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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Texas Capital -- excuse me, Texas Instruments Capital Management Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Dave Pahl. Please go ahead.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Good morning and thank you for joining our 2022 capital management call. This call is being broadcast live over the web and can be accessed through our website at ti.com/ir. Please note, the complete presentation and prepared remarks are also available now on our website for your convenience. A replay will also 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 our most recent earnings release as well as our most recent SEC filings for a more complete description.

During today's presentation, we'll begin with a recap of our objective, strategy and business model that is built on our sustainable competitive advantages. Next, we'll review our scorecard for 2021 and updates for 2022. Then we'll provide a historical summary of our capital allocation and take a deeper look into specific areas of investment. As we mentioned previously, we'll provide more details about our investments to strengthen our manufacturing and technology competitive advantages, and specifically our long-term 300-millimeter wafer fab road map, CapEx spend and depreciation implications. Then we'll review R&D allocation priorities and our progress on building closer direct relationships with our customers. Next, we'll highlight our free cash flow per share performance. And lastly, we'll wrap up with a review of our cash returns.

If you haven't already, we encourage you to review our investor overview, which provides insight into our business model and competitive advantages. It is also available on our Investor Relations website. The following guiding principles from that overview will help frame our discussion today.

At TI:

We run the company with the mindset of being a long-term owner.

We believe that growth of free cash flow per share is the primary driver of long-term value.

Our ambitions and values are integral to how we build TI stronger, and when we're successful, achieving these ambitions, our employees, our customers, communities and shareholders all win.

Our strategy is comprised of a great business model, a disciplined approach to capital allocation and a focus on efficiency.

Our business model is built around four sustainable competitive advantages: manufacturing and technology, a broad product portfolio, the reach of our market channels, and diverse and long-lived positions.

And after accretive investments in the business to grow free cash flow over the long term, the remaining cash will be returned over time via dividends and share repurchases.

With that as a framework, our objective is to maximize long-term growth of free cash flow per share, which we believe is the best metric to judge our performance and generates long-term value for the owners of the company.

Our strategy to achieve this objective has three elements:

First, a great business model that's focused on analog and embedded products and built around four sustainable competitive advantages -- advantages that we continue to invest in and make even stronger.

Second, discipline in allocating capital to the best opportunities. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or even how we think about acquisitions or returning cash to our owners.

And third, striving to constantly increase our efficiency, which is about achieving more output for every dollar of input.

Our strategy is designed around four sustainable competitive advantages that, in combination, provide tangible benefits that are difficult to replicate.

First, at the bottom of this slide, we start with the foundation of manufacturing and technology. This provides us with lower cost and greater control of our supply chain. The advantage of lower cost has always been recognized as a benefit, but the last two years have highlighted the importance of owning and controlling our supply chain.

Second is the broad product portfolio of analog and embedded products. These products provide us more opportunities per customer and more value for our investments.

And third, the reach of our market channels, including our field sales force and TI.com. This provides access to more customers, projects, sockets per project and insight into their needs. We provided details into our changes in distribution last year, and we'll provide an update in a few moments. In addition, we'll provide some insight into our strategic progress with TI.com and its long-term potential.

And lastly, we have diverse and long-lived positions, resulting in less single point dependency and longer returns for our investments.

With that, I'll turn it over to Rafael, and he'll review our approach to capital management and our scorecard. Rafael?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Thanks, Dave. We have shared our capital management scorecard with you since 2013. In 2021, we again met our multiple objectives.

You can see that the scorecard includes descriptions of our long-term objectives for each metric as well as the target range. The long-term objective provides insight into how we make decisions and run the business, as opposed to only a number or a range.

In the long-term objective descriptions for capital expenditures and cash return, you will note that we recognize there may be times to run higher levels on CapEx or to build up cash, which we did in 2021. Capital expenditures were 13% of revenue, including the purchase of

the Lehi wafer fab, and free cash flow return was about 70%. We continue to maintain our long-term objective of returning all free cash flow via dividends and repurchases over time.

We are pleased with the consistency of these results over time that have been enabled by our business model, discipline in allocating capital and constantly striving to increase our efficiency.

For 2022, our long-term objectives remain the same, but we are updating our capital expenditures target. Specifically, we expect CapEx to average around \$3.5 billion per year from 2022 to 2025 and about 10% of revenue per year in 2026 and beyond. We will provide more details on these plans in a few minutes.

We are increasing the allocation of capital towards capital expenditures as we believe top-line revenue growth will be a greater component of free cash flow per share growth over the next 10 to 15 years.

Underlying this capital allocation decision is a plan where we want to be able to support approximately 7% annualized revenue growth, if required by the market. We believe this is a reasonable assumption, particularly given the secular trend of increased semiconductor content per application.

Before I move into those details, I would like to back up and provide a top-level view into how we allocate our capital overall.

In the 10-year period spanning 2012 to 2021, we have allocated about \$80 billion of capital. Given that magnitude, you can appreciate why capital allocation is a job we take quite seriously and one that has significant impact on owner returns.

Our largest category of capital allocation, about 40% of the total, has been investment in critical areas that drive organic growth, such as R&D, sales and marketing, capital expenditures and inventory. For reference, capital expenditures have been a little over \$8 billion over this 10-year period.

The second-largest category has been share repurchases. Here, our objective is the accretive capture of future free cash flow for long-term owners. We focus on consistent repurchases when the present stock price is below the intrinsic value, using reasonable growth assumptions.

Next is dividends, where our objective is to appeal to a broader set of investors, and we focus on their sustainability and growth, for obvious reasons.

And finally, potential acquisitions are evaluated through two primary factors that have remained unchanged: It must be a strategic match, meaning catalog analog-focused, with high exposure to industrial and automotive. Additionally, it must meet certain financial objectives.

For simplicity, we have not included changes in net debt, which over this period increased \$3.1 billion.

Now I would like to update you on our progress in strengthening our competitive advantages.

To start, I'll update you on our manufacturing and technology competitive advantage. We mentioned earlier that for each of our competitive advantages, we work to ensure that they provide tangible benefits and are difficult to replicate.

Our investments in manufacturing and technology, particularly in 300-millimeter wafer fab capacity, help to extend our cost advantage and give us greater control of our supply chain. Today, we will provide additional insight into our long-term capacity road map that will support growth over the next 10 to 15 years.

Let me start with a reminder for those who are not as familiar with the semiconductor industry of why 300-millimeter wafers matter. A chip, meaning an unpackaged product, made on a 300-millimeter wafer, costs about 40% less than a chip built on a 200-millimeter

wafer, the size used by most of our competitors. This translates into a great competitive advantage.

The source of this advantage is the area of the wafer. A 300-millimeter wafer has 2.25 times more area, which in turn means we can get about 2.3 times more chips, but it does not cost 2.3 times more to process that larger wafer. This translates into a structural cost advantage.

To understand how a 40% less expensive chip impacts gross margins, it's easiest to use an example, one we have used for some time now, shown on this slide, of a part built on a 200-millimeter wafer compared with a 300-millimeter wafer.

This example shows a theoretical part that sells for \$1 with gross margin of 60%. The chip itself would cost about 20 cents if built on a 200-millimeter wafer, and this would reduce to 12 cents on a 300-millimeter wafer.

In this example, the remaining costs of assembly and tests are the same, regardless of the size of the wafer. The net result is that gross margin improves eight percentage points.

As this simple example illustrates, our 300-millimeter manufacturing capability and the resulting cost structure provide a unique competitive advantage for TI.

We have three 300-millimeter wafer fab projects underway, including RFAB2 in Richardson, Texas, LFAB in Lehi, Utah, and the multi-fab site in Sherman, Texas, that we announced in November. This road map will take us from two 300-millimeter wafer fabs to eight 300-millimeter wafer fabs when complete.

Production is expected to begin at RFAB2 in the second half of 2022, at LFAB in early 2023 and at the new Sherman site as early as 2025. These wafer fabs will be targeted for 45- to 130-nanometer technologies that are optimal for analog and embedded products and can go to smaller lithography as needed.

In the semiconductor market, given the time required to expand capacity, it is important to have long-term capacity road maps. The current semiconductor market cycle will eventually pass, but it is increasingly clear that the secular growth of semiconductor content will continue for at least another 10 to 15 years.

Therefore, we have constructed a detailed road map of wafer fabs and assembly/test operations that will position TI to support higher demand in 2025, in 2030 and beyond.

This slide captures the corresponding estimated capital expenditures and our detailed site plans, as well as some key strategic metrics that this road map will deliver.

The solid black line shows estimated capital expenditures. After spending \$2.5 billion in 2021, we expect CapEx to average approximately \$3.5 billion a year from 2022 to 2025. This is an average, as some years could be higher, and others could be lower. By 2026, we expect capital expenditures to normalize out, at about 10% of revenue going forward.

Underneath the black line, we have highlighted some of the key wafer fab and assembly/test projects. For the sake of time, I will not go through each of these, but we hope it provides some insight into the detailed planning involved in this road map.

Finally, at the bottom of the slide, we have highlighted several key metrics this road map will deliver:

The top row shows supportable revenue, meaning this plan can support approximately 7% annual growth through 2030 and beyond.

On the second line, we currently support about 80% of wafers internally, and this will increase to about 90% by 2030. At the same time, external foundries will continue to be important suppliers.

On the third line, you will see that 300-millimeter will increase from 40% of our internal production to about 75% by 2030. This gives some perspective into how our 300-millimeter advantage will grow over time.

And finally, while most of the world discusses the importance of wafer fab capacity, assembly capacity is equally critical. We will grow assembly from 60% internal this year to 85% by 2030. And again, our external suppliers will continue to be important.

In summary, this capacity road map reflects a decision to increase the allocation of capital towards capital expenditures, as we believe top-line revenue growth will be a greater component of free cash flow per share growth over the next 10 to 15 years. Underlying this allocation decision is a plan where we want to be able to support approximately 7% annualized revenue growth if required by the market. We believe this is a reasonable assumption, particularly given the secular trends of increased semiconductor content per application.

With those details, let me ask Dave to comment on our investments in R&D.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Thanks, Rafael. I'll comment on our R&D investments that we allocate to growth opportunities in order to strengthen our technology and product portfolio, while improving diversity and longevity.

On this slide, we summarize the current direction of our R&D investments and our revenue breakdown by end market.

For the revenue breakdown, we've provided data for 2013, 2020 and 2021 so you can get a sense of how the portfolio has changed over the long term as well as compared to last year.

The direction of our R&D investments, shown in the second column, are unchanged from last year:

Industrial and automotive investments continue to be up broadly, reflecting our belief that these end markets will be the fastest growing markets due to growing semiconductor content.

Personal electronics investments are up slightly, but we will continue to be selective.

Communications equipment investments are steady and in Analog only.

Enterprise systems investments are up slightly in support of a growing cloud and server infrastructure.

Other, which is shown here for completeness, is primarily the calculator business, where investments is flat and at low levels.

Here, you can see the strategic progress we've made in the important markets of industrial and automotive. In 2021, those markets combined represent 62% of TI's revenue, compared to 57% last year and 42% back in 2013.

As a reminder, the industrial and automotive markets have high diversity, meaning many customers, many sectors and many end equipment types. These markets also have high longevity, where they tend to have life cycles ranging from several years to even several decades.

Success in industrial and automotive therefore requires a long-term commitment and a willingness to invest broadly across sectors and product categories, both of which we've done and continue to do.

Finally, in 2021, our team did a terrific job of using a steady hand to support all of our markets and all of our customers. We believe these decisions will pay dividends for many years to come.

I'd also like to share an update on our progress in building closer direct relationships with our customers, which serves to strengthen and extend the reach of our market channels.

As a reminder, we believe that our customers will increasingly desire the convenience and productivity of online relationships along with skilled customer and commercial support. This is a broad secular trend we see all around us in our daily lives.

Our multiyear investments in our sales and applications team, TI.com, business processes and logistics uniquely positions TI to lead this transition in the semiconductor industry.

In 2021, we continued our progress in building closer direct relationships, averaging about two-thirds of our revenue on a direct basis and leaving the year close to 70%. This compares to about a third of our business transacting directly in 2019.

TI's reach of market channel advantage results in higher growth through access to more customers, projects, sockets per project, and better insight into customer needs.

TI.com is an important part of the reach of our channels and delivers additional customer convenience with online sales.

In 2019, we formed a team dedicated to building our TI.com online business and accelerating investments in this channel. Since that time, we have expanded the number of countries where we support transactions in local currencies where TI is the importer of record, added new payment methods and provided new methods for financing. In addition, we've been investing in logistics and highly automated product distribution centers for less than two-day delivery to customers' doors or their manufacturing docks.

In 2021, we had more than 50,000 unique customers transacting quantities from a single unit to hundreds of thousands of units via TI.com. Revenue in 2021 on TI.com grew more than 7 times over 2020 and accounted for about 10% of our total revenue.

2021 TI.com revenue growth was most likely helped by the market conditions, but we believe the long-term strategic potential of online sales through TI.com is high, given its convenience for customers.

With that, I'll turn it back to Rafael to talk about free cash flow growth and cash returns.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Thanks, Dave. Before discussing free cash flow growth and cash returns, it is helpful to consider how our operating cash flows are enabling our long-term investments. Specifically, operating cash flow in 2021 was \$8.8 billion, which was more than 40% higher than 2020.

At the same time, CapEx was at \$2.5 billion or 13% of revenue as we begin higher investment levels in 300-millimeter wafer fabs to strengthen our competitive advantages.

As we described at the beginning, our overall objective is to maximize long-term free cash flow per share.

We believe this is not only the best metric to judge our performance, but it is also the one that we as owners ultimately care about.

In 2021, free cash flow was \$6.82 per share. This was up about 14% from 2020, and free cash flow margin was 34% for the year. Since 2004, free cash flow per share has grown 12% compounded annually.

As mentioned before, our long-term objective is to provide a sustainable and growing dividend to appeal to a broader set of owners.

For 18 consecutive years, we have steadily increased our dividend, including a 13% increase in the fourth quarter of 2021. These increases represent 21% for five-year and 22% for 10-year compounded annual growth rates. In 2021, dividend payments represented 62% of free cash flow, supporting their continued sustainability and growth. As of January 31, 2022, the dividend yield was 2.6%.

Our objective in repurchasing shares is the accretive capture of future free cash flows for long-term investors. We focus on consistently

repurchasing shares when the intrinsic value of the company exceeds its market value.

While the ultimate assessment of return on investment depends on the future cash flow stream, the track record of this approach is encouraging.

We have reduced shares outstanding 46% since 2004. We ended 2021 with \$10.1 billion in open authorizations, having bought back \$527 million worth of stock in 2021.

With respect to cash returns, in 2021, we returned \$4.78 per share, which represents a decrease of 26% versus 2020. In total, in 2021, we returned 70% of free cash flow, and since 2004, we have grown returns at 14% compounded annual growth rate.

It may be helpful to frame our performance versus others in the S&P 500. Our free cash flow generation puts TI in the 89th percentile, cash returns in the 87th percentile and return on invested capital in the 97th percentile when compared to the S&P 500.

We believe our strong relative performance versus the S&P 500 is a reflection of our focus on growing free cash flow per share over the long term and the three elements of our strategy: first, a great business model that is built on our four competitive advantages -- advantages in which we are continuing to invest and make even stronger; second, discipline in how we allocate our resources, focusing on the best product opportunities, as well as areas that strengthen and leverage our competitive advantages; and third, striving to constantly increase our efficiency, which is about achieving more output for every dollar of input.

We believe if we can continue to do these three things well, we should be able to grow free cash flow per share for a long time into the future.

Let me now wrap up my prepared remarks with a few summary comments.

As engineers, it is a privilege to get to pursue our passion of creating a better world by making electronics more affordable through semiconductors.

We were fortunate that our founders had the foresight to know that passion alone was not enough. Building a great company required a special culture to thrive for the long term, and we continue to build this culture stronger every day. The desires of ESG and sustainable investors are aligned with our long-term ambitions and have been part of our formula for success for decades.

We will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies.

You can count on us to stay true to our ambitions: to think like owners for the long term, adapt and succeed in a world that's ever changing, and behave in a way that makes us and our stakeholders proud. When we are successful, our employees, customers, communities and shareholders all win.

Thank you. With that, I'll turn it back to Dave.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Thanks, Rafael. Operator, you can now open the lines up for questions. (Operator Instructions)

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Stacy Rasgon with Bernstein Research.

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

For my first one, I want to ask about depreciation, I think for obvious reasons. In Q4, it was run rating about at an \$800 million per year annualized rate in Q4. How should we think about that going up from here as the CapEx gets deployed? Maybe you could talk a little bit about, at least for the \$3.5 billion this year, how much of that is going to be for equipment versus like facilities in land in the context of that?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. Thanks, Stacy. Happy to address that. First, let me go to the bigger picture, which is how excited we are about these investments, that are going to strengthen our manufacturing technology competitive advantage, for multiple reasons. As we mentioned on the call, first, we have 300-millimeter capacity coming online for RFAB2 and LFAB in this year and next year. Second, we have the Sherman complex that we're going to break ground this year, and that's going to give us a road map out to 2035. And finally, customers are just really excited about these investments, particularly because they are in 45- to 130-nanometer process technologies that are just optimized for analog and embedded, and it's going to support them for decades ahead.

Now to get to your specific question, obviously, depreciation is going up. As CapEx goes up, that depreciation follows CapEx. Our expectation right now is that it's going to approach \$2.5 billion in 2025. So think of that run rate as you described it. You can interpolate that to about \$2.5 billion to 2025, and you'll get in a good neighborhood of how that is going to trend. Do you have a follow-up?

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

I do. I do. I just had a longer-term question. So you've got CapEx normalizing at like 10% of revenue once you're fully built out. Why does it need to be that high? I just -- especially since you're not chasing Moore's Law, it just seems high to me for -- if we're talking about sort of like analog maintenance spend for CapEx at that point. I just -- maybe any more you can give on why that's the right sort of like normalized rate once the buildout is complete?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. Sure. First, I would tell you that analog -- at the end of the day it's to support revenue growth, which is the main driver of free cash flow growth going forward, as we have talked about. So revenue growth, the main driver. Then after that, is 300-millimeter capacity because it's optimized, and it's structurally the best capacity from a structural cost advantage.

Now specifically to where you're going, over the last 10 years, we've allocated capital to the best products and best markets, and that took us where Analog and Embedded are 90% of our revenue. That wasn't the case before. And as a result, we need to invest in manufacturing technology competitive advantage to support that growth, now that Analog and Embedded are just such a much larger revenue base of the entire company.

Operator

We'll take our next question from Toshiya Hari with Goldman Sachs.

Toshiya Hari *Goldman Sachs Group, Inc., Research Division - MD*

I guess my first question, how flexible do you intend to be with your CapEx between '22 and '25? As you pointed out, ultimately, I think there will be a downturn. The timing of that, obviously, predicting that is hard. But to the extent there is a period of softness in '23 or '24 what have you, is the \$3.5 billion per year between now and '25 pretty much set in stone? Or could things be a little bit more flexible than that? And then I've got a quick follow-up.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Sure. We are going to spend \$3.5 billion per year for the next four years. We are just excited about this investment for the reasons I talked about earlier, to strengthen our competitive advantages, manufacturing and technology -- it's just going to put us in a really good position. And the secular trends that we're -- that are underpinning these investments are long term in nature. They're not going anywhere; any downturn isn't going to -- cyclical adjustment is not going to affect our long-term view of that, and these investments are for the long term. Do you have a follow-up?

Toshiya Hari *Goldman Sachs Group, Inc., Research Division - MD*

I do. So DOI, your target's been 130 to 190 days for a while now. Obviously, you're well below the low end of that. I guess the path to somewhere in that range kind of depends on the demand profile, obviously. But at what point do you hope to or expect to be in that range?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Obviously, it depends on supply and demand. We are putting on supply -- adding capacity quickly. As I've talked to in earnings calls, it has been incremental, and it will continue to be incremental. So relatively small steps until RFAB2 comes online. That gives us really nice legroom there. And then LFAB starts production shortly after that. That gives us legroom. And from that point on, then we can take bigger steps in capacity.

But the net effect on inventory depends on the demand picture, right? And well, we are very confident over the long term. The short term, it could go any which way, right? So depending how that goes, the net result will be -- inventory -- the amount of inventory increase. And our plan is to run those factories. If there is a downturn, or when there is a downturn I should say, we'll build right through that so we can get those inventory levels to about 190 days, plus or minus, as soon as we can.

Operator

We'll take our next question from John Pitzer with Crédit Suisse.

John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Rafael and Dave, you and I have talked about this in the past, but I'm kind of curious about the CHIPS Act and what influence that might have on the capital allocation plan you put out there today. I'm assuming you're not banking on anything from the CHIPS Act. Will you be willing to take anything? And does that just support what you've put out today? Or does it actually -- could it actually augment what you're putting out today from the CapEx side?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So correct. We are not counting on any of those programs. This -- and our financial picture, the numbers that we just put out, do not include any subsidies, any offset for that. We're making these investments for the long term and based on our strong position with our competitive advantage and our position in the marketplace and the secular trends. So that's independent of those incentives.

Now I would tell you that we do support legislation in the United States to improve the semiconductor industry's ability to be competitive and to be on a level playing field. Generally, I think the best way that is accomplished is through a competitive tax rate, but it can be done in other ways with incentives and different things, like the FABS Act has incentives, the CHIPS act has different incentives, so whichever way the U.S. government wants to do that, I think that is a good thing to put the United States on an even playing field.

And as those things become available, yes, we will -- the way I understand those legislations is that we will qualify for all of those. And when the time comes and those are available, we will apply to those. And that would just be a net decrease -- a potential decrease to those CapEx numbers, depending on how that comes in.

John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

And then as my follow-up, I know you guys don't run the business to gross margin. You run the business to optimize free cash flow growth. But I'm kind of curious, your first foray into 300 was done relatively cheaply because you were smart enough to buy sort of equipment from bankrupt memory companies. As you've historically talked about incremental gross margins kind of in that 75% range, is that the same way we should think about this second foray into 300-millimeter? I guess the way I'm looking at this -- Slide 12 I'm assuming is just cash cost; it doesn't include the P&L cost of depreciation?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Okay. So a couple of things on that. First, big picture, a factory -- take RFAB2 -- it will cost all in about \$6 billion or so with equipment and building. Back in 2011, RFAB1, between the building, was built for something else, plus the Qimonda equipment, that probably cost \$2.5 billion or so. I don't have the exact number here, but somewhere in that neighborhood, \$2.5 billion to \$3 billion. But both of those

factories will produce around \$5 billion to \$6 billion of revenue per year at a very cost-effective footprint for 20, 30, 40, even 50 years. We have the factories that we announced that we're shutting down in Sherman -- the old Sherman factory has been around for 50 years, right? So when you think about the economics of that formula, would I rather take the factory at \$3 billion versus \$6 billion? Sure I would. But at \$6 billion, it's still a great investment.

And by the way, at \$6 billion, with new equipment, you get significant efficiencies, which -- so there's also a bit of an offset there. So it's not just a pure difference between the \$6 billion and the \$3 billion. So we're very excited about this investment regardless of that.

To complete the question, the fall-through. Yes. So you asked about the fall-through. The way I suggest you think about that is 70% to 75% still makes sense. You just have to adjust that for the change in depreciation, right, particularly as we go through from where we're running now to where we'll go. That time, obviously, that will have an impact to the actual fall-throughs. But if you want to -- as you model that, you can still do 70%, 75% and adjust for the delta depreciation. Once you get past that period where the depreciation is not changing as much, then essentially it's back to 70%, 75%.

I think you have a second question? Or was that -- yes, go ahead.

John William Pitzer *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

That was my follow-up.

Operator

Next call is from Vivek Arya with Bank of America.

Vivek Arya *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

Given all the puts and takes, can TI still grow free cash flow per share over the next four years?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Well, so over the long term, we are very excited about our prospects for growing free cash flow per share. The key driver is revenue growth. And clearly, we're setting up the company to sustain -- we said about 7% top-line growth, and the plan has flexibility to go higher if needed. And that's the key driver for that free cash flow per share growth. In addition to that, this is -- these are 300-millimeter investments. And as we pointed out, well, those are the -- there's a structural cost advantage, as we pointed out in the prepared remarks with 300-millimeter. And this plan would take us from 40% internally sourced with 300, to 75%. So you can picture the advantage that we will get during that time.

Now any one year -- that doesn't mean free cash flow per share is going to grow in any one year and even any one four-period year; you referred to four years. So it's going to depend on a number of factors. Obviously, the revenue trend is not always up to the right by 7%. That could have some fluctuations. So it's going to depend on that. And clearly, the CapEx will put downward pressure on the calculation of free cash flow per share in any one year.

But over the long term, as we look out 10, 15 years, we feel very good about what this is going to do for that long-term growth of free cash flow per share, which ultimately drives the long-term value for the owners of the company.

Vivek Arya *BofA Securities, Research Division - MD in Equity Research & Research Analyst*

I guess, Rafael, let me ask it in a different way. So if I look over the next four or five years -- I'm a long-term investor -- what kind of sales growth will TI require to grow free cash flow per share at the historical pace that you have managed to grow it at?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

I'll tell you how you should model that so you can get your own answer. Start with revenue and assume whatever you want to assume for revenue over the next four years, which -- I'm confident about the long term, but I cannot tell you in any one year or even any four-year period. But you go through that, then you do gross margins at 70% to 75%, adjusting for depreciation, right, as we answered to the -- I think it was John Pitzer who asked that question.

Then you need to -- you come up with your income statement, and then you go to the cash flow statement. You need to plug in the \$3.5 billion of CapEx. So that will then -- the free cash flow per share and the free cash flow. The other thing you have to consider is inventory. We are going to grow inventory at some point. So even when revenue -- in fact, when revenue drops, if it drops, or depending how much it drops, we'll build inventory. So that's a drain of cash, which I'm going to be happy to make because that's an investment to put us in an even better position the next upturn, the one that inevitably happens on the other side of things, right?

So you plug all that in, and you can figure out exactly what the free cash flow will be in any one year. And that's -- it's an interesting exercise to do, which I do myself on a frequent basis. But the bigger picture is what happens over the long term. Do that. Don't just stop at four years; go through 10, 15 years, and then you'll see what results you get and how it'll be even more clear why this investment makes sense.

Operator

Next caller is from Ambrish Srivastava with BMO.

Ambrish Srivastava BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst

I just wanted to make sure I had my math right. If I add up all the capacity that's going to be coming online over the next 10, 15 years, is it \$40.5 billion without Lehi? Is that the right number?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. So RFAB2, about \$5 billion to \$6 billion; Lehi, about \$4 billion; each of the Sherman factories, about \$6 billion each. We'll have -- at some point, we're going to shut down the old Sherman factory. So that will subtract \$1 billion to \$2 billion or so. So that is -- you can add all that up to the \$18 billion that we just did, and that should give us -- should give you a ballpark on where this would put us.

Of course, that doesn't all happen on day one, right? That is -- those numbers that I just gave you is when all those factories are fully equipped. That doesn't happen on day one. But that is the path that we take -- that we're taking. And the beauty is the optionality that we get with that type of plan. Take the Sherman one, right? That's up to four factories. We're going to break ground on two of those this year. One of those will be ready for production by early '25. The other one will be ready to -- with a little bit more investment, can be ready for production not too long after that, right? And that's the optionality that we get.

And then beyond that, then we have the optionality for the third and fourth factory, which would be right next to the one and two. We already have the land. The synergies that we get with those other factories would be tremendous. So that's the type of vision that we have with these investments.

Ambrish Srivastava BMO Capital Markets Equity Research - MD of Semiconductor Research & Senior Research Analyst

Got it. Got it. For my follow-up, if I look at five years -- last five years in both for Embedded and for Analog, so I don't -- SIA data is so noisy on a quarterly and annual basis. But if I look at five-year, you've definitely outgrown the analog industry by quite a fair bit. But on Embedded, it's roughly flat and you've undergrown the industry; the way I look at embedded versus microcontroller and add those to the other moving parts. The question is, in the 7% growth that you are setting for yourself -- target that you're setting for yourself -- what is the underlying assumption for how much share growth within both end markets? And I think in the past, you've said that, hey, in Analog specifically, incrementally we'll be gaining 30, 40, 50 bps per year.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. I think, Ambrish, when you look at that type of time period, you can go back 10 or 15 years in Analog and see that versus our best peers, our largest peers, we have outgrown them. And as we've talked about before, market share doesn't move quickly. So we've probably averaged roughly around that 30 basis points of share. And we believe that Analog and Embedded will grow about the same rate, similar types of opportunities for both product categories. And with our competitive advantages, we believe that we can gain share in both markets about at those rates. So I don't really see them longer term growing at different levels.

I will say that as we grow revenue in Embedded, we will build more of that internally. That will leverage more of our competitive

advantages by doing that. And so I think that, that speaks to the confidence that we see in that business. And the investments we're making today is based on that confidence that we see.

Operator

Next is Ross Seymore with Deutsche Bank.

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD*

I guess, as compared to prior capital management calls, which -- this one seems to be incredibly more revenue dependent. So kind of playing off of Ambrish's question, if I look over the last five years or even 10 years, you've been basically growing at about a 3% to 4% revenue CAGR. Per the answer to the last question, you're going to gain share, but it doesn't seem like you're going to gain it at any faster pace. So I guess the net question of this is, why do you believe 7% is the right number for your revenue growth considering over the recent past you've been kind of growing closer to half of that rate? What's changed?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes, Ross, I would look at our Analog business over that period. That -- and if you could look at that three years, five years or longer, it's been growing 7%, 8%. And so when we look forward, is that a reasonable assumption for the business overall? You look at Analog and Embedded is now more than 90% of our total revenues. You look at the secular trends in industrial and automotive specifically, the investments that we've made there, you look at our competitive advantages and the investments that we've made. We think we're well positioned, so we feel very confident that we'll be able to continue to gain share, and so we think that that's a very reasonable growth assumption. And as Rafael said, we've got the ability to be able to accelerate that, should the market require it. Do you have a follow-on?

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD*

Just switching over to the depreciation side of the equation, that road map from \$800 million to \$2.5 billion, Rafael, that you mentioned earlier, is very helpful. Is that a relatively linear climb, considering your CapEx is relatively linear? Or are there going to be stair steps up in there that we should be aware of? I don't expect a quarterly answer, but even on an annual basis, just as we try to figure out our gross margin trajectories?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. Yes -- no. So it is relatively linear the way we expect it to work out -- maybe not in '22. So '22 will be kind of below that line, so to speak. But then after that, it kind of more or less catches up to that linear trend. So you can probably think of it that way. You're not going to be far off where we think today. And by the way, that can always change. That depends on delivery of equipment, sometimes even qualifications. You don't start depreciation until the factory is qualified. So it could always pull in, pull out a little bit. But generally speaking, that would be a good way to think about it.

Operator

We'll go next to Tore Svanberg with Stifel.

Tore Egil Svanberg *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

First question is, what prompted this decision? I mean, we're talking about some pretty big CapEx numbers here. The secular trends are nothing new. I mean, they were there last year, too. And I do get the pandemic and what that's done to supply. But what prompted this pretty big decision right now?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. Sure. I'll start and, Dave, you want to chime in. But first, as Dave alluded to earlier, we do have a history of growth in Analog. If you look again, 5-, 10-, I think I went back to 15-year trends, and the CAGR, it's actually about 8%, if you look at that. So -- and remember, back then, Analog was a much smaller part of the business. Now this last year was three quarters of the business, right? So back then, we had other pieces of the company -- wireless and others -- that were not growing and actually went away. So that's the first one.

The second one, our confidence in Embedded and how we feel about Embedded with the various changes that we have made there over the years and the portfolio that they're putting together just give us that sense of -- additional sense of confidence on that front. Input from customers on the 45- to 130-nanometer technology -- process technologies that we have and how that is ideally suited for the type

of products that we released for auto and industrial, in particular. So remember, again, that's another angle. Auto and industrial have gone from below 40% to now above 60% of the company.

Now beyond that, I would tell you, we have for many years -- decades -- invested ahead of demand, right? So that part is not new. The last couple of years have given a great example of that, how we were able to address the market significantly better than any of our competitors. Look at our 4Q '21 revenue compared to 4Q '19, for example; that's a good proxy for that because that's pre-pandemic to kind of almost post-pandemic. We have grown 44% of revenue. Compare that to any of our large competitors, and you see how well we stack on that front.

So that gives us the confidence to continue on this type of vision that we've had. We've just taken it another level here to -- on the fab and on the AT front, which we alluded to as well. AT, we are taking from about 60% internal to 85% internal in this journey. So that is also an area where we feel confident about; the pandemic situation has also given us confidence on that front, just given how well that happened.

Tore Egil Svanberg *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes. That's great perspective. And if I can ask a follow-up on R&D allocation. So I get industrial. I know we're talking about tens of thousands of customers. But how should I feel confident about the R&D allocation to automotive? It's obviously a much more concentrated market, right? You're looking at maybe 12, 15 dominant players. A lot of the digital companies are investing there. There's clearly digital architectures that are emerging. So how can we have some confidence that the R&D allocation in automotive for the long run is sustainable?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes, Tore, that's a great question. I'll start. I think the foundation of our strategy there is one of diversity. And one of our competitive advantages is diversity and longevity. So as that plays out in automotive, there's five sectors in automotive that we continue to invest in. So there are things like ADAS and infotainment and body and lighting, powertrain, those types of things, safety systems. And so we're investing broadly.

When you look at it from a customer standpoint, we actually service somewhere north of 800, pushing maybe close to 1,000, different OEMs. Now of course, as you've pointed out, that revenue will be weighted towards the Tier 1 OEMs, but we'll have 2,000, 2,500, 3,000 different products or SKUs that we'll sell to those Tier 1 OEMs, so very diverse revenue going into those customers.

And then if you look at it from a product standpoint inside of the company, we've got 65 different product lines at the company. And I think around 45 of those ship products into automotive. So just a few dimensions of that diversity. So all of the things that you mentioned, we're participating in. We've got strong positions in popular things, like battery management and ADAS. We don't talk about those things a lot on conference calls because they're not singularly important. All of them are important collectively, but we work very hard to not have those single point dependencies as we've described. So it's a great question. Thanks so much. We'll go to the next caller please.

Operator

We'll go next to Harlan Sur with JPMorgan.

Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst*

As I think about the opportunities for incremental margin improvements, I can see two sort of new areas. One is embedded, and one is assembly and test. So on the earnings call today, you talked and also -- on the earnings call and today, you talked about doing embedded products as a part of the fab expansion program. I know you already do some embedded in DMOS6, but you've always focused 200-millimeter on analog. So given that a big part of embedded is currently outsourced, as you bring some of that in-house into RFAB2 and LFAB, do you get the same 40% lower-cost benefit at the chip level kind of similar to analog? Or is it actually potentially more, given that most of the embedded products today are outsourced?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. So what I would tell you is the key drivers: top-line growth, as we talked about, and then the other one is 300-millimeter, strengthening that advantage. And as we said and we mentioned earlier, going from 80% to 90% internally, that is disproportionately on the embedded front, just because obviously analog is already internally to a significant degree, right? So not only are we supporting, with this investment plan, the overall growth of the company, right, but it also increases the internal portion, in particular on embedded.

And yes, we get benefits there going from 200 to 300, and we also get benefits growing that internally, where obviously there's a cost advantage there, because when you go external, that external foundry is making significant margins on that. So there's a benefit on that front. Now as I said on the call, we are going to continue working with those foundries. A significant level of our revenue will still be there. So they'll still be partners with us for a long time to come to continue to support our growth.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And I'll just add that I think that -- I'll just add that, that road map in embedded will just take advantage of our competitive advantages in manufacturing and technology. So in some cases, we'll be able to integrate more analog components into the products. And I think over the last years -- last couple of years -- just the importance of owning and controlling that supply chain, I think, is -- has demonstrated itself more visibly. So that will be a part of it. But -- and as Rafael pointed out, there will always be certain technologies that we'll work with our foundry partners. And so that will be a part of our footprint going forward. Do you have a follow-on, Harlan?

Harlan Sur JPMorgan Chase & Co, Research Division - Senior Analyst

Yes. So then on the assembly and test side, so as you bring more of that in-house from your outsourced subcon partners, what is the cost benefit that you guys get at the fully packaged chip level, right, in-house versus subcon? It's obviously not going to be the same 40% lower-cost tailwind as moving from 300-millimeter -- or moving to 300-millimeter at the wafer level. But nevertheless, it's still going to be a cost tailwind for you guys. I'm wondering if you can quantify that. The assembly and test mix, I think it was 40% in 2020. You said 60% last year. It's moving to 85% in 2030. There's got to be some sort of cost tailwind there. Can you guys sort of quantify that?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

So there is a cost tailwind. We're not prepared to quantify that, frankly. At the highest level, the 300-millimeter wafer -- 300-millimeter wafer advantage is the biggest driver from a cost -- structural cost advantage standpoint. But there are tailwinds on the AT side, bringing that in-house. Of course, we need to do it well. We need to be competitive with the best of them out there. So it's not just enough to bring it in. We also have to be maniacally focused on being competitive, which we are and we will continue to be. Dave, do you have anything else?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

No. I think that's good. And we'll go to the next caller please.

Operator

We'll go next to Chris Danely with Citi.

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

So if we add it all up, you've got depreciation going up over the next several years, but then you also have a bunch of these margin enhancement helping you as well. So in a nutshell, are we looking at sort of peak gross and operating margins here in 2022? Or can they get back to this level? And how long or what would that entail to getting back to this level?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. Chris, what I would tell you, first, we manage the business, as you know, for the growth of free cash flow per share over the long term. And we're very excited about these investments for the reasons that I talked about -- how they position us for -- to grow the top line in the short term and in the long term out to 2035 with cost advantaged 300-millimeter capacity and the input that we're getting from our customers on 45- to 130-nanometer process technology that is just ideally suited for analog and embedded and industrial/automotive.

On your specific question, again, we don't manage to gross margins, right? But I would tell you, I answered an earlier question kind of along those lines, you can model it with the assumptions that we just gave you. Pick your revenue, pick your fall-through. I described how to model that. I described the depreciation that we're looking at and even CapEx beyond the 2025 scenario. And you can then quantify some of the -- try to quantify some of the puts and takes that I talked about. And that will give you a good picture of where GPM percent could go.

But again, that is not -- we don't -- we fervently believe that the driver of value for the long-term owners of the company is the free cash flow per share growth over the long term, right? CapEx is an investment. We invest that now and then flows through the P&L as depreciation based on the accounting rules. Equipment is five years. But keep in mind, that equipment we use for a long, long time, right? So that's why sometimes the cash flow statement is the better way to look at that.

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

Great. And for my follow-up, just a question on inventory. So, Rich was quite the swami 10 or 15 years ago when he talked about building all this inventory because of an eventual shortage. But here we are and everybody has shortages, and you guys haven't been able to maintain the level of inventory. Do you guys give any thought to perhaps taking your inventory level higher? Or do you think that your inventory being so low right now is just mostly a function of the pandemic and once the pandemic goes away, these shortages should be a little bit smoother for TI?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Well, our strategy worked really well during the pandemic. We had more capacity than anybody else. We had more inventory than anybody else. We grew inventory as the pandemic started, when everybody else was decreasing inventory. That's why we peaked at 166 days of inventory. That put us in a great position. Again, look at 4Q '21 versus 4Q '19 for us versus our competitors, and you can see a really nice picture of what that enabled.

Beyond that, we want to double down on that strategy. That's why we've taken up the inventory target from -- I think it was 115 to 125, now it's 130 to 190. And I've said several times that I'd be comfortable at the high end of that range. So as soon as we are able, we'll build inventory.

And of course, even more important than inventory is the capacity, the manufacturing capacity that we've talked about here during this hour, on putting that capacity -- that road map -- and putting that ahead of time and with optionality so that if revenue growth is even higher than what we're planning here, we can take that up relatively easily.

Operator

Next is William Stein with Truist Securities.

William Stein *Truist Securities, Inc., Research Division - MD*

First, from a headline perspective, it's easy to look at today's discussion and say, well, their capital intensity is going up from 6% to 10%. And even higher in the short term, but even if you ignore that, long-term capital intensity is going up. But if we dig deeper into what you're saying, you're certainly increasing the portion of manufacturing that's done internally. So that's part of the increase. Perhaps there's also a structurally higher price on equipment. And in addition to 300-millimeter, maybe you're doing -- maybe you're going after some new things, like some smaller nodes or exotic materials, like silicon carbide or gallium nitride. I wonder if you're -- if any of -- if you can perhaps allocate this increase from 6% to 10% to a couple of buckets that we can think about how the additional capital is being spent?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So let me start and, Dave, you want to follow up on that. But I think you hit on a couple of relevant points there.

One is the increase in the percent of wafers internally. So not only are we supporting a 7% revenue, or even if it's higher, but then inside of that, it's going to be more internal. So clearly, that is -- that more internally is a component of that.

The other one I think you hit on was the assembly/test, right? So again, supporting the growth, but then on top of that, going from 60% to 85%, that also drives additional CapEx.

Now that CapEx will have a return. So as somebody alluded to earlier, by bringing more internal, we get a better cost structure there versus paying somebody else to do it for the delta percent that we have there.

Your question on the pricing of equipment, yes, equipment costs have gone up, but it's not -- in the big scheme of things, as I answered earlier, it doesn't move the needle on our decision to make this investment.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And I'd just also add, over the last 10 years, we've allocated capital to the best products and the best markets. And we've got more than 90% of our revenue now pointed at Analog and Embedded. And we're making investments for all of that revenue base now to grow into the future. So we really think we're in a great position to be able to support that. And that growth in those investments, as Rafael said before, is at 45-nanometer to 130-nanometer. And you look across the industry, and it's a pretty significant portion of the investments from an industry standpoint going into that. So that's what makes customers excited when they see the road map that we shared with you earlier today. They get really excited when they see that. So do you have a follow-on, Will?

William Stein Truist Securities, Inc., Research Division - MD

Yes. I'd like to address the slide on TI.com. It's something I think seems pretty important, the significant increase of your orders that are flowing through that. Let's say -- well, I'll say website for now. And the question is whether it's just a technology or really a channel. And maybe to flesh that out a little bit, should investors think about this as a mechanism to conduct traditional business, something like what EDI was many years ago, where your large customers come in and they're just placing orders through this different channel that may be more cost-efficient for both sides to deal with? Or is this really a different channel where smaller customers are coming in, pursuing somewhat more ad hoc supply, potentially paying higher prices?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Well, maybe I'll describe it. It's not just small customers. So we do have smaller customers. As we pointed out, we've got 50,000 different customers transacting business there. But we have large customers as well. And that really comes down to the convenience, and even in an environment like this, we've got availability of 50,000-plus devices that are available for immediate delivery.

And as we talked about, we put in -- maybe I can describe it generally as kind of the last mile of infrastructure necessary to be able to do that transaction. So what does that mean? It's the -- all of the documentation and stuff that's necessary for being the importer of record, so customers don't have to deal with that, transacting in local currency. So when I think, we're north of 50 different countries and transacting in 30 different currencies around the world, we've got payment methods in place. And again, we're delivering in two days or less. In big hubs like Shenzhen, we can do same-day delivery. So in an industry that's used to, even in normal times, whatever normal is, it's usually waiting 12 to 16 weeks to get product, you get product the same day or even in a day or two, that's a significant advantage. And do customers pay more for that convenience? Of course they do. But they -- that's a great convenience for them. It really can change how they think about acquiring our product when their demand changes as well.

So just the long-term strategic potential of that channel to our customers, that convenience to our customers, we just think is very, very high. So thanks for asking that question, Will.

Operator

Our final caller is from C.J. Muse with Evercore.

Christopher James Muse Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

I guess a question on competitive differentiation. You've talked obviously historically around 300-millimeter. But curious, as you focus these investments on 45- to 130-nanometer, are you thinking about process node migration as an area of differentiation for you? And is this something where perhaps you could have a leg up on others?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Maybe I'll start with that. I think that there, process node migration, as you think about Moore's Law and analog, has never played much of any role. Just the types of dimensions that you use to differentiate and make the product a great product don't rely on trying to make the transistor smaller. So that's why there are some products that will use 130-nanometer, for example, for decades to come.

Now the capacity we're putting in is 45 to 130. There are some products that will benefit from those lower geometries, clearly in Embedded but also in Analog. Some high-speed data converters, some power management chips will benefit from those technologies. We actually have the capability to go smaller should we need it. But again, we're -- we've got the ability to use what's optimized for those products that are going to deliver the best product, the best features and the lowest cost that's available out there. Do you have a follow-up, C.J.?

Christopher James Muse Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

And as the follow-up, as you think about the CHIPS and FAB Act and we're bringing in wafer manufacturing into the United States, there's clearly going to be investments on the back-end test and assembly side. And so curious, does the knowledge that comes from that ecosystem help you in any way, or no? Just trying to think about the cost side of things for your AT.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

I'm not sure I understand the question. You're talking -- could you be more specific?

Christopher James Muse Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Yes. Sure. So you do lion's share of your assembly, or you plan to, internally. Just curious as the ecosystem gets built from essentially nothing in the U.S. to something more substantial, just wondering if that's a source of savings over time for TI?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Well, let me answer it this way. I'm not quite sure if that scratches where you're going. But as far as our assembly/test operations and where we locate those, we are very pleased with where we are today. Our geographic diversity of those facilities, those are all outside of the United States, the Philippines, Malaysia, Taiwan, China, Mexico. And we have just a great footprint there, and the investments that we're looking at to expand that are generally all in those same countries, leveraging the management teams and the processes that we have in those countries. Did that answer your question? Were you going more towards would AT in the United States accelerate semiconductor growth, or what were you talking about?

Christopher James Muse Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Well, bringing assembly and test to the United States for really the first time. Just curious if that is something that you're contemplating?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

No. Not contemplating that. The fabs, the front end, all the increase that I described is in the United States. And in fact, the majority of -- most of it in North Texas. The U.S., and Texas in particular, just has a great combination of a highly skilled workforce, reliable and cost-efficient electricity. That is another big component, and then the synergies of working with our existing factories and existing teams in the area where we can really leverage all that and be very efficient, very cost-effective.

Yes. So before I turn it over today to wrap up, I want to thank all of you for taking time today to go through our capital management update. Let me emphasize a few points. We remain focused on consistent execution of how we manage capital. Our disciplined allocation of R&D is delivering growth from the best products, analog and embedded, in the best markets, industrial and automotive. We have great diversity across all the sectors within this market. Our 300-millimeter manufacturing strategy is a unique advantage and will continue to benefit TI for a long time to come. We remain committed to returning all free cash flow to our owners. Dave?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Thank you all for joining us today. A replay of this call will be available on our website as well as the slides that we used for the call. Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference. We appreciate your participation. You may now disconnect.

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