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PRESENTATION

Operator

Good day, and welcome to the Texas Instruments Capital Management Conference call. Today's conference is being recorded.

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

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

Good morning, and thank you for joining our 2021 capital management call.

This call is being broadcast live over the web and can be accessed through our website at TI.com/ir. 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 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 objectives, strategy and business model that is built on our sustainable competitive advantages. Next, we'll review our scorecard for 2020 and updates for 2021. Then we'll provide a historical summary of our capital allocation and take a deeper look into specific areas of investment, including 300-millimeter Analog, R&D allocation priorities and our progress on building closer direct relationships with our customers. We'll also discuss our free cash flow per share performance. And finally, we'll wrap up with a review of our cash returns.

We've recently updated our investor overview, which you can find on TI.com on our Investor Relations website. We believe it will be a helpful overview of our business model and competitive advantages. The following guiding principles from that overview will help frame our discussions today.

At TI:

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

We believe that 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 in achieving these ambitions, our employees, our customers, communities and shareholders all win.

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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, broad product portfolio, reach of our market channels, and diverse and long-lived positions.

And after accretive investments in the business to grow free cash flow for 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 that 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 is 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 how we think about acquisitions and returning cash to 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 and are difficult to replicate.

First, at the bottom of the slide, we start with a foundation of manufacturing and technology. This provides us with lower costs and greater control of our supply chain.

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

Third, the reach of our market channels includes our field sales force and TI.com. This provides access to more customers, projects, sockets per project, and insight into their needs.

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

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

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

Good morning. We have shared our capital management scorecard with you since 2013. In 2020, we again met our multiple objectives. We are pleased with the consistency of these results that have been enabled by our business model and strategic decisions, particularly in a year that was impacted by COVID-19.

You can see that the scorecard continues to include 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 that reflects a single data point.

For 2021, we will be making several changes to our scorecard targets.

First, we are updating the range of our days of inventory to 130 to 190 days. This change reflects our continued efforts to maintain high levels of product availability with short lead times as we build closer direct relationships with our customers.

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Second, we are updating the range of our dividend as a percent of free cash flow to 40% to 80%. The growth and sustainability of our free cash flow makes us comfortable even with the higher end of the new range.

Now I would like to provide additional insight into how we allocate our capital, and I'll give you updates on several key investment areas.

Over the last 10 years, we have allocated about $83 billion of capital. Given that magnitude, you can quickly appreciate why capital allocation is a job we take quite seriously and one that has a significant impact on our owners' returns.

Our largest category of capital allocation is investment in critical areas that drive organic growth such as R&D, sales and marketing, capital expenditures and inventory. We are pleased with the results of our investments in R&D, that strengthens both our manufacturing process technology as well as our product portfolio. Our isolation products, gallium nitride power products or innovation in small footprint packaging are just a few recent examples of investments that will provide growth in the years ahead.

The second largest category is 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 metrics, such as generating a return greater than a weighted average cost of capital within about four years.

For simplicity, we have not included changes in net debt, which over this period increased $1.4 billion.

With that framework set, let me ask Dave to comment on our investments in several specific areas.

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

Thanks, Rafael. I'd like to update you on our progress in strengthening our competitive advantages.

First, I'll be updating you on our manufacturing advantage and investments in 300-millimeter analog capacity, which, as I mentioned earlier, helped to extend our cost advantage and give us greater control of our supply chain.

As a reminder for those not as familiar with the semiconductor industry, 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 many 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 2.25x more area, which, in turn, means we get about 2.3x more chips, but it doesn't cost us 2.3x more to process that larger wafer. This translates into a structural cost advantage.

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

This example shows a theoretical part that sells for $1.00 with a gross margin of 60%. The chip itself would cost about 20 cents if it was built on a 200-millimeter wafer, and it would be reduced to about 12 cents if built on a 300-millimeter wafer. In this example, the remaining costs of assembly and tests are about the same regardless of the wafer size. The net result is that gross margin improves by eight percentage points. As the simple example illustrates, our 300-millimeter manufacturing capability and the resulting cost structure provides a unique competitive advantage for TI.

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As we've discussed before, we currently have two 300-millimeter factories, our Richardson fab, or RFAB, and DMOS6, both located in the Dallas area. In 2020, we began construction of RFAB2, our third 300-millimeter wafer fab. RFAB2 will be co-located on the site with our RFAB1, thus gaining operational efficiencies. Fab construction is well underway, and we expect the facility to be ready to support production in the second half of 2022.

Next, I'll focus on our R&D investments that we allocate to higher value 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 the years 2013, 2019 and 2020, so you can get a sense of how the portfolio has changed over the long term as well as compared to last year.

Summarizing the direction of our R&D investments shown in the second column:

Industrial and automotive investments continued to be up broadly, reflecting our belief that these end markets will be the fastest growing markets due to their 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 system investments are up slightly in support of the growing cloud server infrastructure.

And other, which is shown for completeness, is primarily the calculator business where investment is flat but at low levels.

On Slide 16, you can see the strategic progress we've made in the important markets of industrial and automotive. In 2020, those markets combined for 57% of TI's revenue compared to just 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 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 will continue to do.

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

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

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

In 2020, we took a critical step to accelerate direct relationships with our customers. Our percentage of direct business increased from 35% in 2019 to 47% in 2020. But more importantly, as you can see on the accompanying graph, we left the year with 63% of our business transacting directly.

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

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

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

Thanks, Dave. 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 2020, even with the disruptions from COVID-19, free cash flow was $5.96 per share. This was down about 4% from 2019, and free cash flow margin was 38% 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 17 consecutive years, we have steadily increased our dividend, including a 13% increase in the fourth quarter of 2020. These increases represent 22% for both the five-year and the 10-year compounded annual growth rates. In 2020, dividend payments represented 62% of free cash flow, supporting their continued sustainability and growth. As of January 31, 2021, the dividend yield is 2.5%.

Our objective in repurchasing shares is the accretive capture of free cash flow for long-term owners. We focus on consistently repurchasing shares when the intrinsic value of the company exceeds its market value. By using realistic discount factors and reasonable growth assumptions to calculate the intrinsic stock value, we're aiming for confidence that investments made in stock repurchases are, in fact, earning rates of return greater than our cost of capital.

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, including the 1.4% reduction in 2020. We ended 2020 with $10.6 billion in open authorizations, having bought back $2.6 billion worth of stock in the year.

In total, as our free cash flow per share has continued to grow, so too has our cash return per share. In 2020, we returned $6.49 per share, which represents a 1.9% growth versus 2019. In total, in 2020, we returned 109% of free cash flow, and since 2004, we have grown returns at a 17% 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 97th percentile and return on invested capital in the 95th 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're 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 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 are fortunate that our founders had the foresight to know that passion alone was not enough. Building a great company requires 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

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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 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're 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 for questions. (Operator Instructions) Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Ambrish Srivastava with BMO.

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

My first one, Rafael and Dave, why is the -- what's the math of the thinking behind the increase in the DOI? And then how do we translate that into understanding on the impact on the business?

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

Yes. So first, let me step back and remind everyone on our long-term objectives for inventory. So DOI, days of inventory, that you were asking about, we believe the new range is just more appropriate to maintain those high levels of customer service, minimize obsolescence and improve manufacturing asset utilization. That's how we think about inventory. Essentially, it's an asset, and more than just on the balance sheet, but it's just a way to help us leverage that asset to ultimately gain more share with our customers.

A great example of that was what happened in 2020 where we continued building when people were concerned about the demand environment, and we built through that period in March, April and May. And you can see the results over the last several quarters that we were able to leverage.

Now part of the reason we can do that is because our business model is different than our peers, right? And think of our competitive advantages, our broad portfolio, the diverse and long-lived positions, the products sell to many, many customers and last a long, long time. So that enables us to have that strategy in the first place. And now that we're expanding, are engaging with customers directly, it makes even more sense to have that inventory in our books versus in the distribution channel.

As far as the financial impact that you asked, that depends how things play out. Our focus right now is not on building inventory for the balance sheet, but is on supporting customers in this period of strong demand. And we'll continue to do that to keep lead times short. But at some point, as things progress, we should be able to build more inventory and then take those days of inventory at a higher, somewhere -- ideally, somewhere in that range that we just updated.

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

A follow-on to that? Or Ambrish? -- I'm sorry.

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

I did, Dave. Actually, you're right, Rafael. So we haven't heard guys say boo about not being able to meet demand where many of your peers have talked about tightness. From a follow-up, again, something you touched on just now, Rafael, is the high direct percentage. That's -- it's very unusual to see a company such as yours which has such a diversified customer base. Can you just help us understand kind of how to think about that in terms of large versus small customers and your reach is, and I forget the number, it's tens of thousands of customers that you have. So how have you managed to get to that point? Is it the TI.com has been the biggest driver or a combination of that, plus the inventory that you have, your change in your inventory management that has been going on for a while?

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

Yes. It's a great question. Thanks for allowing me to just add some color to it. And I'd say that shift to having more customers direct was substantial this year and wouldn't understate it. And we've been working towards that for many years now, as you know, and we're just thrilled with our increased direct relationships. And that's for both large and small customers and really just the early results that that's showing.

So -- and most importantly, as we presented, this transition is about strengthening that competitive advantage of the reach of channels. And as we've talked about it, it's -- that multiyear investment, investments in our sales and applications team, it's in TI.com, it's in business processes, it's in logistics. And here, more recently, it's those distribution changes. So it's not just one thing.

But the tangible benefit that we'll get is higher growth. And that's the reason why that we're making it. And we'll just get more access to those customers, their projects, the sockets per project, and really just more insight. So we're already seeing that. And we really believe that that advantage will be difficult for our competitors to replicate.

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

If I may, let me just touch and bridge back on your first question. Another angle is our manufacturing and technology advantage, which I didn't touch on. And for many people on the call, I imagine there's some new people. So we are -- we have our own -- we own our manufacturing and technology -- that's a differentiator versus all of our peers, really. On the front end, the fab side, that is over -- about -- 80% of our internal capacity or capacity internal. But even on the back end, it's significantly higher than what any of our peers have. That allows us to control our own destiny, to keep costs at the lowest possible point.

And then on your question on inventory, that's another reason why it makes sense for us to have higher days of inventory. And then when you compare us to our peers, it's also a bit apples and oranges when we have our own factories, and the vast majority of them don't, or not nearly to the degree that we do.

Operator

(Operator Instructions) Our next question is from John Pitzer with Crédit Suisse.

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

Dave, just going back to your Slide 12 on the cost between 200-millimeter and 300-millimeter. I'm kind of curious, is that a cash cost or is that fully depreciated? And I sort of asked the question because the first time you guys built a 300-millimeter fab, you had the advantage of buying really cheap equipment. That's not available to you today. So I'm just kind of curious how that dynamic might change either capital intensity or kind of the manufacturing benefit?

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

Yes. At the highest level, the difference between buying the equipment used at 20 cents, 30 cents on the dollar versus buying it new, it's not that significant over the long term, John. Think of it, depreciation for equipment, we follow -- we use five years for this equipment, and we've done that for a long time. But the reality is that that equipment lasts much, much longer. And that, as you know, therefore we're able to buy used equipment. But when we buy new equipment, there are some advantages there too. Many times, it's more automated, more advanced, we get better yields. So there's an offset.

The way I like to think about it, think of this new factory that we're building -- when it's fully built out, it will have cost us probably in the neighborhood of $5 billion, building, equipment, et cetera. It's -- and that is probably 70%, 80% new equipment assumptions, somewhere in the neighborhood. So it's significantly more than the original RFAB.

So $5 billion of investment, but we're going to be able to generate revenue of about $5 billion per year for how long? Who knows, but I would say at least 20, 30 years, maybe more. We're -- we have factories right now that are about 50 years old, right? So it could even be 40 or 50 years.

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And from a cash basis now, to address your question, at that point essentially the cost is just variable, right? Because you already spent the equipment. So the cash fall-through is very high on that annual $5 billion of revenue.

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

Do an IIR. You won't be disappointed in that return.

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

Right. Yes. And just to add to that, if you do -- let's say, it was 100% used. So instead of a $5 billion investment, maybe $3 billion, $3.5 billion. Of course, generally, I would prefer that. I'd rather save the $1.5 billion or $2 billion. But annual revenue of $5 billion over 50 years more than makes up for that difference in investment upfront. It's really, at the end of the day, not that significant.

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

A follow-on, John?

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

Yes, that's helpful. And then as you think about your goal of growing free cash flow, mathematically, you can do that by either accelerating top line growth, getting more margin or a combination of both. I'm just kind of curious, relative to the updates you gave today, where would you fall out on that spectrum? Does the customer engagement allow you to grow share at a faster rate? And I know, Rafael, you guys don't have margin targets, but you talk about incremental pass-through often. Did anything change on that today with this update?

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

So let me start, and then I'll turn it over to Rafael to add some comments. But so if you look -- one of the things that make both analog and embedded high quality markets is they're diverse. They've got lots of customers, lots of products, you see share doesn't move quickly. We often talk about that, that you need to look at share over time. All those things are true. Even looking specifically at fourth quarter, is there share gains in fourth quarter results? Absolutely, there are share gains in fourth quarter results. But I always caution, don't look at any one given quarter.

So -- and if you look in Analog three or five or 10 or 15 years, using a thumbnail, we're probably gaining 30, 40 basis points of share per year. And if we have competitive advantages and we continue to strengthen them, we believe that we'll continue to be able to outgrow our competitors over the long time, over the long period. And in fact, we'll be able to grow free cash flow faster than our best peers. So -- and the things that we're doing, like strengthening our channel reach, continuing to invest in manufacturing and technology, broadening the product portfolio, just gives us more confidence that we can continue to gain that 30, 40 basis points of share in the future. It's -- I don't think we're predicting that we're going to have an inflection point, but certainly have high confidence that that 30 or 40 basis points will be able to continue.

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

Yes. I would just add, it's mainly a share gain and top line growth story from here on. The margin, of course, two components, price and cost. The price will be what it will be. We need to be competitive out there. And obviously, we're not afraid of that, if anything, we embrace that because on the cost side, we have the best position in the industry, right? We have 300-millimeter factories that we own, we control. And we operate them very efficiently. So the margin will be what it will be based on those dynamics. Certainly, the cost side, we should be able to continue to improve that going forward. We'll see on the price side. But it's mainly a top line share gain story.

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

That is certainly the longer term, but we still have structural cost advantages in the model. So, okay. Thank you, John, and we'll go to the next caller, please.

Operator

Our next caller is Tim Arcuri with UBS.

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Timothy Michael Arcuri ***UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment***

I guess I had two. So first of all, if I look at the share, Dave, you were just talking about the baseline of 30% to 40% bps per year. But you gained 70 bps. If you look at the SIA data, you gained 70 bps in 2020, and you gained 60 bps the year before. And that's kind of the best two-year stretch you've had since like 2013. So I guess maybe my first question is, like, can you deconstruct why that was? If you look at auto and industrial, it was pretty flat last year, but you still gained a lot of share. Was this in some way due to you holding this much inventory now? And maybe if -- on that point, can you sort of tell us what portion of sockets are sort of transactional where you can replace socket for socket because you have the part on the shelf? And then I have a follow-up.

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

Yes, sure. So yes. So the vast majority of our products, of course, aren't going to just be dropped in, like if it were a commodity, like a DRAM or something like that where you just drop in one part next to the other or like a IGBT or a FET, those types of products that are true commodities.

And as I've talked to investors this last -- after our earnings call, and certainly in the press, it's the fact that there are supply constraints in our industry that are very apparent. But those supply constraints didn't just start in the fourth quarter. They really started a year ago in first quarter. So customers have had time to redesign systems and just take advantage of the high availability that we've had this year.

So again, that -- as I made comments, is there share gains in our numbers? Yes, there is. But again, it's not -- it doesn't move quickly. I wouldn't overstate that by any means. I'd look at our share over a three-, five-year period, and it's much more easy for me to explain 70 basis points than five basis points if we were underneath that 30 to 40 basis point range. So again, I just caution to look at it over a longer period of time.

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

Yes. I'd just add, at the highest level is -- it's all about the competitive advantages, right? So just to touch on a few, the broad portfolio, the broadest portfolio in the industry. That's a big driver of our ability to continue to gain share. The reach of our market channels, right? We -- and we've been strengthening that. That's to the point of the closer direct relationship -- relationships with customers. And that has helped us over the last few years, certainly in 2020. And more importantly, puts us in a strong position going forward. And then owning our own manufacturing, having that control that other peers, they don't, right? And then all of that has enabled us to follow -- you asked about -- you mentioned inventory, that -- those competitive advantages have enabled us to follow an inventory strategy that augmented that and supplemented that and put us in a really good position in 2020 to take advantage of the situation.

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

Great. Do you have a follow-on, Tim?

Timothy Michael Arcuri ***UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment***

I did. I did. So just on the new expanded high end of the dividend component. It used to be 40% to 60% of free cash flow. Now you raised the high end up to 80%. And you've not bought back much stock the past couple of quarters. So I guess, why was the high end expanded? Did you change your intrinsic value model for the stock? Or you're just sort of like looking at the valuation on the stock and basically pivoting more of the cash flow over the dividend versus repo?

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

Yes. No, let me explain that. So as we described in the summary, the way we think about this is after we make accretive investments to grow free cash flow for the long term -- so the first thing is investments -- the remaining cash, we will return over time through dividends and buybacks. And let me stress, it's over time; it's not any one quarter or even in any one year. But over time, we will return.

And now if you look at our track record, it is impressive, frankly, over the last 16+ years. You look at how much free cash flow we have generated, and we have returned all of that and then some to the owners of the company.

Now if you look at, at that time, share repurchases have varied from year to year, but dividends have steadily grown. And they have grown to be a more significant part of our cash return. And we're increasing the dividend range today because we are comfortable that our

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dividend can continue to grow and be sustainable anywhere in that range, okay? Whether it's 40% of free cash flow or even 80% of free cash flow, we'd be comfortable anywhere in that range. So that's the main reason why we're increasing that range today.

Operator

And our next question is Tore Svanberg with Stifel.

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

Yes. And thank you again for setting such a great standard for the semiconductor industry. First question, you talked about investing in inventory to perhaps gain some share but what about CapEx? It seems like the industry is in a pretty precarious situation right now when it comes to capacity. So any thoughts about perhaps ramping CapEx a bit faster over the next few years?

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

Yes. No, good question. So first, let me step back, remind everyone the way we think about CapEx. Just as you said, it's an investment, it's an investment in our manufacturing and technology. We own our factories to a very high degree, both front end and back end. And CapEx is the fuel that drives that and ultimately drives top line growth, right, and free cash flow growth. The guidance that we have given you is 6% CapEx, being 6% of revenue. That is -- that's a model. Last year, we ran lower than that. I would expect the next few years probably running a little higher than 6%. But over the long term, 6% is probably the model you want to look at.

And maybe specific to your question, we're not slowing down CapEx for any particular short-term metric, right? We are driving CapEx to the numbers that we think are appropriate to sustain production levels in accordance to what we expect for demand over the next five or six years because these are all long-term bets, both for the factory we're building now as well as other investments in CapEx, AT and so forth that we expect in the future.

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

Do you have a follow-on, Tore?

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

Yes. My follow-up is on M&A. I really appreciate and respect your discipline, especially on the weighted average cost of capital in the four-year period. But just given that interest rates are just chronically low now, is there any flexibility on that metric whatsoever? Maybe like instead of four years, perhaps five years? Or is there no thinking in that direction?

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

Yes. No. So let me remind everybody. I mentioned that during the prepared remarks, but M&A, the way we think about it is, first, it's got to be a strategic fit. Generally, that means analog companies with really great products to expand our broad portfolio, focus on auto and industrial ideally. And then the numbers need to make sense.

And on your specific question, the numbers need to make sense, that is a fairly flexible statement, frankly, to your point. Weighted average cost of capital, you ask a banker for an answer, and each banker will give you five different answers. If you ask 10 bankers, you'll have 50 answers, and there's a big spectrum of possibilities there, and obviously, in all seriousness, interest rate does play a factor on that. The four, five years, three years, that's also flexible, right?

At the end of the day, you have to do what makes sense for the business. Sometimes, an investment is pretty obvious. So you take that into account when you're assessing that. Other times, it's more risky so you have to think about it a little differently. But the framework I described, that is the big picture of how we think about it.

Operator

And our next question is William Stein with Truist.

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

Great. I'm going to pick up on that discussion of cost of capital. You have highlighted this focus on efficiency. But one of the things that sort of stands out on your balance sheet is your gross leverage is about one turn. Your net leverage is roughly zero. Interest coverage is

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something like 45x. I'm wondering if the company has considered elevating its leverage to achieve efficiency with regard to its cost of capital?

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

Yes. No, let me address that. So if you look at -- I think it was Page 7, we talk about how we think about debt from an objective standpoint. And the way we -- because that's essentially what you're alluding to. We -- our objective is to increase rates of return with some leverage on the balance sheet when economics make sense and avoid concentrating maturities and ensure strategic flexibility. So you look at what we've done over the years, especially the last three or four years or so, we have added debt to the balance sheet because it made sense given that criteria, right? The rates of return, we're able to optimize those. The cost of debt was low, maybe not as low as it is now, but it was low. And you see how we deployed that capital over the last few years. And we'll continue to think in those terms.

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

You have a follow up?

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

Okay. Sure. As a follow-up, I really appreciate the disclosure about the percent of business that's direct now, so we can get an idea for how that's changed as you consolidated it down to one distributor. It's my recollection that most of your revenue through distribution historically has been on a consignment basis. And now that you're doing that internally, that is, you brought in a significant amount that was previously in distribution, now direct. I'm wondering if you can update us on the percentage of business that has -- that sits in consignment at your customers, at your direct customers, for example? And how that's changed in the last year as well?

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

Yes. So the amount of consignment revenue that we have in distribution will remain very high with our distributor in the U.S. and that's that worldwide distributor. As we go direct, many of those customers aren't as large nor have the infrastructure to have consignment. We would love to be able to do that, should they choose to do it. And then I'll -- so that number actually will come down in time. And so I'll just say that last year was a year of transition. So I actually, I don't have that number here in front of me. But it is moving.

And then I'll also just say that we are transacting revenue across TI.com, and that is a very small number today, and that number is growing very quickly. And we just think the customers will increasingly want that convenience of having product that's highly available. They don't need to provide us the forecast with that, and they can go to the website and get that product directly from there. So to some degree, that -- those channels probably will shift somewhat. And we want to provide that flexibility. But the most important thing is having that direct relationship to the customers overall.

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

Yes, I would only add, and Dave is absolutely right in his statements on the shift. Many of those direct customers will not have consignment or do not have consignment, just the nature of their businesses. But at the highest level, our intent is to provide them with great support, obviously. And in order to do that, we plan to have that inventory on our books to the largest degree. So you -- in fact, that's part of the reason why the inventory days range is going up, right? Even if we may move slightly below in the consignment metric, maybe think of it as a virtual consignment essentially where we will hold more of that inventory on our books and our facilities so that we can very easily, effectively support customers with the broad portfolio that we have of mainly catalog parts that, again, is very low risk of obsolescence. That's why we can hold so much of that in our facilities and then ship it to where it's needed for the customers.

Operator

And our next question is from Harlan Sur, JPMorgan.

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

In 2019, about $4.8 billion of your analog revenues were 300-millimeter. You grew that business by about $650 million in 2020. So is it fair to assume that 300-millimeter revenues last year were about $5.5 billion. So you're about 68% utilized on your 300-millimeter footprint?

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

Yes, that is pretty good. So it's about 70%. So yes, you're getting in that ballpark. For the year 2020, and we don't disclose that in a ton of detail. But to keep it high level, for the year 2020, we ran at about 70% utilized on 300-millimeter. That existing footprint has the potential revenue capacity of about $8 billion between RFAB1 and DMOS6. And we've talked about that before. As I mentioned earlier, RFAB2, once it's fully built out and equipped, will have another $5 billion of potential annual revenue capacity.

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

You have a follow-on, Harlan?

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

Yes, absolutely. So with that incremental sort of roughly $2.2 billion, $2.5 billion of 300-millimeter revenue capability in just your two factories alone, if I assume the analog business grows mid- to high single digits over the next few years, that should take you out through the 2020 -- maybe second half 2023, 2024 time frame in terms of fully maximizing the two existing 300-millimeter fabs. So why bring on RFAB2 in 2022? I also know that you are closing two six-inch fabs. So is this six-inch revenue moving into 300-millimeter? And so maybe you're accelerating the 300-millimeter analog revenue capacity still faster than just the growth of the business? Is that what's driving the earlier ramp of RFAB2?

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

Yes. I'll tell you, at the highest level, it's an asymmetric bet, meaning the difference in cost between building it now versus waiting a few years, it's just the carrying cost of that cash, right, that we're putting a little earlier. But the potential offset is huge if demand runs stronger than the assumptions you listed there. So I'd rather have the factory ready, the sooner the better. So right now, we're planning on middle of '22, middle of next year, by the time we start getting some output from that factory. If things work out and we don't need it, then we don't need to run it, right? Then you also added the couple of factories that we talked about shutting down over the next few years. That is also in the play, and some of that will move to 300-millimeter. We don't have to, right? We can always delay that if demand continues to be strong, we wouldn't shoot ourselves in the foot on that front. So we have flexibility on what to do there.

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

Yes. And when we started it, that was always the question of, geez, why in the world are you starting this? We started it when the industry was in a cyclical low. Our plan is to ensure that we've got capacity for the long term. We're making those decisions on five- and 10-year horizons, not to try to time perfectly running out of capacity and potentially putting our customers in jeopardy of not being able to get product but ensuring that we've got long-term capacity for their need and to be able to grow.

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

The other angle is, remember of the, call it, $5 billion of investment on the new factory, about $1 billion of that is the building. $4 billion is equipment. And equipment, you don't have to buy it all at once, obviously. So on equipment, we can be more incremental and measured. You can't have half a building, right? You've got to have the full building and all the pipes and things needed. So that's the other thing that goes into our thinking.

Operator

Our next question is Stacy Rasgon with Bernstein Research.

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

You left your -- I thought it was interesting, you left your free cash flow margin targets remaining at 25% to 35% of sales. You've been running above the high end of that quite respectfully for the last three years. Like what's stopping you from raising that target? It seems like we've got enough track record now to maybe justify it?

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

Yes. Nothing is stopping us. It's just that at the end of the day, the focus is not on the margin, it's on the dollars of free cash flow per share dollars and the growth. And there's little upside in messing with that target and trying to indicate something that's not a priority for us, right? Our priority is the dollars. And if those dollars come in at 25% of revenue, the growth of those dollars, then that's great. If they come in at 40% of revenue, that's great too, right?

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

But is there any reason that we expect that this should come in at lower rates than we've seen in the past, especially if you think you're going to grow and take share, it sounds like the margin structure is still pretty strong. Like why should we expect that free cash flow percentage to be lower than it has been the last several years?

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

There's nothing structural driving that down.

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

Okay. Okay. For my follow-up, I just want to ask you about the 300-millimeter. Again, in 2022, it's ready for out -- I think you said you'll probably have some output coming out in the second half. How much revenue capacity do you think you will actually have installed and outputting by the second half of '22 in 300-millimeter under the current plan?

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

Oh, well, we'll have the $8 billion from the existing factories, of course. And so you're asking incremental on the extra $5 billion for RFAB2?

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

Yes.

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

I don't have a number for you, but it'd be very little.

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

Yes. And what's unique about RFAB2 is that because it's at the same physical address, we can put one tool in that facility, and let's say, litho is the tool that limits the capacity for the whole facility and we can bring up capacity at that facility on both sides. So that's unique with RFAB2 because it's co-located with RFAB1. The second thing is the way qualification standards are written in our industry, we don't need ECNs and customer notifications of that change, where if it was greenfield, you'd have to put in a whole pilot line and bring up the whole pilot line on one side, you'd have to have an ECN and notify a customer of a change, they'd have to go through a qualification cycle. So there's some tactical benefits to RFAB2 that we'll enjoy. We don't have any room at any of our other sites, so the next facility we build, we'll have to do that as we've had to do in the past. So it's not that big a deal, but we'll have that tactical advantage.

Operator

Our next call question is from Vivek Arya with Bank of America Securities.

Vivek Arya ***BofA Securities, Research Division - Director***

I wanted to echo what Tore said about TI setting such as strong impressive quality standard for the rest of the industry. My first question is, if I look at your business over the last decade, Analog has grown at a 6% CAGR, but Embedded has kind of been flattish. And I know you made some changes last year, but at what point does M&A become important in that sector? Can you really grow your overall sales without really growing in the Embedded business, where when I look at all the -- your microcontroller or processor or connectivity competitors, it's a very fragmented and a lot more competitive industry than Analog. So just thoughts on your Embedded business and how it relates to your growth targets?

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

Yes. Maybe I'll start, and if Rafael, you want to add. I would say that as you've heard us talk about M&A, our thoughts there haven't changed over time. And we talk about a strategic match. And the first thing we'll talk about is catalog analog, high exposure to industrial and automotive. And you don't hear embedded in that. And it's not that we don't like embedded or don't consider it important. It just really comes down to how those businesses make money. They make money very differently. And in Analog, diversity of product, uniqueness of product is highly valued. That's the way it makes money. In Embedded, the way that you make money is you get as many customers and as much revenue over as few of instruction set architectures as you can.

We essentially have, if I simply state it, three instruction set architectures in our Embedded business today, and so our objective there is to invest and to grow those over time. Those are giving us full exposure to the markets in which we want to participate, so acquiring someone else's instruction set architectures and fragmenting that, you just can't get any leverage off of that. And I think that's -- for companies that have done that, I think that, that's why you see them struggle to some degree. So...

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

Yes. No, absolutely right. I would just add, we're pleased with the progress that we're making with Embedded. As we have said before, our first goal was to stabilize the business and then to grow it sustainably and leverage our competitive advantages. And those -- the four competitive advantages apply to Embedded, just like they apply to Analog. And we think Embedded can be and will be a long-term contributor to our sustainable growth, top line and free cash flow.

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

That's right. Yes. And we wouldn't be making those investments if we didn't believe it. And I'll just add that we're not looking for shortcuts. It will take time for that business to prove that it can grow sustainably. And so we're making those investments today, but it will take time before that is demonstrated. Do you have a follow-on, Vivek?

Vivek Arya ***BofA Securities, Research Division - Director***

Yes. So you gave a range for, very specific range for, how you plan to have higher inventory. And then I think you mentioned the goal ultimately is to grow faster. And I imagine that there is some help at some point in gross margins as well. Could you help us quantify what that benefit is? So how much faster can you grow with this new strategy? And how much better flow-through can you have in gross margin? So I understand why you're doing this change, but how do I quantify the benefit whether it is in faster top line growth or -- versus the industry as an example -- or through the gross margin fall-through, which I know historically, your target has been 75% or so?

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

Yes, Vivek, maybe I'll start off and just answer. I think John asked a question earlier on, somewhat related to that. And I'll just say that going back to the characteristics of the analog market and embedded market, they just happen to be very high quality markets, especially the portions that we choose to invest and participate in, and share just doesn't move quickly. So -- and back to the comments that you've got to measure it over time. And we've been delivering kind of 30 or 40 basis points when you put your thumb up in the air and squint and look at the numbers. So the investments that we're making, strengthening our competitive advantages gives us confidence that we'll continue to be able to continue to do that. We're not talking about trying to accelerate that or -- we'd love to, certainly, we'd love to have it grow significantly faster than that and would aspire for that to happen, but I think that would be still a good expectation to have. And then the structural cost benefits that we get from 300-millimeter, as we grow revenue, we've talked about as you know that 70 to 75 point fall-through. We still think that's a good number. And I think you've done it before. If you plotted change in revenue and change in gross profit, you look at that on a year-on-year basis or a quarter-on-quarter basis, you can see that over time that that's a reasonable number. To Rafael's point, you're not going to get gross margins passing through 100% of revenue, so long term, growth is probably the most important thing for us to focus on.

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

Yes. Let me just add a few things, just to complement what Dave said. The inventory strategy, this is not a big change. We did tweak the range up. But in some ways, we've been doing this for years, right? We've talked about building inventory buffers, we talked about building low-volume inventory for a number of years, so this is just a little bit more of the same. It's working well. We're going to do a little more on that, and that's why we're moving the range up. And again, it's always an enablement, ultimately, and it works in

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complement with our competitive advantages.

The other one, you talked about fall-through several times, I mean, you stressed. The fall-through that you should expect is the same, 70% to 75%, that's not changing. Inventory is not going to make that different. Over the short term, in any one quarter or two, everything else being equal, yes, your fall-through is a little higher, if you build inventory or if you don't. But of course, that's noncash. If anything, we're spending cash when that happens. So that's an investment. But over the long term, it's not going to change the fall-through. Once we get to that desired inventory point at some point. So don't think of it that way, right? The fall-through over the long-term is still 70% to 75%.

Operator

And our next caller is Chris Danely with Citi.

Chris Danely ***Citigroup - Analyst***

Now that we're well past the disty consolidation, can you talk about the impact that's had on your business? Has it enhanced revenue growth, held back revenue growth? Done anything for margins, free cash flow, none of the above? No impact? Maybe just a post mortem on it.

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

Yes. No, I think we're thrilled with the progress. Again, I would just say, that shift was substantial. You think of where we started right at 2019, we basically had two-thirds of our revenue going through distribution, we ended last year with essentially two-thirds of our revenue going direct. So substantial change, really reflective of a number of years of investments to get ourselves into a position to be able to do that. And just the insight of having closer direct relationships, so -- is very helpful.

And as I talked about earlier, the supply constraints didn't show up in fourth quarter. They started earlier in the year. One of the things that customers do when they have shortages is they hand out lists of the parts they're looking for, that are short. And we get those lists directly now as an example. They provide those to all their suppliers as they're scrambling to find parts. And our sales and apps people are working with their engineering teams, and where we can find those designs that are working through, we'll tell the procurement people, hey, if we switch out these parts and change designs as they're coming through, you can take advantage of our high availability. So one simple example of how that works. Again, share doesn't shift quickly over time, but that's one way where you can intersect things earlier on, where you've got information where other people don't have it. So do you have a follow-on, Chris?

Chris Danely ***Citigroup - Analyst***

Yes. I guess a philosophical question. So you guys talked about it on the call and prominently featured in the press release that you're trying to maximize free cash flow growth. And even though the results have improved somewhat on the Embedded side, and I guess a little bit on the Other side, for the last several years, they've clearly been hampering free cash flow growth. In the past, you guys got rid of Sensors & Controls business because of that same reason, it was not quite up to snuff. What's the reason for keeping these businesses around if they're clearly dragging your free cash flow growth and your stated goals to maximize it?

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

Yes, sure. So ultimately, we evaluate everything based on free cash flow per share growth over the long term, right? And think of it as free cash flow per share out into the future. What we think that's going to be, there's a net present value of that. And in a simplistic way, that's -- you can think about it that way. And if there was a different way to maximize that number, we would consider it. So we're not closed to any ideas, but we are confident that the way we're running the business today, and that is Analog and Embedded, maximizes the free cash flow per share growth for the long-term owners of the company.

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

Okay. Great. I think we've got time for one more caller, please.

Operator

Okay. And our last question is from Craig Hettenbach with Morgan Stanley.

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Craig Matthew Hettenbach ***Morgan Stanley, Research Division - VP***

A question on R&D, which you guys highlighted is the main priority in terms of looking at capital. How do you think about it as the industry has consolidated and one of the benefits TI has had is scale, for sure. And just as you see some consolidation and some other companies kind of close that gap, does that change the way you think about R&D at all in terms of either absolute or as a percentage of revenue?

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

So I'll take the first crack. And if I understand your question correctly, at the end of the day, to us, R&D -- and really OpEx in some way, at least parts of SG&A -- is all about investments to drive the top line growth, right? So R&D, obviously, adds more great products to that portfolio, the broadest in the industry. On the SG&A front, investments in TI.com, in our reach of market channels, that puts us in a strengthened competitive position -- competitive advantage to put us in a better position. So we look at that independent of percent of revenue, independent, frankly, of whatever our competitors are doing -- and what can we do to maximize long-term growth of free cash flow. And if doubling R&D would do it, we would double R&D, okay? If cutting it in half would do it, we would do that, too. And it's not an exact science, but we're confident in the way we do it. I think we've been getting good results on that consistently over many years. So -- but every year, every -- our leaders look at that and we evaluate projects on different basis and then decide where it makes sense to make changes to our portfolio, add a little bit in one place, take in another place to maximize ultimately that long-term growth of free cash flow per share.

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

Yes. And I'd also just add that one way to judge the efficiency of that R&D is just market share. And so if you stacked up our growth over -- again, go back to the long term. You have to look at it over a long term and our dollar spent in R&D and the growth that that's providing versus the dollar spent by others and the growth that that provides, we're very pleased with that. Not only the dollar amount, but the efficiency of it and what that's driving. You have a follow-on, Craig?

Craig Matthew Hettenbach ***Morgan Stanley, Research Division - VP***

I do. Just a longer term question, I mean you've been driving the mix for a number of years now towards auto and industrial, and that seems to be getting bigger. How do you think about longer term, the whole topic of China insourcing? Is that something that naturally the markets where you see the most differentiated in terms of auto and industrial would continue? Does it mean you accelerate some of that in more consumer-type markets? Or how do you think about longer term where your mix is going and how any potential effects of China insourcing could influence that?

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

Yes. Let me start, and if Rafael wants to add. So China is and will continue to be an important market to us. I think that any place, with the trade tensions that we have there, certainly, those trade tensions, if you've been a student of world history, those aren't things that will be solved in the short term. It will be with us probably for decades to come. And given today, if there were teams at our customers in China, if there's an alternative to select a local company, they're going to choose it. So our job is to ensure that there aren't any ties in that selection process. So we've got to have better products, better service, better cost, better availability and not allow there to be ties. And when you think about that, that's what we had to do before. We've got to do that not only in China. We've got to do that in other regions. So to some degree, it's not really anything different, but that is very, very important. So we continue to do and make good progress there. It will be an important market for us, and we will continue to do that.

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

Yes. Just to add one comment to that. We have great respect for the competitors we have in China. There are many local players there that are good semiconductor companies. They tend to be smaller in size. Their portfolio is nowhere near our portfolio. And so that goes back to our competitive advantages, and specifically, that broad portfolio. We have, what, 80,000, 100,000 different parts, and you need that kind of portfolio to compete in the analog space, especially in industrial and automotive, right? So as Dave said, our job is to stay ahead of the competition, right? Release more great products that will augment the portfolio, drive our competitive advantage on manufacturing technology so we have the absolute lowest cost in the industry, so we can compete effectively. The reach of market channels to continue to strengthen it to make it really easy for our customers to choose us versus anybody, whether it's in China or anywhere else.

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So we're going to wrap up with that. So before I turn it over to Dave, let me -- to finish the call, I want to thank all of you for taking time today to go through our capital management update.

Let me emphasize a few points.

First, we remain focused on consistent execution of how we manage capital.

Second, 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 Analog 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***

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

Operator

And this concludes today's call. Thank you for your participation. You may now disconnect.

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