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PRESENTATION

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

Perfect. Why don't we go ahead and get started now, the mics are live. My name is John Pitzer. I cover the semiconductor industry here at Credit Suisse. It's my distinct pleasure this morning to welcome everyone to the fireside chat with the management team of Texas Instruments.

To my immediate left, Rafael Lizardi, who you all know is the Senior VP and Chief Financial Officer of TI; and to his left, Dave Pahl, who's Vice President and Head of Investor Relations.

The format is fireside chat. I'm going to start out. If you have any questions, please don't be shy, raise your hand. We'll make sure we get you a mic.

And with that, Rafael, Pahl, at first, I want to -- David, I want to thank you for joining us today. It's great to have this event live in person, not virtual over Zoom. And so I really appreciate your participation.

Rafael, my first question is always very open ended. It's a very easy question for TI because it never changes. Can you talk a little bit about your core mission statement? And kind of how you view creating value for all of your stakeholders, whether that be customers, employees, suppliers, and importantly, the people in this room?

QUESTIONS AND ANSWERS

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

Yes. Yes. So yes, it's great to be back, and thanks for the invitation. So our objective is to grow free cash flow per share over the long term. So we think of that as the kind of overarching objective for the company. And how we do that is, one, focus on the best products out there, analog and embedded; the best end markets, industrial and automotive. And then we have 4 competitive advantages that we have built over time and we continue to strengthen the broadest portfolio in the industry, about 100,000 different parts, manufacturing and technology. We own our own manufacturing and specifically 300-millimeter manufacturing that owning that, in our space, analog and embedded is rare for our competitors.

We have a reach of channels, it's broader as well, and then the diverse and longly positions that yields. So that just puts us in a great place to continue gaining market share.

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

No, that's helpful. And I love the fact that, that never changes. I don't think that's changed in the last 7 or 8 years, which is the key point of a mission statement. I'm wondering if we could spend a little bit just kind of recapping Q3 earnings because I want to hit some of the key questions that I've been getting from investors.

You beat your guide for the September quarter, but perhaps not by as much as people thought. And then you guided December down and then a couple of questions here. One, what do you view as normal seasonality in the December quarter? And was the guide supposed to indicate a better-than-normal seasonal?

The other point is you're the only broad-based chip company to actually guide sequentially down in December. And especially given your strategy of having more inventory, having more control over your manufacturing, given how tight supply is in the industry, it just looks optically odd. Any explanation that can square the circle would be helpful.

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

Yes. So I'll take the first start, and Dave, you want to chime in after that. But I tell first seasonality is -- it's a bit of a misnomer, in my opinion, to begin with, and especially in an environment where in a cycle -- heated cycle environment, right? So you look at, yes, you can always pick an average, but there's such a wide -- divergence on that average, right? So I don't really -- we don't really pay that much attention to that.

We put together the forecast based on the range, based on our best information that we have, data points from customers' backlog, inputs from the businesses in our own sense where things are headed.

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

Dave, anything to add?

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

I think that's good. Yes.

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

Do you actually think your strategy works against you? Because you were also one of the companies that talked about customers being a little bit more selective about filling out their kits instead of just rush orders, rushing ordering everything. And so is the fact that your customers might have more confidence in your ability to get them the things they need when they need them, mean that you're somewhat of a counter-indicator to some other companies that are having more supply issues?

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

Maybe I'll comment. I don't think it works against us. I think, first of all, we've got closer direct relationships with our customers. As you remember, John, over the last 10 years, we've been working towards that end, whether that's investment in our sales and apps teams, whether that's investments in ti.com. And just last year, we made investments to transact more business directly with customers. So I think that, that benefits us strategically longer term.

We've also taken action as we went into the pandemic to ensure that we had good availability of product and very aggressively built as much inventory and started in a good position there. So I think all those things work for us, I wouldn't say against us. And end demand is going to be what end demand is, right? And long lead times or noncancelable orders won't create demand, it won't create market share. And so if you ask a customer to give you demand 52 weeks out, their visibility doesn't -- they can't tell you with precision what their demand is going to be 52 weeks out. So we really want to make it as easy as possible for customers to deal with us. We want to have that product available. That's not the case in all of our products, as we've talked about before. But we're working very hard to make sure that, long term, we've got the capacity in place to support growth.

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

And to add to that, and I'm sure we'll bridge to other questions that you have on this topic, but for the last 10, 15 years, we have put capacity ahead of demand. And you've known us for a while, and you know that's been the case with RFAB1 and DMOS6 and others. In addition to that, we've had inventory strategies that are very different than our competitors where we build inventory ahead of time. That, we can do that because of our strategy of focusing on catalog parts that sell to many, many customers, have very low risk of obsolescence, have long product life cycles, et cetera. So we are continuing that approach.

As you know, RFAB2 will come online in about 6 to 8 months or so we'll have production. We acquired a factory in Utah, in Lehi, Utah, in November, we closed and that will come online as far as production in first quarter '23-or-so. And recently, what 2, 3 weeks or so, we announced further expansion of factories in Sherman, Texas, just right south of the border from Oklahoma. And that space, that area will host as many as 4 factories over time. And we're going to -- our plans to break ground on 2 of those next year, and those will be ready for production in 2025. So that's with the secular growth in this space. We're setting up the company well for growth for the next 10 to 15 years.

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

You preempted my whole set of questions.

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

At some point, you're going to ask all of that.

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

I'm assuming Sherman, we can just contract SFAB. Is that...

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

So we already have a factory there that is 50 years old and these 4 factories will go kind of right next to those.

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

Got it. But to your point about growth rates, you guys haven't hosted an Analyst Day in a while, a bunch of your peers have in the last couple of months. And I'll preference it by saying it's always dangerous to change secular growth rates in a year that's been benefiting from cyclical tailwinds, but they did it anyhow. And everyone is talking about a growth rate that looks like 2x maybe historical.

Now I like that because that's kind of in line with what our structural thesis on semis have been. But as you look at the fab expansion, I think a lot of people were surprised, especially by the Sherman announcement, even though I think people understand it's far out. We look at sort of RFAB2, you look at LFAB, there's probably $5 billion worth of revenue that you can grow into with those 2 shells. And so, are you signaling to us that you also believe that growth is accelerating? Or is this -- would you be doing this if we were in a 3% to 5% world for semiconductor growth versus a 6% to 8%?

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

Yes. A few things on that. One, we are not projecting higher growth rates than what we've had in the past. What we're doing is we are preparing the company for the possibility that, that happens. And in our case, the bed is so asymmetric, right? The potential upside is so high in terms of revenue margins, free cash flow, free cash per share at the end of the day versus the cost of building, I mean, 2 buildings in Sherman, yes, it is about $1 billion each, so it's not nothing. But it's -- from an optionality standpoint, you spend the money, you build the buildings. And then if the demand is not quite well, you thought you can always let them sit, right? So that's how we're thinking about it. If -- but then if the demand does come in stronger than in previous years, then we're ready for it.

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

And then you've already signaled that you're going to wait till the capital allocation day call to talk about CapEx for next year.

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

That's right.

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

So I doubt you're going to want to make news on this stage. I'm going to...

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

Correct.

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

I guess one of the things that's interesting to me is next year will clearly be an above CapEx to REV year for TI, whatever the number ends up being, it's going to be above trend. Almost every one of your peers are also above trend. And they're all claiming that this is just timing, cyclical. And I guess there's an element of that. But I'm just kind of curious, there's not a lot of memory fabs to go out of business anymore, which you guys have done better than anyone buying cheap equipment from companies that go out of business. Should we just start to think about a structurally higher sort of capital intensity to the business? And put it into preference, we're not talking about digital, where it's 25% to 50% of your revenue. We're talking maybe 3% to 4% going to 5% to 6%.

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

So CapEx is going up, okay? And you figured out -- you figured out a few quarters ago, I think, and we've been talking about that. So that was not a surprise to anybody when we announced Sherman, right? But by how much exactly, in February, we're going to give you guys a better framework, a good framework to think about that. But yes, it is going up, both in dollars and percent of revenue. But at the end of the day, those are investments, right? And we invest that money because over the long term, that's going to drive higher revenue, which drives, of course, a higher free cash flow.

The other thing I would tell you, you mentioned the used fab. In the past, we were fortunate in 2011 that we were able to buy Qimonda equipment. We were fortunate, maybe not fortunate, but we had the good -- a vision to have a factory, a building ready for RFAB1. So that worked out really well. And that gave us essentially 10 years. That combined with DMOS6 and some other assets we had on the manufacturing front, that gave us about 10 years.

So now we're looking at the next 10 to 15 years. And used versus fully new, roughly speaking, we're talking $3 billion all-in investment versus about a $6 billion all-in investment for a fab. Yes, that's $3 billion, a lot of money, but these factories, once they're fully equipped, they produce $5 billion to $6 billion a year of annual revenue, depending on the mix and depending on things, and they can last. We're about the shutdown factories that lasted 50 years, right? So the $3 billion investment, in the big scheme of things, is not going to deter us from making the investment.

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

Well, I'm curious though, because I know you guys look at a lot of data. And if I kind of look historically, your CapEx-to-REV ratio bounces around. If you kind of smooth it out over like a 12-month basis, it's sitting at like 4% to 4.5% of revenue is kind of the long-term trend. Does that still hold after this period of accelerated investment? Or do you think actually, there is an argument to be made that the capital intensity is just going up?

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

It's going up, at least for the next 4 or 5 years. And again, yes, we'll give you good details on that in February.

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

I want to talk a little...

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

Maybe I'll just add, as Rafael, in his opening remarks, talked about manufacturing and technology is one of our competitive advantages. And an investment in that we're going to build 300-millimeter factories. And that just gives us a lower cost, which is fairly obvious versus what we've had in place, but it also gives us more control of our manufacturing and control of that whole supply chain as well, right?

So as we look at that, and you look at our business model going forward, free cash flow growth will be predicated on driving top line. And to drive top line, you've got to have manufacturing assets in place to be able to grow that that's going to require investment. So the great news is as we make those investments, the business will get stronger because we'll have more 300-millimeter in that footprint as we grow.

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

And like any investment, it's negative cash flow in the beginning, right? But we're confident that this is going to yield good fruits over the long term versus not doing it and relying on a foundry, right? Because the costs are higher there, you don't control your supply, as Dave was mentioning.

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

And then, Rafael, it's nice to see that world governments have finally figured out something that I think you and Dave have known for a while, you're in a pretty strategically important industry. And you're seeing a move by world governments to try to incentivize domestic production.

Now I think, most of the time on Wall Street, we focus on bleeding edge. But there's a lot of what you do, which is very mission-critical. It's not bleeding edge, it's mission-critical.

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

Absolutely.

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

And so how should we think about kind of the CHIPS Act as it pertains to kind of your capital investment plans?

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

So a couple of things on what you said on the type of equipment that we focus on type of technologies, 45 to 130 nanometers, that is the optimal area for the products we do. And there's some technical and different reasons for that. But just think of that as the optimal level for analog and embedded, which works very well for us.

On the other angle of your question, one, we do believe, and it's very important, we've talked about it for many years, the United States needs to have parity as far as the competitive landscape versus other countries in order to incentivize production here, right? And generally, there's -- to the tax rate for many years, the U.S. was at a disadvantage. And in 2017, with the law that was passed, that essentially put us at parity. Not quite an advantage, I would argue, but at least on an even level playing field.

We -- so with that, we've decided to make these investments. And beyond that, as you alluded to, there's the CHIPS Act, there's the FABS Act within the Build Back Better legislation, neither one of those has passed yet. So we have to wait and see if those pass. And if they do, in what form. They're also increasing the tax rate according to the current version of the -- marginally, much less than it could have gone. So that is good news, even though it's going up slightly.

So once that legislature is out, we'll look at that, and we'll see what it means and whatever programs we can take advantage of, we will.

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

In the vein of sort of capital allocation and use of cash, I want to talk buybacks, you guys have been fantastic over a long period of time, actually retiring your share count, I think it's 25% of the company has been bought back over, I don't know if it's a 10- or 15-year period, but it's a meaningful...

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

It's at 44% I think over since 2004.

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

Since 2004. Yes, and so you're not shy at returning cash to shareholders. That said, over the last couple of quarters, it's been noticed by everybody, I'm sure I'm not the first person to ask this question, "Hey, why is the buyback not been as aggressive?" What parameters can you give us? Is this you making a call on the CapEx you're going to be laying out over the next several years? Is it you trying to make a call on the cycle? Is it you trying to make a call on the valuation of your equity?

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

Yes. So let me give you my, first, the bigger picture, and then I'll try to address some of the nuance questions. But big picture, our commitment to return all free cash flow to the owners of the company has been solid for 15, 16, 17 years and will continue to be over the long term. That doesn't mean any 1 quarter or even any 1 year, right? So -- and look at our track record on that.

We do that through dividends and buybacks, both of those, right? And if you look at that dividends versus buybacks, and it's changed from year-to-year depending on what's going on. Obviously, buybacks are more discretionary, but the proportion of dividends to that overall return has increased significantly over the last -- over that time for 18 years to the point where now we're running close to $4.3 billion or so per year, essentially committed to dividends.

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

And then the lack of buyback over the last couple of quarters...

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

We have bought back shares every quarter over the last 4 or 5 quarters. And in fact, I think every quarter for 18 years. But it all depends. So we have increased the dividend at that time. We have accumulated cash, as you probably noticed as well, and we just got done talking about the higher expected CapEx. So those things are not coincidence, right?

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

One of the questions I always get in relationship to the buyback is M&A. And you guys have done a fantastic job with your M&A. I think you've done a fantastic job getting out of businesses as well. But how do you think about M&A from sort of these levels? And is it still an analog-focused M&A strategy, not an embedded-focused M&A strategy?

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

Correct. It's analog-focused. It's auto- and industrial-focused, so it matches well with our strategy. But frankly, big picture, we're not missing any big pieces of our portfolio, right, which would be the catalyst for an acquisition, at least a big one, right? But we haven't done any acquisition, big or small since National in 2011.

So there's really not a catalyst out there to do that. However, we consider things, right? The bankers know that we have the cash, we have the ability to do acquisitions. We look at things. We have a team that look at these things. But in addition to a strategic fit, you have to look at the price, and we haven't seen anything that makes sense to us.

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

And Rafael, it's a good segue to talk about the Embedded business overall. Can you help us understand again why that's not part of the M&A strategy? I know you've said in the past that you don't see the leverage of buying a lot of different MCU families and putting together. That said, there was one of your peers that's actually done very well with that strategy over time. And if I juxtaposition that with the business that you're clearly going through some sort of repositioning. The growth in embedded, I think by your own admission, hasn't been as strong as you thought. Why not augment that with M&A? Question number one.

Question number two, talk about the organic funnel for the Embedded business. When should we start to see growth rates begin to accelerate given what you have in your design funnel there?

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

I'll take the first shot, and Dave, you want to -- but a few things. Just as you said, the way we think of the Embedded business, he play there is to leverage the platforms. And the fewer platforms that you have, the better. And that is different than the way analog works. It's not so much the platform. You can more plug in an acquisition and go from there, whereas we've embedded the customers cannot marry the platform and they don't want to leave, so then you have to support multiple platforms and you don't get the leverage.

The other one, you alluded to a competitor. The competitors have different focus and different -- the way we focus is on long-term growth of free cash flow per share. I would argue that the way we do things, the way we run the company optimizes that the way other companies run their companies, they don't necessarily optimize that, which we think, over the long term, not any 1 quarter, even any 1 year, over the long term, that's what determines -- drives shareholder value.

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

And then on the organic side, Dave?

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

Yes. On the organic side, as we've talked about, our first objective with that business was to get it to stabilize. I think we're pleased with the progress that we've seen there. And what we're trying to do is to build high-quality business and one that's going to contribute to free cash flow over the long term. We believe that, that market and the business and the position that we have will do that. That's why we're investing in it, and it will take time. We haven't set an artificial boundary or a stake in the ground that says this quarter, it's got to be growing at this rate, but we want that business to be built in high-quality and diverse positions, both from a product standpoint as well as from a market standpoint. So a couple of years from now, we'll look back and we believe we'll be just as pleased with the progress of the growth as we are with just the progress of getting the business stabilize.

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

And Dave, can you unpack that a little bit? What end markets are you particularly focused on and embedded to reaccelerate organic growth? And the reason why I asked the question, there's clearly a different design in time for auto industrial versus consumer as an example.

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

That's right. So -- and there will be opportunities in all markets. But the types of products that we're building will -- and the focus of the company is disproportionately towards industrial and automotive. So again, there will be opportunities in those other markets that we'll see, and we'll take advantage of those. But there will be a priority in industrial and automotive.

And again, we're not building large SoCs that Rafael and I will be talking about a design win pipeline that will show up on any given quarter. It will be high-quality designs, that will be products that we sell to multiple customers that will build revenue over time.

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

Rafael, I had a couple of questions about the scale advantage you guys have been talking about. And clearly, when you look at manufacturing, when you look at your distribution, that advantage has been there. It's unclear, though, whether or not it's actually driven significant outsized growth. And then again, I think part of the appeal of your business is you're in markets where things don't change all that quickly, and that's a good thing.

But I guess, I'm curious, your closest competitor just closed an acquisition. It looks like that gap in your scale advantage is starting to close. I was actually, as I was prepping for questions, supplies, and I know you guys don't look at the business this way, but they're now spending more in R&D than you guys are, which is kind of -- and I think that -- I don't know what next year is going to look like because they've got some synergies, and I don't know what your organic investment is going to look like. But that was a little bit surprising to me. And so can you help us understand what advantage do you think or what benefits you think you got from scale over the last 5 years? And now that, that gap is closing, how should we think about the competitive position?

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

Yes. So again, I'll give you my take and Dave, you want to chime in. But we -- you never hear us talk about scale advantage. We don't think of scale as an advantage by itself. It's the pieces underneath that, right? So the broadest portfolio in the industry, that's a competitive advantage. The manufacturing technology, having our own manufacturing technology and specifically 300-millimeter, which the competitor that you're referring to does not have or at least they're not expanding, they don't have 300, they're not expanding their manufacturing. So those are the real advantages.

On the R&D front, there are some places there that there are some advantages on size. But the more important thing is looking at what are the opportunities in the next 5 or 10 years? Where do I want to put our money where we think we're going to get the best return or at least a return as above the required rate, right? You'd be surprised of x amount of dollars that we spend in 1 year, not all of that is successful. So the idea -- the most optimal way to address that is not to spend more is to make that R&D work more efficiently and get the success rate higher.

Now we think that we have been increasing R&D marginally. In some -- overall, maybe that's not the case, but inside of certain spaces because we have been reprofiling some things. So over time, we would increase. We will continue to increase where it makes sense. But the bigger picture is to invest where it makes sense, where we're going to get the best return over time.

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

Well, I've actually asked this question in the exact opposite way historically to you. I've said, "Hey, you guys have done a great job bringing down your R&D as a percent of revenue burden." And I would argue that, that actually helps the multiple because the less you need to spend to maintain kind of your dominant position, the more valuable the asset is. And given the focus in industrial and auto, you would think longer duration cycle would mean that, that could actually continue to creep lower. I'm now kind of throwing that back on its face and saying, "Hey, you're at 10%, they're at 15% of revenue. Is that the right balance?" And again, I know you don't think about the business -- the R&D as a percent of revenue.

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

So you made a great point on the industrial automotive space. So that is -- industrial automotive are great for many reasons. One is the angle that you just talked about, just the investments just paid back a lot better. And not initially because you invest R&D and then you don't get the revenue nearly as quickly as you do with personal electronics, but you get it over a long time. You get it from many customers, it's more sustainable, it's more diverse. Those customers tend to be less sensitive about pricing and different things. So there are a lot of advantages over the long term to invest in those spaces. And that's also part of the reason why we look the way we look.

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

I don't want to monopolize the conversation. I haven't seen any hands go up, but I haven't been looking all that closely. Are there any questions in the audience? Rafael, can you talk a little bit about the distribution strategy? It was a headwind to revenue about 1.5 years ago. Is that now fully behind you? And help us understand kind of the margin benefit or the customer closeness benefit that you get from your desire to go more direct.

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

Yes. So roughly speaking, to get everybody on the same page, yes, about was it 2 years ago, 3 years ago, we announced that we are shrinking our distribution footprint and moving closer with our customers. So more direct engagements with our customers. And we have roughly moved from 35% where we were, 35% direct, 65% distribution to -- we finished last year, I'll flip that, right? We're above flip that last year, and we've continued to make progress, and we'll give you more details on that in February. But essentially, we have continued to make progress on that.

And the main reason for that is the strategic advantages that you get. The better engagement, higher engagement that you get with your customers. Any time you have an intermediary between you and your customers, that's a problem, right? It's a potential problem because that intermediary, they're optimizing for their benefit, not your benefit.

Now we have -- you can just announce that and do it without a lot of preparation, right? And we have done a lot of things to make that engagement more fluid. One of them is our ti.com engagement where -- and that's another topic we're going to talk about in February to some detail, but we have expanded to close to 50 countries where they can buy -- customers can buy, with their currency and 20 of those with their currency, we do the importation of record for them, which is a big deal. Before, we were not doing that and imagine having to order and you do your own importation from a foreign country, right?

The payment terms and the payment processing, we facilitated that. The logistics, we've expanded product distribution centers around the world, particularly in China to facilitate that. So out of our Shenzhen product distribution center, 2/3 of our shipments ship the same day that they order. So those are the type of things that we're doing in the facility in addition to the engagement with the actual design engineer who, now, by virtue of ordering online, having all the tools online, has a closer engagement. We know more about those engineers, what they really want, how we can help them better.

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

And Rafael, as a guy who works in the business who is the middle man, I understand when you cut out the middle man, you tend to retain more profitability. Is that the driver behind this? Or should there be, I guess, a revenue growth driver behind this as well? Like if you're truly improving the -- and the reason why I ask is, I think it's clear in this bucket that there's been benefits. It's a little bit less clear here. And again, this might just be the long duration nature of the markets that you're in. But as you think about the philosophy, is it more about your margin? Or is it more about your revenue growth?

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

Absolutely more about revenue growth and gaining share. Absolutely, no question about it. There is a slight benefit on the margin, okay? But that is incidental, secondary and relatively marginal, no pun intended. But it is about gaining share. And remember, share gains that happens over the long term, and we're in the middle of the cycle, so we're confident we have gained and we've gained share over this time and will continue. But you cannot measure in any short amount of time.

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

Great. With that, we've come to the end of this session. But I'd like to thank both Rafael and Dave for joining us this morning as well as everyone in the room. This was a great conversation. Thank you.

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

Thank you.

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

Thank you.
