to get it out of more margin. You may get a little incrementally on share count, but you've got to win on the revenue side.

And I don't mean -- and you said it very well. We're not chasing shiny objects. We're not looking for crazy places to grow, just really high-quality growth for the long term, and that's about having the capacity in place. And so when you do the modeling and you look out even with the CapEx road map that we've shown, and it can look GE kind of intimidating in '22, '23, '24, we'll just run those numbers out to the '30. And (inaudible) so let's -- that's why I say it's not ignorant of margins. I just don't -- maximizing gross margin percents are never a great way to run the place for the long term.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Great. We have some time left, but I know this is supposed to be interactive. Apologies for taking everybody's question time. But if anybody has any questions, please raise your hand. Paul? I'll repeat it. Just be nice.



**Unidentified Participant**

2-part related question. What percent of (inaudible).

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

So the question was what percent of revenue comes from foundry? And then 5 years out, what percent will come from 300-millimeter?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. So I'll give you -- Dave can yell from the back if I have them a little bit off. But think of today, 80% of our wafers are on the inside. And over time, I think we talked in the capital management slides, that number will run up to over 90%. The math is pretty simple. We've probably got 60-plus percent of our assembly test on the inside. That number will approach 90% or over 85%, 5 years out in time.

300-millimeter is probably 40-ish percent of our internal capacity, and you play that out over time, albeit it's pushing 80% when you get out in 2030 because it's the only capacity we're adding. And we'll take a little bit of the final 6 in trough line as well. So those are 2 very important knobs to me in terms of if you want an indicator of competitiveness and the cost and dependability, okay? How much do you own? How much is internal? And what's your percent of 300-millimeter? That's the winning -- that's those are the winning variables you want to maximize.

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**Unidentified Participant**

If I could just ask a follow-up. What's the 300-millimeter?

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

How much is the 300-millimeter fab?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

I don't know. In round numbers, they probably want to be \$6 billion or \$7 billion to build them out if it's a 340,000, 350,000 square foot facility, which are very large, highly automated and as competitive as anything in the world. So we can play ball with the best in those.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Rich, I want to touch on a couple of those topics that popped up as it relates to China. It seems like every other week, we hear of some China city being shut down, some of which are rather large. Has that impacted you guys this year? Is that something you have to plan for? How does TI sort of respond and deal with that?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. Well, certainly. Take a look at second quarter, we talked about just dealing with the Shanghai lockdowns in terms of customers and such. And you saw an extremely low April, and team was able to make it up by the end of June. You've recently read in the past couple of weeks the Chengdu lockdowns. The team has done a great job of building a closed-loop system. So that facility is up and operating to be able to operate independent of that. But we'll do -- we do our best to be able to plan and anticipate, but it doesn't mean we can anticipate everything.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

And then on the China trying to do everything on their own, how do you see it? Because certainly, a large portion of your sales go to China. Do you think that China diminishes an importance for TI over the next decade or 2? And do you think that they can replicate your models?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. So a couple of pieces in there, Chris. First is when we have in our annual report, whatever the percent of sold to revenue in China, 50-plus percent, I forget the exact number. And I'm always just very careful with that because of the manufacturing, that's not where it's designed in. And I get asked what's the real use of our semiconductors in China. It's probably about the GDP of China as a percent of the world. So I just -- that's probably what that looks like.

And in terms of importance, I think China is going to -- you can have a debate. Is it the #1 economy in 10 years or #2? Or it's going to be something close to those? So it's going to be big and it's going to be important. And our strategy is to be a great supplier to these customers, okay, for the long term. And so we have -- we continue to be very determined in doing that and design things to make us very appealing of great parts, great service, great availability, everything that you would want to do.

But we've also got the advantage when you think about Chinese domestic companies. The ability to build out a direct sales channel, the ability to build out a portfolio of 100,000 parts, the ability to get to the markets that we get to, that's just a very hard thing to go do. It takes a very long time. And as a result, you see most of the domestic companies tending to have more verticality. So they'll focus on markets that are closer, local, few customers, few parts make up a lot of the revenue. So we'll go compete very aggressively. And I think if we do our job, we'll be successful.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

And you've talked with a lot of the other MuckeMux in semis. How often does the possibility of China invading Taiwan pop up? And you do have some foundry exposure. Do you have a backup plan? Or do you think that this is very, very, very unlikely?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Well, I think you've got a -- and it's why I talked about even in discussions with customers, when they look at the road map -- and again, it's identical slides that we shared with investors back in February. The #1 comment I hear is our road map represents geopolitically dependable capacity, okay? Because it's not going to be centered in Taiwan or China on that front. And so we think that is a very important thing to have. And then I don't know how to handicap the percentages, but the magnitude of the impact, it's very easy to handicap. And we're just going to be very dependable option that isn't going to be exposed to that.

And I think the value of that, even in the discussions I have, is going to be enormous for the long term. So we're -- again, we've got a lot of work to do to build it out. We've got to get that done, but I think we're going to be very well served with that capacity road map.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

I have a few more questions, but Richard?

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**Unidentified Participant**

Rich, actuator capacity expansion is not tied in any way to government subsidies, the CHIPS Act. On the Biden administration released guideline yesterday that suggested that it seems (inaudible) in with size, returning cash to shareholders or companies that see cycles. If these subsidies are not going to impact your capacity with the potential strains that catch to the impact your capital allocation?

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

The question was on the CHIPS Act and the potential strings attached and how does that impact TI, if I could paraphrase.

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. We'll make sure we have the ability to run the company the way we think is wise. And I think we're very clear that growing free cash flow per share over the long term is the best approximation of increasing value. And the other part of that is to either invest the outcome widely or return it -- and/or return. And so I see no change in our ability to do both of those.

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**Unidentified Participant**

But subsidies do change the math (inaudible)?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

We'll have to see what the -- I've not seen all the documentation yet on that.

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**Unidentified Participant**

It's on the (inaudible) the guidelines?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Like I said, (inaudible) we'll have to see what that all looks like. But we have no intent to change the long-term belief that we have of how do you grow value and then how do you return it because we think that's, again, a foundation.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Anybody else from the audience or else I'll keep going? Going once, going twice. Rich, just to touch on that, I think -- and you've talked about one of your advantages is your own 300-millimeter fab. One of your larger, largest competitors could potentially be building their own 300-millimeter fab. Do you think that, that would make them more competitive? Is that -- would that change anything? Would that cause your worry level to go -- does anything cause your worry level to go up these days? What do you think about that?

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

No. Worry level doesn't go up that much these days. Chris, we -- and I think we've got the material even past couple of 3 years of just these competitive advantages in manufacturing and technology and breadth of the portfolio and reach of the channel and diversity and longevity. And we really believe that the test of those, and we look at those on a very regular basis, is do they give you tangible benefits; are they difficult to replicate; and ultimately, if they're real and not just nonsense on a PowerPoint, your free cash flow per share should grow faster than your best competitors. That's get through the crap, and that's the real test.

And so that's where I keep whenever people say, yes, but this company is buying another company or this company may invest in something. Just put it up against that list of competitive advantages and ask what's it going to do to any of those. And the fact is, even on something like manufacturing and technology, if you look at how much has to be invested, how much still has to be built, that's probably a 10-year journey, okay, for that other

company or for a company to go undertake if they're starting from ground zero. So it's going to be a long time coming. And therefore, it really doesn't decay the advantage that we will end up having.

The number of our competitors that are going to be able to build their own internal manufacturing and technology is very, very limited. And just look at where they are and look at the portfolios. And I think that's becoming increasingly obvious.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

One other thing I want to touch on, so you were not afraid -- or I don't know if it was you or Tom, was not afraid to get out of the DRAM business in '97 when it didn't fit the bill, were not afraid to get out of the Nokia business in the 2000s. As I look -- and were not afraid to get rid of the sensor and control business as well. If I look at the embedded business, the margins and the returns have not quite been up to the Analog business or overall TI. Why have we not seen that go down the route of DRAM or the Nokia business? Is there some sort of synergies with the Analog business? Do you think that those returns, while they've gotten better, they're still not quite where the Analog business is? Maybe talk about why embedded sticks around versus taken the round.

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Yes. It's really simple. If I didn't think it has the ability to add value over the next 10 years, we'd be gone. I think we've been -- you just summarized it. And so you take a look at that business, you look at the potential, and there was things that we didn't execute well, okay? And we've got changes in place. And I think that team is starting to show the right leading indicators.

But we're pretty simple. We don't come out on earnings calls talking about leading indicators. Let's get real results and real growth. And so that's what Amika and his team is doing right now is proving that they can. And I do believe you're going to look back 5 and 10 years from now and say it is absolutely all the contributor. And I don't mean matched gross margins or operating margins. But if you just have the business growing at the same rate, it's going to be helping the company in the same way, and I think it's got the potential to do it. So no, it doesn't live on synergy. It's -- that's an oxymoron in terms of we don't allow that discussion.

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**Christopher Brett Danely** - Citigroup Inc., Research Division - MD & Analyst

Great. I think we're out of time. Thanks, everyone. Thanks so much.

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**Richard K. Templeton** - Texas Instruments Incorporated - Chairman, President & CEO

Okay. Chris, thank you.

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