THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TXN - Q4 2015 Texas Instruments Inc Earnings Call

EVENT DATE/TIME: JANUARY 27, 2016 / 10:30PM GMT

OVERVIEW:

TXN reported 4Q15 net income of $836m or $0.80 per share. Expects 1Q16 revenues to be $2.85-3.09b and EPS to be $0.57-0.67.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dave Pahl *Texas Instruments Inc. - VP & Head of IR*

Kevin March *Texas Instruments Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Chris Danely *Citigroup - Analyst*

John Pitzer *Credit Suisse - Analyst*

Ross Seymore *Deutsche Bank - Analyst*

Vivek Arya *BofA Merrill Lynch - Analyst*

Harlan Sur *JPMorgan - Analyst*

Ambrish Srivastava *BMO Capital Markets - Analyst*

Chris Rolland *FBR Capital Markets - Analyst*

Craig Ellis *B. Riley & Company - Analyst*

Doug Freedman *Sterne, Agee & Leach - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Texas Instruments 4Q 2015 and 2015 earnings release conference call. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Thank you. Good afternoon, and thank you for joining our fourth-quarter 2015 and 2015 earnings conference call. As usual, Kevin March, TI's Chief Financial Officer, is with me today. For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web, and can be accessed through our website. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the notice regarding forward-looking statements contained in the earnings release published today, as well as TI's most recent SEC filings, for a more complete description.

Before I review the quarter, let me provide some information that is important to your calendars. We plan to hold a call on February 9, at 10:00 AM Central Time, to update our capital management strategy. Similar to what we've done in the past, Kevin March and I will provide insight into our strategy, and we'll also answer some of the most frequently asked questions.

Now, I'll start with a quick summary of our financial results. Revenue declined 2% from a year ago, and was in line with our expectations, even though we experienced slowing demand within a sector of the personal electronics market late in the quarter. Despite that, overall demand was about as expected. I'll elaborate in a few moments. Our core businesses of Analog and Embedded Processing performed well in the quarter, and comprised 87% of fourth-quarter revenue. Earnings per share were $0.80 in the quarter, and included a $0.09 benefit for two items that were not in our outlook. These two items were a $0.05 net tax benefit, and $0.04 for Restructuring charges/other.

With that backdrop, let me move into the details of our performance, which even in the face of weaker demand within the sector of personal electronics market, continues to illustrate the ongoing strength of TI's business model.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

In the fourth quarter, our cash flow from operations was $1.4 billion. We believe that free cash flow growth, especially on a per-share basis, is most important to maximizing shareholder value in the long-term. Free cash flow for the year was $3.7 billion, up 6% from a year ago. Free cash flow margin was 28.6% of revenue, up from 26.9% a year ago, and consistent with our target range of 20% to 30% of revenue.

We continue to benefit from the breadth and differentiation of our product portfolio, and from the efficiencies of our manufacturing strategy, the latter of which includes our growing 300 millimeter Analog output, and the opportunistic purchase of assets ahead of demand. We also believe that free cash flow will be valued only if it is returned to shareholders or productively invested in the business. In 2015, we returned $4.2 billion of cash to investors, through a combination of stock repurchases and dividends.

Turning to our segments, Analog revenue decreased 2% from a year-ago quarter. Power Management, High Performance Analog and Silicon Valley Analog declined, while High-Volume Analog & Logic grew. Embedded Processing revenue increased 4% from a year-ago quarter, due to Connectivity and Microcontrollers. Processors declined. In our Other segment, revenue declined 13% from year-ago quarter, due to custom ASIC and DLP products.

Compared with the year-ago quarter, distribution resales decreased by 2%. Distributor inventory decreased about a day compared with a year ago, to just above four weeks. We believe this inventory level continues to reflect an environment of good product availability, due to healthy TI inventories and stable lead times. Together, these continue to drive high customer service metrics.

For the year in total, Analog and Embedded revenue grew a combined 3%, despite significant headwinds in wireless infrastructure and foreign currency exchange rates. Analog was up 3%, and Embedded was up 2%. In total, Analog and Embedded were 86% of TI's revenue for the year, up from 83% in 2014. Based on data through November, we gained market share in Analog for the sixth consecutive year, and held our share of gains in Embedded Processing.

I'll now turn to our end market estimates for 2015. As a reminder, we provide this estimate annually of TI's revenue by the end markets our customers sell into. We break this into six categories. Industrial; automotive; personal electronics, where this will include products such as PCs, phones and TVs; communications equipment; enterprise systems; and other, which is primarily calculators and royalties. Industrial and automotive combined were 46% of TI's revenue, up a couple of percentage points from last year, due to automotive strength.

Specifically, industrial made up 31% of TI's revenue, automotive 15%, personal electronics 30%, communications equipment 13%, enterprise systems 6%, and other 5%. Of note, Apple, whose revenue was within personal electronics market, contributed approximately 11% of our revenue in 2015.

Kevin will now review profitability, capital management, and our outlook.

Kevin March - *Texas Instruments Inc. - CFO*

Thank you Dave, and good afternoon everyone. Gross profit in the quarter was $1.87 billion, a decline of 2% versus a year ago, due to lower revenue, partially offset by lower manufacturing costs. As a percent of revenue, gross profit set a new record of 58.5%. Operating expenses for the quarter totaled $711 million, down $29 million from a year ago, primarily in SG&A. The decline reflects continued cost management across the Company, including the previously announced targeted reductions in Embedded Processing and Japan, partially offset by higher compensation-related costs.

Acquisition charges were $81 million, almost all of which were the ongoing amortization of intangibles, which is a non-cash expense. Restructuring charges/other was $68 million, which included gains on sales of two properties. It also included a $17 million charge in preparation for the closure of a site, which we announced today in our earnings release. We anticipate about $2 million of quarterly charges through the fourth quarter of 2018, for a total charge of about $40 million. We expect the transition to more cost-effective 200 millimeter fabs to take about three years, and result in annualized savings of about $35 million per year.

Operating profit was $1.14 billion, or 35.8% of revenue. Operating profit was up 4% from the year-ago quarter. Operating margin for Analog was 38%. Operating margin for Embedded Processing was 23.4%, 6 percentage points higher than a year ago, as we continue to focus investments on

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

our best growth opportunities. Net income in the fourth quarter was $836 million, or $0.80 per share. As a reminder, earnings per share included a $0.05 net tax benefit, primarily due to the reinstatement of the federal research tax credit, and a net benefit of $0.04 from Restructuring/other charges.

I will now comment on our capital management results, starting with our cash generation. Cash flow from operations was $1.43 billion in the quarter. Inventory days were 115, up 4 days sequentially, and down 2 days from a year ago. We plan to provide an update on our inventory model in our capital management call on Tuesday, February 9. Capital expenditures were $164 million in the quarter. In 2015, cash flow from operations was $4.27 billion, up 10% from the same period a year ago.

For the year, capital expenditures were $551 million, or 4% of revenue. As a reminder, our long-term expectation is for capital expenditures to be about 4% of revenue, which includes the expansion of our 300- millimeter Analog capacity, on which we will provide an update in our capital management call in February. Free cash flow for the year was $3.72 billion, up 6% from a year ago. Free cash flow margin was 28.6% of revenue, up 170 basis points from a year ago. Our free cash flow growth reflects the continued strength of our business model.

As we have said, we believe free cash flow growth, especially on a per-share basis, is most important to maximizing shareholder value in the long-term, and will be valued only if it's returned to shareholders or productively reinvested in the business. As we've noted, our intention is to return 100% of our free cash flow, plus any proceeds we receive from exercise of equity compensation, minus any net debt retirement. In the fourth quarter, TI paid $386 million in dividends and repurchased $627 million of our stock, for a total return of $1.01 billion. Total cash returned in 2015 was $4.19 billion.

Outstanding share count was reduced by 3.4% over the past 12 months, and by 41% since the end of 2004, when we initiated a repurchase program designed to reduce our share count. These returns demonstrate our confidence in TI's business model, and our commitment to return excess cash to our shareholders. Fundamental to our commitment to return cash are our cash management and tax practices, which are designed to make cash available for a variety of uses, including paying dividends and repurchasing our stock. We ended the fourth quarter with $3.22 billion of cash and short-term investments, with 82% of that cash on shore, making it available to return to shareholders.

TI orders in the quarter were $3.10 billion, down 2% from a year ago.

Turning to our outlook, we expect TI revenue in the range of $2.85 billion to $3.09 billion in the first quarter. This includes significantly weaker demand within a sector of the personal electronics market. Specifically, we expect a year-over-year decline of about $150 million, within a sector of our personal electronics revenue. Except for this area of weakness, our expectations for the remainder of our business are about even with the year-ago quarter.

We expect first-quarter earnings per share to be in the range of $0.57 to $0.67. Acquisition charges, which are non-cash amortization charges, will remain about even, and hold at about $80 million per quarter, through the third quarter of 2019. They will then decline to about $50 million per quarter, for two additional years. Our expectation for our annual effective tax rate in 2016 is about 30%, and this is the tax rate that you should use for the first quarter and for the year.

In closing, I'll note that growth in our industry in 2015 was slower than we expected when we came into the year. However, our unique advantages in manufacturing and technology, portfolio breadth, market reach, and a diverse and long-lived product positions enabled important milestones in the year. These included expansion of 300-millimeter Analog production, gross margin improvement of 130 basis points, to a new record level, operating margin improvements of 260 basis points, and free cash flow margin improvement of 170 basis points, to a new record level.

We will continue to feed our unique advantages through disciplined capital allocation and focus on the best growth opportunities, which I believe will enable us to continue to improve. With that, let me turn it back to Dave.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Thanks, Kevin. Operator, you can now open the lines for questions. In order to provide as many of you as possible the opportunity to ask a question, please limit yourself to a single question. After our response, we'll provide an opportunity for an additional follow-up. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Chris Danely, Citi.

Chris Danely - *Citigroup - Analyst*

Thanks, guys. Can you just divulge to us the end market in personal electronics that is causing all the weakness? And if it is handsets, which probably doesn't come as a huge surprise, maybe also comment on the other end markets? Especially PCs, where some of the other semiconductor companies have talked about a little bit of weakening in PCs, and what you guys are seeing in that end market?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Okay, Chris. The sector where we saw the weakness, as you were guessing, is mobile phones. And we did see that sector weaken late in the quarter, in the back half of the month of December. If I just take and look at, for the year, how our end markets did, I will put that into perspective. I'll start with an area of strength, in automotive. That grew in the mid-teens. Most of the sectors inside of that growing double digits.

Industrial revenue was about even for the year, and we had -- about half of the sectors there were increasing, offset by the others. Personal electronics, as we've just talked about, grew single digits. I'll note that we had, certainly, growth in one customer that grew significantly that year, but that was up, primarily offset by declines in other. So therefore, our percentage of our revenue in personal electronics really didn't change too much. It went from 29% last year to 30% this year.

Communications equipment was down 20%, and that was primarily driven by wireless infrastructure, and that was down around 30% for the year. And then finally, enterprise systems was down slightly, due to projectors. So with that said, Chris, I think, as we talked about earlier in our prepared remarks, outside of that one area of weakness, everything else came in about as we had expected. So that would be inclusive of PCs, and the other areas that you talked about. You have a follow-on?

Operator

John Pitzer, Credit Suisse.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

(multiple speakers) Go ahead, John.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

John Pitzer - *Credit Suisse - Analyst*

Yes, thanks, guys. Just a follow-up. You talked about Apple being an 11% customer for the full year. I'm wondering if you can talk about the linearity of that percentage, as the year progressed? And did they exit the year as a larger customer? And as you think about the weakness in Q1 in smartphones, do you feel like you are at a build level that's significantly below sell-through? So Q1 will represent sort of a bottom in that weakness? Or how do you handicap that?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, so our revenue profile inside of personal electronics, obviously, it will be more back-half weighted. As that customer did well in the marketplace, obviously, our revenues would be reflective of that. I could point out that we sell a very diverse set of products to that customer, and, in fact, hundreds of products to it, and products in every major platform. That said, I think that the revenues of that customer are reported to be, somewhere around two-thirds of it is in smartphones. And you'd expect since, we've got a pretty diverse position across that customer, our revenues would be very similar.

So -- and certainly, I think that whenever you have a fairly significant change in demand of any customer, there is supply chain considerations, where you've got different pieces of inventory sitting inside of that supply chain. We happen to be on the beginning part of that supply chain, so I won't try to handicap where that is. It's where we think the demand will come in, in the first quarter, and we will see -- we'll make a prediction on second quarter later.

Kevin March - *Texas Instruments Inc. - CFO*

I would just add, on that demand profile, we did discuss that we expect about $150 million year-over-year decline, attributable to this particular sector in personal electronics. The rest of it will be about even with last year.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Right, good point. John, do you have a follow-up?

John Pitzer - *Credit Suisse - Analyst*

Yes, Kevin, just to follow up on that. With the rest of the business even from last year, there's clearly a lot of investor angst about the macro in general. And clearly, if you look at your business profile throughout 2015, and exclude Apple, you saw some weakness in the rest of your business, starting in the June quarter. And you've had a couple of quarters of year-over-year declines in total revenue, even as personal electronics has done strongly. And so when you look at the macro concerns that are out there, do you feel like that that's been fully reflected in the June-September-December numbers? And that you are now coming out of this? Or how do you handicap our macro concerns onto your forward-looking guidance?

Kevin March - *Texas Instruments Inc. - CFO*

Yes, John, I think that at the highest level, we think we continue to operate in a relatively weak macro-economy, as we have been for the last couple of years. So nothing terribly exciting in the economy as a whole. But to look at the compares that we're talking about, recall that a year ago, we were seeing sharp declines occurring in communications infrastructure. And we were also seeing some pretty stiff headwinds, in the form of foreign exchange, where the rate of exchange moving against us, from a US dollar strength standpoint.

So despite that, when you take a look at all of that, we actually see, aside from this one sector of personal electronics, the balance of it is going to be about even, on a year-over-year basis. So again, the headlines that we are seeing on the macro front, and a lot of the angst that you mentioned,

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

certainly sounds real. But actually, from a demand signal standpoint from our customers, it's consistent with what I just said. We continue to operate in a weak macro environment, with lots of cross currents going on.

Again, last year's weakening in comms infrastructure, very strong auto, foreign exchange issues that we were dealing with. This year, we don't see where those things are coming into play right now.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, and I will just add that I think inside of that weak macro-economy, just the diversity of our products, and the business model, we continue to operate extremely well inside of that environment. Thank you, John, and we will go to the next caller, please.

Operator

Chris Danely

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Hello, Chris.

Chris Danely - *Citigroup - Analyst*

(multiple speakers) Thanks for letting me ask the follow-up. I thought you had something against short people. (laughter) Just a quick one. So Kevin, as you mentioned, in a -- it's kind of a flat environment, you still managed to grown earnings 8% in 2015. So in 2016, if things are flat to down, maybe talk about some of the levers you guys have or would pull, to try and keep earnings flat? Or could we see earnings be down again -- or excuse me, be down this year?

Kevin March - *Texas Instruments Inc. - CFO*

Yes, there's a lot of assumptions insider there, Chris. But let me remind you of some moving parts that are going on here, and you can spot it if you take a look at the release that we just put out there. I think the most apparent number you can see on there is the decline in depreciation begin to occur. And clearly, just from an accounting standpoint, that increases our gross profit margin, and falls through to EPS.

That depreciation will continue its glide path down in 2016, consistent with the fact that a lot of those purchases we made five years ago are now reaching the end of their depreciable life. In addition to that, we're seeing a growing portion of our chips being produced in 300 millimeter capacity. And as you know, it costs us about 40% less per chip, or about 20% less per device, to manufacture on 300 millimeter versus 200 millimeter. So as that mix improves, that will also fall through to the bottom line.

And then the third element that I would just point out is that we continue to see a mix shift in the source of revenue into industrial and automotive, which tend to have higher overall margins, and certainly stickier revenue and margin profiles, over time. So collectively, those should help our overall margin and earnings performance, notwithstanding whatever direction revenue takes us through, over the next 12 months.

In addition to that, from an EPS standpoint, as we have been doing for 11 years now, as long as the intrinsic value of the company is higher than the market value, we will continue to be buyers of TI shares. We reduced our share count 3.4% this past year, and certainly, at current prices, it says we should continue to be active accumulators of TI shares. Though combined, we certainly would have momentum in our favor, notwithstanding a significant change in the revenue profile, we continue to help us with earnings per share.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Great, okay. Thanks so much, Chris, and sorry about the difficulty there. And operator, we can go to the next caller, please.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Hi guys, thanks for letting me ask a question. Kevin, why don't we just continue with the topic you talked about, as far as earnings drivers? The OpEx continues to impress. I think for the second year in a row, OpEx dropped by 5%. And I know you had some specific closures in Japan, et cetera. If we were to look forward on OpEx, are there any unique drivers, such as closing businesses, that are really going to impact that? Or how should we think about OpEx, relative to sales?

Kevin March - *Texas Instruments Inc. - CFO*

Yes, Ross, I guess the way I'd answer that is that there are no knobs on the horizon right now, of any measure that were similar to what you've seen in the last couple of years. As you pointed out, we had some restructuring actions that we took in Japan, and also in certain parts of Embedded Processing over the last two years. And those have removed quite a bit of OpEx cost. And those are about done now. They pretty much finished up in the middle of last year.

As we look forward, what we would expect to see is what we've talked about in the past, is that our OpEx should operate somewhere between 20% and 30% of revenue. In a weak market, it might be pushing 30%. In reasonably strong markets, we might be pushing 20%. I think we're in the low 20%s right now, 23% for 2015. So again, as I look forward, I don't see any real material changes to the OpEx profile.

I will just remind you that we do always have a seasonal pattern in our OpEx. Just like OpEx was down 3Q to 4Q, because of holidays such as Thanksgiving and Christmas, the OpEx will be up again in 1Q versus 4Q, because of the absence of those holidays. And also the annual pay and benefits increases that we institute across the company in the first quarter. And to give you some parameters on that, it is probably in the 4% to 5% range increase, 4Q to 1Q, on OpEx.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Do you have a follow-on, Ross?

Ross Seymore - *Deutsche Bank - Analyst*

I do. On the communications equipment side of things, you mentioned it was down about 20%. That's not a huge surprise. You mentioned the wireless cause of that. Can you talk a little bit about what that segment did sequentially in the December quarter? And what sort of outlook do you have for it, heading into 2016?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, I think if you look at that, sequentially, it was down around mid-teens, but -- from a year ago, it was down mid-teens, but actually did see some growth. That was the second quarter in a row that we had growth inside of there. So I think that business continues to be one that, over the last couple of decades, has been very, very choppy. That characteristic probably won't change, but we're on a position where we've got a couple of

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

quarters of growth. I think that when we look at it longer-term, we do believe that carrier CapEx won't grow. It certainly won't drop to zero, either, but we do think that it will get smaller slightly, in time. Okay, thanks, Ross. And we will go to the next caller, please.

Operator

Vivek Arya, Bank of America Merrill Lynch.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Thank you for taking my question. So last year, you expanded gross margins by about 120 basis points, which is very impressive, given the flat macro environment. But if I had asked you a year ago, where will gross margins go, given all the levers, right? Because it moved from 200 millimeter to 300 millimeter, the lower depreciation, the mix shift towards industrial and automotive. Do you think you would have thought gross margins would be even stronger than what you might have -- than what you actually achieved?

So my question really is that, as we look forward, what is a bigger driver of gross margins? Is it top-line growth and wafer starts? Or do you still think that 200 millimeter to 300 millimeter is -- that move is being under-appreciated, in terms of a gross margin driver?

Kevin March - *Texas Instruments Inc. - CFO*

Okay, first off, let me make sure we've got the score keeping going on correctly here. I think we were clocking about 130 basis points of improvement this past year.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Yes, 130.

Kevin March - *Texas Instruments Inc. - CFO*

Don't want to miss out on an extra 10 there, Vivek. (laughter) As I look into 2015, clearly, any meaningful revenue growth will incrementally have a much stronger impact than any other piece of the P&L, on improving overall gross margins. But independent of margin growth, I'd go back to what I talked about a few minutes ago, on Ross's question.

And that would be, really, the increasing mix improvement on 300 millimeter, the mix to industrial and auto, and then just the decline in depreciation, as we continue to march through 2016. It's pretty tough to handicap which one would be the biggest contributor, or how to sequence those. But I think that they will all collectively be quite meaningful, as we move into 2016. And I think we will probably pleasantly please ourselves again for another year.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, and I'll just add to that, Vivek, that on essentially flat revenues, all of that came down to free cash flow growing by 6%, right? So there are some things going on with accounting rules of -- on the gross margin line. But really, we are focused on growing that gross margin -- or on the free cash flow growth specifically, and it clocked in pretty nicely, as well. So you have a follow-on?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Vivek Arya - *BofA Merrill Lynch - Analyst*

Yes, thanks, Dave. The question is, on your Other segment, where you have the DLP and calculators and ASICs, so that was down about 14%, if I ignore the legacy wireless piece. Why was it down so much? And how should we think about that segment in 2016? Thank you.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Sure. And if you look for the year, it was down -- I'm not sure if your question was for the year or for the quarter -- it's actually the same reason. It's down primarily due to custom ASIC products. If you remember, those products have a very high exposure to wireless infrastructure, and that's where we saw the headwind. It was also down because DLP, and DLP had a very good year in 2014, so a very difficult compare on that.

Kevin March - *Texas Instruments Inc. - CFO*

It had a good year because there was a strong World Cup demand pulling through DLP.

Vivek Arya - *BofA Merrill Lynch - Analyst*

And how to think about it for 2016?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, so I think that if you look, last year, it was in the mid-teens. If you go back several years, it's actually been in that same range. Previous years were primarily driven from the exit of the wireless business. But as we go into next year, and as we look, essentially, that we've got some long-term growth potentials inside of DLP. I think calculators have been flat to slightly down, and we would continue to expect to see that.

Growth in royalties, the royalties have been about 1% of our revenue, and we'd expect them to continue to run in that area. And then we've got ASIC, that will shift, over time, into our Embedded Processing, as we pick up that functionality. So we'd expect that mid-teens to slow somewhere in the mid- to low-single-digit declines, going forward. Okay, thank you, Vivek. And we will go ahead and move on to the next caller, please.

Operator

Harlan Sur, JPMorgan.

Harlan Sur - *JPMorgan - Analyst*

Good afternoon, thanks for taking my question. On the strength in your Embedded segment in December, you also had a good growth in the September quarter, as well. I'm focused on the MCU products here. Can you just help us understand what are the end markets and trends that have been driving the strength here in the MCU business? I'm assuming most of it was auto and industrial, but would love to get your insights.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, so I think when you look at the Embedded sector, if I look for the year, the increase was due to Connectivity and Micro-controllers. And both of those product lines, I would say, have a very diverse customer footprint. And so there's really not one sector or market that's driving it. Collectively, you are right.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

It's in industrial, as well as automotive, but probably has a bias to industrial, just because of the diversity of those customers, and where they are winning designs. So very, very broad-based, and that's part of the reason why we're encouraged with that business, and the growth. And I think that also, you see how that contributes to the bottom line and the profitability of that sector, or that business, for the year.

Harlan Sur - *JPMorgan - Analyst*

Great, thanks for that color.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

You have a follow-on, Harlan?

Harlan Sur - *JPMorgan - Analyst*

Yes. On your broad catalog Analog business, it's a high gross margin business. I think the team has done a good job of continuing to improve the breadth and the access to the portfolio. So I guess the question is, did the catalog business outgrow the overall Analog business in 2015? And do you expect it to outperform overall Analog this year, as well?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, so we don't really have our business so much lined up by catalog or not. I'd say that the majority of the products by number, certainly, are more catalog-based, as we've got tens of thousands of products. But we're not quite organized that way. We've got the four businesses of High Volume Analog & Logic, which will be more application-specific products. And even there, even though they are application-specific, many of those products are available to multiple customers, and even sometimes multiple markets, even though they are application-specific. Something like motor drivers, as an example, selling into multiple markets and multiple sectors. And we've got Power, and then High Performance Analog and SVA. So we just don't have a cut between that.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Okay, thank you, Harlan. And we will go to our next caller, please.

Operator

Ambrish Srivastava, BMO.

Ambrish Srivastava - *BMO Capital Markets - Analyst*

Hi, thank you very much, Dave and Kevin. I wanted to go back to the overall environment. And in the past, you guys have been very good about giving us essentially signpost metrics. Dave, I think, if I remember correctly, rate of cancellations, and a few others. Could you please remind us what those metrics are telling you about the overall health of TI's business? And then I had a quick follow-up.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Sure. I think, Ambrish, as we look at our business, and as Kevin mentioned before, we believe that we've been operating in a weaker environment, and that will continue for some time. We've had some people ask us if we think a semiconductor cycle is underlying what we are seeing, and we just haven't seen those signs of a traditional cycle.

So there are things like, our lead times continue to remain short. Our cancellations remain very low, our distribution inventory continues to hold around four weeks. And we continue to deliver our products on time to our customers, when they are asking, at very, very high service levels. So those are some of the bigger ones that come to mind, that you would see some movement, if you were moving through a bottom or a top of the cycle. And we just haven't seen that, in quite some time.

Ambrish Srivastava - *BMO Capital Markets - Analyst*

Great. Makes sense, Dave. And my follow-up was on the industrial segment. And obviously, I don't pay attention to the quarter-quarter. But on a full-year basis, if I recall what the number you gave us, it's flat for the year. And the year before that, it was up 10%. So given it's such a cornerstone of your business, also your gross margin expansion, how do you explain the flat year-over-year last year? And then what do you think industrial should do in 2016? Thank you, Dave.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Sure. Yes, and before I talk about industrial, I just want to remind those that may not be as familiar with us. When we talk about our industrial market, it's something that's very broad, and different than what a typical investor would look, from an industrial screen. So we've got 14 sectors that makes up industrial.

And they'll include things like factory automation, medical and healthcare, building automation, grid infrastructure, test measurement, motor drives, electronic point-of-sale, space and avionics, display power delivery appliances, lighting, industrial transportation, and then a bucket of everything else that goes into it. So slightly -- or very different than what most people would think of in industrials. And you are right, it was -- it had a strong year the year before.

I think when we started the year, we had expected it to be stronger than what it turned out. And typically, a lot of people ask us, hey, we hear the rumors in China, we see the stocks that they follow, maybe in the industrial segment, are seeing very, very weak demand. But we turned in revenue that was consistent with what we saw, after a very strong year.

And fundamentally, what we think is going on inside of that is that there is more semiconductor content going into the industrial market, and we think we're in the very early stages of that. And if you look at the automotive market, I think it's much easier to see that content, because we know how many cars ship per year. It's much easier to see the difference between total SAR unit growth, and what semiconductors are shipping into it.

Certainly impossible to be able to see inside of the industrial market, because it's very, very broad and very, very diverse. But that said, we believe that we've got a decade or more of runway of increasing content inside of the industrial market. So that's about all the insight I think I can share on that. Okay, thank you, Ambrish. And we will go on to the next caller, please.

Operator

Chris Rolland, Friedman Billings Ramsey.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Chris Rolland - *FBR Capital Markets - Analyst*

Hey guys, thanks for the question, and excuse me if this has already been asked. If you could give us a little bit more detail on the Scottish fab? And what was being made there, and how large was that footprint? And then also, what kind of OpEx opportunities you might have there?

Kevin March - *Texas Instruments Inc. - CFO*

Yes, Chris, the fab in Greenock, Scotland, is one that came with us with the acquisition of National Semiconductor in 2011. Most of the parts that are manufactured in there are part of our Silicon Valley Analog business. We announced today that we are going to -- that we're putting together plans to wind down operations there, and move the production to other 200-millimeter fabs that we have in Germany, Japan, and Maine in the US. These are larger, more cost-effective, more technologically advanced factories, that can just give us a lot better economics with those chips that are produced there.

It will take us about three years to wind down those operations, by our estimate right now, as it takes just that much time to re-qualify those parts into other factories. And at the end of that period, we will no longer have an operation in Greenock. We took a $17 million charge in the quarter, as we began planning for that activity. And we expect that we'll probably continue to incur roughly $2 million of charges per quarter, each quarter, through the end of 2018 as we wind it down, for total charges of about $40 million, over a three-year period.

Chris Rolland - *FBR Capital Markets - Analyst*

Great. One more follow-up there. Why not any opportunities to move to 300 millimeter? And then also, as we look at Embedded, I think we concentrated a little bit on MCUs. But maybe we can talk about Connectivity, and why that was up year over year? And does the growth in MCU, year-on-year, at all change your penchant in M&A towards Embedded, versus your favorite Analog?

Kevin March - *Texas Instruments Inc. - CFO*

Dave and I are going to have to tag team that one. (laughter) I will finish up the Scottish fab one, the why not 300 millimeter. The short answer is, most of those processes are dual qual-ed already in other 200-millimeter factories, and it's just a whole lot easier to transfer into qualified processes that already exist in other factories. Not all, but enough of them. And so consequently, we will just go ahead and put those into open capacity in 200-millimeter factories, versus bringing them into 300 millimeter. And Dave, you want to take the --

---

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, Chris, your question on Connectivity, what's driving the growth there? There, we've got a very broad portfolio of products we support, about a dozen different standards, from a connectivity standpoint. So low-power Bluetooth, to Wi-Fi, to other sub-gigahertz standards. And so if somebody wants to connect something, we have a solution that we can offer them. And so we're just seeing really good uptake of the products that we've got there.

I think you rolled in a question about, does it change our penchant for acquisition? Again, our belief is that when you acquire a company in the Embedded space, you're picking up additional architectures. And additional architectures doesn't make you stronger, it just makes you bigger. And so we'll continue to look for companies that have characteristics much like a National does, if we -- when we are interested, and that's the profile of the type of company.

Let me just add, too, on the Greenock facility, that we do expect to save about $35 million, once we've completed all the transition. That's on an annualized basis, and once we do complete the transition of the products to the more cost-effective fabs. Okay, thanks, Chris. And we will move on to the next caller, please.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Operator

Craig Ellis, B. Riley.

Craig Ellis - *B. Riley & Company - Analyst*

Thanks for taking the question, and I wanted to ask a follow-up on some of the 300-millimeter points that were made. Kevin, can you help me understand where in the portfolio, on a segment and sub segment basis, the company is having the most success with the 300-millimeter transition. And therefore, what's left to go in, as you look at the opportunity, is it a fairly steady opportunity? Or are there some discontinuities coming in your ability to move products over to 300 millimeter?

Kevin March - *Texas Instruments Inc. - CFO*

Craig, I said the benefit is really happening right now, in the Analog portfolio, and it's happening across all four of the business units inside Analog. Because of it, the 300 millimeter factory we have in RFAB being highly automated, somewhat counter-intuitively, you don't have to have really high volume parts running through there. Because of the automation, we can actually run relatively low-volume parts through there, and still gain significant cost benefit.

So what -- the way we been employing a 300-millimeter strategy is not so much to re-qual existing 200 millimeter into that factory, but instead to release new products into that factory, on already qualified processes. And that's really the focus that we have had, and that we will continue, going forward. And we'll give a further update, as to our progress, to date, on both the Renner fab, as well as the DMOS6 fab that we're converting that we announced last year, coming on February 9, in our capital management call. So stay tuned for that, and we'll give a new update on that, as well.

Craig Ellis - *B. Riley & Company - Analyst*

Thank you. And then switching gears, and just on the competitive front. A couple of competitors in the MCU business have recently announced that they'll be getting together. Thoughts on the implications for your ability to continue to grow, and take operating margins in Embedded from the mid 20s higher, if there's a more consolidated landscape out there? Thank you.

Kevin March - *Texas Instruments Inc. - CFO*

(multiple speakers) Go ahead, Dave.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, I was just going to say that we've obviously competed with both of those companies for a couple of decades, and them combining together really doesn't change much, from a competitive landscape. And we believe that our four competitive attributes that make us unique, they are hard to replicate.

We'll stay focused on those, and those are: our approach to manufacturing, the breadth of our product portfolio, the reach of the market channels that we've got, and our diverse and long-lived positions. And that's -- we will stay focused on those. And we think those have helped us gain share, and they will help us continue to gain share. Okay, we've got time for one more caller, please.

Operator

Doug Freedman, Sterne Agee.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Doug Freedman - *Sterne, Agee & Leach - Analyst*

Great, guys, thanks for taking my question. I guess if I could focus in on the fact that you did report Apple as a 11% customer. Can you maybe talk about your expectations for the full year, in terms of content? You did mention you're in many different devices. But on a like-for-like device there, do you believe that you're holding content, increasing content? Any guidance you can give us. And maybe how we should think about that being seasonally -- the impacts on that seasonality?

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Yes, Doug, we just won't provide color at that level, on a specific customer. I would just -- overall, I think if you look at how Apple has impacted our business with their success in the marketplace, personal electronics was about 30% of revenue in 2015. If you look at the market overall, I think that if you take memory out, personal electronics is probably around 60% of the market, and so we have about half of the exposure there.

So we try to find places where we've got some differentiation, where we believe that those products will last more than one cycle. Perhaps they're products that we develop, that we can use in other customers, or even in other markets, in some cases. So that's really what we'll stay focused on, overall. So do you have a follow-on question?

Doug Freedman - *Sterne, Agee & Leach - Analyst*

I do. It's actually probably for Kevin. Looking at -- you mentioned depreciation ramping down. Can you give us a sense of how quickly [at that]? You are running at about a 688 rate for the year, but your CapEx, I believe, around 500. How quickly should we see those numbers merge together?

Kevin March - *Texas Instruments Inc. - CFO*

Yes, I don't think you're going to see a CapEx and depreciation crossover before the end of 2016. Depreciation will continue to run down during 2016. And really, the kind of gentle roll-over you saw beginning to occur in 2015 is your best proxy for how to model 2016.

Dave Pahl - *Texas Instruments Inc. - VP & Head of IR*

Okay. Thank you, Doug, and thank you all for joining us. Again, please plan to join us for our capital management call on February 9, at 10:00 AM Central Time. A replay of this call is available on our website. Good evening.

Operator

That does conclude today's conference. We thank you for your participation.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.