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# EDITED TRANSCRIPT

TXN.OQ - Texas Instruments Inc at Bank of America Global Technology Conference

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Rafael Lizardi** *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

**Dave Pahl** *Texas Instruments Inc - Vice President, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Vivek Arya** *BofA Global Research - Analyst*

## PRESENTATION

**Vivek Arya** - *BofA Global Research - Analyst*

Good morning. Welcome back. Really happy to have the management team from Texas Instruments join us today, Rafael Lizardi, chief financial officer, and Dave Pahl, head of Investor Relations. I'm Vivek Arya from the BofA semiconductor team.

Typical fireside session. I'll have my questions, but please feel free to raise your hand if you would like to bring up anything. But really delighted to see you, Rafael and Dave. I appreciate you joining us.

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**Rafael Lizardi** - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Thank you. Good morning. Happy to be here.

## QUESTIONS AND ANSWERS

**Vivek Arya** - *BofA Global Research - Analyst*

So maybe let's start, Rafael, with the state of the union, how you're seeing the demand environment shape up. Macro crosscurrents obviously, but how are you seeing the demand environment shape up right now versus what you thought at the start of the year?

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**Rafael Lizardi** - *Texas Instruments Inc - Chief Financial Officer, Senior Vice President*

Yeah. No. As we said at the last earnings call, we're starting to see a broad recovery. In this space is what appears to be the beginning of a semiconductor cyclical upturn, and it's coming in at a time when we are very well prepared -- bless you. Very well prepared for it.

We've been investing in inventory, but more importantly on CapEx over the last four or so years. And we have RFAB2, we have SM1, SM2. We have LFAB1 and LFAB2 at different levels of completion, and we're ready for what the market throws at us.

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**Vivek Arya** - *BofA Global Research - Analyst*

Okay. When you came up with the CapEx plan, Rafael, a few years ago, at that time, the industry looked very different than what it is today. What would you have done differently, right, if you had a better sense of how this market was going to go through? Or maybe a better question to ask is, what would you like to do differently now, given where the industry is?

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

No, absolutely. It is what we are doing, which is the capacity expansion, and to do that well ahead of demand and to do that in the phases that we're doing it.

So Phase 1 -- we've described our plan as having three phases. The first phase is transferring products that run externally internally and growing our base. The second phase is to build buildings that will be required for growth and to qualify those new factories. And then once we get to the third phase, it's all about incremental capacity. So the first two phases require a significant amount of CapEx. But once we get to the third phase, it's just incremental CapEx to match that capacity to expected demand.

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**Vivek Arya** - BofA Global Research - Analyst

I see. Now a skeptic would say the industry, right, not just TI specifically, if the industry was not very good at spotting when it was overshipping, why should we believe the industry now when it says it's been undershipping, right? So what checks do you have in the system to make sure that this -- what you are seeing as a recovery is not just pull-ins and some temporary because of the macroeconomic issues -- that this is true recovery?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. Big picture, we look at macro trends. And when I say macro trends, I mean, semiconductor macro trends. Go to slide 19 of our capital management presentation, and you'll see what I'm talking about. And it's over the long term, this industry is very cyclical, and it goes up and it goes down. And it's pretty clear that now it's hit bottom a couple of quarters ago, maybe last quarter, and now is on a recovery. So that's one.

But frankly, more importantly, we're just prepared for whatever the market throws at us. If it happens to be that this recovery is going to delay some time, then it's okay. The inventory that we built is very safe. It's very long-lasting. We hardly ever scrap parts, and we do it very little as a percent of our revenue. So our business model is such that it protects the downside in those situations.

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**Vivek Arya** - BofA Global Research - Analyst

If you look at that chart, what -- in your capital management presentation and what I've seen right across the SIA and all the data, it has shown that in the last three cycles, semiconductor sales have gone up for like 10 quarters, then they come down for four quarters, right? So it's like 2.5 years up, one year down situation.

So if we are starting on this upcycle, do you think we are at the start of what is normally a 2.5-year upcycle? Or is -- I know there's no cycle that will be the same, but where would you describe where we are, in like very early stages, middle stages? Or how would you describe where we are?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. And of course, to your point, you alluded to it, but it's very difficult to draw conclusions from three or four data points. It's all we have in the last decade in terms of how many cycles we've had. So it's really not enough for a distribution, right? But our sense is that we're early in the upturn, so probably in the first or second inning. And then we still have ways to go. History seems to -- if you look at the previous peaks, 2014 was a peak, 2018 was a peak, 2022 was a peak. So it's kind of every four years. So potentially '26 is a peak year, but that could -- I wouldn't be surprised given the dynamics of the last downturn, that could extend to '27. But at the end of the day, we'll be prepared for any scenario.

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**Vivek Arya** - BofA Global Research - Analyst

I see. And one of the interesting analysis TI has shown in that peak to peak is that across peaks, you have grown, what is it like 40%, right, or so?

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

7% CAGR.

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**Vivek Arya** - BofA Global Research - Analyst

7% CAGR.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

That probably works out to about 40%, right.

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**Vivek Arya** - BofA Global Research - Analyst

Exactly. So you think we should expect the same from '22 to whether it happens to be '26 or '27?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Again, unclear. It depends, but we want to be prepared for that. So that's why when we put the framework of the various revenue levels that we could get to in 2026, one of them was -- it was as low as \$20 billion and as high as \$26 billion. And again, that could happen in 2027 instead of '26, but the \$26 billion, that was a representative of a 7% CAGR over four years.

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**Vivek Arya** - BofA Global Research - Analyst

I see. What does \$26 billion mean, Rafael, in practice? Does it mean that you will have deployed capacity that can support \$26 billion in sales or you have the capability to be up to \$26 billion, i.e., let's assume that in '26 or '27, your top line is, I don't know, \$20 billion, \$21 billion, \$22 billion, right, some number lower than that. How does that reflect in your financials? What is the cost of getting that?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. So we are going to be prepared for that level of revenue in terms of capacity, in terms of inventory. If instead we hit -- and we -- as you know, we're going -- later this year, we're going to tell the market if we're going to target \$2 billion or \$5 billion for CapEx next year. So that plays into it. So we still have some flexibility on that front.

But regardless, if we don't get -- I think maybe where you're getting to, if we don't get all the way to \$24 billion, \$26 billion, we'll probably have some excess capacity versus what we could have done because -- but that's the dynamic of this industry. If you don't have the capacity, you're for sure not going to get the revenue. Now you've got to have the capacity in place.

The good news is that capacity is long-lived. So it's okay to have it ahead of time. And if we don't use it this time around, you use it in the future. We're about to close a factory in Texas that's 60 years old, and it has equipment that -- some equipment is probably 60 years old, but most of it is probably 20, 30 years old. So that equipment lasts for a long time.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. I guess, a different way of asking the question is that, even if you are at peak sales in one of those years, hypothetically, but you're not at the installed capacity level, does it mean that you may not be at peak gross margins or peak free cash flow? Like how does that delta reflect in your financials?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Well, let me answer it this way. The way we are modeling -- the way we were asking you or suggesting that you model our gross margin -- which then falls through to free cash flow per share, which is what we focus on -- is to use 75% to 85% fall-through and then adjust for depreciation, which, of course, depreciation is noncash, right? But you got to adjust for that in order to get to the gross margin. So that 75% to 85% includes most scenarios.

So for example, if we are at the higher end of that revenue, you're probably up to 85%. And that accounts for the fact that you'll be highly utilized and therefore, you get better fall-through. If you're at the lower end of those revenue scenarios, you'll be at the lower end of that fall-through, and therefore, your gross margin will be lower.

But in any case, I think what we modeled was the \$22 billion, \$24 billion and \$26 billion scenario will get us back to the low to mid-60% gross margins and only the \$20 billion scenario would keep us in the high-50% gross margin.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. Makes sense. And then if you look at the \$2 billion to \$5 billion CapEx range for next year, right, based on whatever consensus expectations are, and it doesn't have to be the right number, it says that your CapEx intensity, even when you tone CapEx down to what maybe a more normalized level is still quite high, right? 10%-plus.

And as long as your top line continues to grow and you're spending at least -- and if your top line is in the \$20 billion-plus range and your CapEx is in the \$2 billion-plus range, it stays that your CapEx intensity, right, will consistently be double digit. Is that a fair representation of CapEx intensity?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yes and no. It is -- I think it's factual what you're concluding, or it's a good conclusion. But it's only because '26 still includes some CapEx that is for Phase 2, meaning building buildings. And you cannot -- it's hard to build half a building, right? So you just build a full building, and LFAB2 is a pretty expensive fab, and we're going to be spending money on LFAB2 in 2026, even in 2027.

So once we get to Phase 3, which is incremental, that's when we're on a more steady state on CapEx intensity. And what we have suggested that is a good way to model is pick a long-term growth rate for revenue, say, 5% to make the math easy, and CapEx intensity should be 1.2 times that. So 6% CapEx as a percent of revenue. If instead it's 7% revenue growth over the long term, then CapEx intensity is 8.4%. And that is before ITC incentives and anything on grants. So that's a gross CapEx number that then comes down after we get incentives.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. Makes sense. But \$2 billion is the minimum, right, you would say to support a \$20 billion-plus sales.

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

For next year given those Phase 2 investments that we still have, given where we think the potential revenue range is, the \$2 billion is a minimum. We'll -- whether it is in July or in October, we'll give you a better number, but don't expect \$2 billion. Expect something higher than \$2 billion, but that will be my teaser for today.

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**Vivek Arya** - BofA Global Research - Analyst

Understood. We appreciate teasers. The next question is -- the reason that TI has focused so much on made in the U.S., right, it was the right strategy in a situation where there were more government incentives, right, with the CHIPS Act and so forth in place, right, where there wasn't really a penalty for producing more in the U.S. Right now, it seems like with this whole trade and tariff situation, what if China has tariffs in place, what if EU has tariffs in place, does that not call for a more geographically dispersed footprint that many of your competitors have?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Well, let me first correct a statement you just made. Many of our competitors claim to have. This is like having Baskin Robbins in every country, but you don't get the 31 flavors in every country. Fabs are a lot more complex than that. So if you have fabs in every country, you actually only have a couple of flavors in each of those fabs. Only the biggest 300mm factories in Texas have all the 31 flavors in order to ship.

But let me get to the heart of your question, which is we have a strategy where we're deploying CapEx, primarily in the United States, 300mm cost competitive, cost advantage, and those factories will then -- can ship to the world, okay? And they're geopolitically dependable from a United States perspective and the Western world perspective.

To your point, what happens if China puts tariffs as it threatened to do in April for a couple of weeks? Well, we have four factories and foundry partners outside of the United States. We have two factories in Japan, one in China, one in Germany. And again, we have foundries outside of the United States, foundry partners that can support us in shipping products that are non-U.S. made into China as needed.

We also have -- there are some trade agreements between Malaysia, Philippines and China that also allow products, that even though they were built in the United States, that were fabbed in the United States, if they are ATed in those countries, they enter China as country of origin for the Philippines and Malaysia. So there we have plenty of flexibility to satisfy our customers with parts that they need, while minimizing or even entirely avoiding tariffs.

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**Vivek Arya** - BofA Global Research - Analyst

On the competition side, Rafael, I think on the analog side, it's pretty well understood, right, that you guys are the leaders, right, product breath. The Embedded business is a lot more competitive. I think the last count, I had was like 30 or 40 companies who can make Arm-based microcontrollers, right? And many of them are very large established players in Europe, in Japan. China is investing a lot in there.

So you think, whether it is just that natural competition, everyone using Arm as the architecture, or whether it is just the fact that people would want to, in some situations, avoid buying products that are made in the U.S.? You don't think that changes the competitive landscape in your Embedded business?

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Do you want me to --

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah.

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Yeah, I can start on that. I think we have actually more analog competitors than embedded. It's more diverse, I would say. But in both markets, we've faced competitors for decades. And what we've done is to invest into a portfolio that's both application-specific as well as more catalog-like, so that we can sell to lots of different customers and build a revenue base that's very diverse.

We're also able to build most of those products internally in Lehi. A big part of what we're taking from foundries and bringing it inside is embedded products. And there may be some customers that want to buy from manufacturing outside of the U.S. We have foundry partners if they want that. There's a lot of customers that want products not made in China or Taiwan, and we're very uniquely positioned to be able to do that.

So again, we don't look at that market as more competitive than analog. It really is about refreshing the products, having a good portfolio, having a broad portfolio and also choosing where you make application-specific investments. So that it's not just one or two customers, that it's half a dozen, dozen customers that we can sell that product to.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. Makes sense. Now I just wanted to go through first industrial trends and then automotive trends. So on the industrial side, when we look at that market from outside, I think everyone gets that, yes, there's an inventory replenishment driver and then there's an end market recovery driver. And when it comes to end market, we don't really see global PMIs like bursting above 50 or anything. So I think there is some skepticism about that driver.

So how long can just this inventory replenishment driver, right, continue to grow industrial markets like above seasonal growth?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. Let me try to give you an example. Let's see if this works. If end demand is 200, and you have inventory of 800, and you want to deplete that inventory, you place the order to your supplier, TI, for 50, only 50. And in fact, you could go to zero. But let me use an example with 50. That way you drain 150 every month or every quarter, right? So that demand to us looks like it went from 200 at one point to 50, right? It got cut by three quarters. And then we go several quarters at just 50, 50, 50, 50 -- then all of a sudden, that 800 mountain becomes 300 or 250 or 200, and the customer says, you know, that's low enough. Now I want to just maintain that. In order to maintain that, they go from ordering 50 to 200. That's the bullwhip effect. Now we go from 50 to 200, and now our demand might quadruple. Now the end demand all along was 200. Nothing changed, right? And by the way, it quadrupled, and now it's going to stay at that level if the customer wants to maintain inventory. If all of a sudden, end demand, their true end demand, is starting to go up to 225, they're going to place 225 and plus a little more because now they want safety stock, right? Because now all of a sudden, they don't want one quarter of inventory, they want 1.5 quarters. That's the bullwhip effect. And all of a sudden, we're going to see 300, right? So we think we're in the -- up until a quarter or two quarters ago, we were in the 50 level, right? If you look at industrial, industrial had been running 40% below peak, something like that, 40% below peak.

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Some sectors 50% lower.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Some sectors even lower. So -- and because there are many sectors, many customers, it's not everybody at the same time, right? So they're going to go through this at slightly different times. But we're getting to the point where we're getting to parity with the end demand. And then we'll see what -- the end demand that our customers see.

Then we'll see what happens with macro and other things to see where that goes. But that pop, it's not a onetime pop. It's there, and it stays and potentially grows, depending on what happens with end demand.

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**Vivek Arya** - BofA Global Research - Analyst

Right. But I guess that's -- sorry. But that's really my question that have you already closed that gap? And let's say, if we take the situation where end demand -- so how far -- what is that delta right now?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Unclear. It's 100,000 customers, 80,000 parts. They're all -- indeed the permutations are infinite and where each customer is in their cycle with different parts. So what we do is we have a very good, robust engine inside of TI to decide what to build, based on history, based on orders, based on how many customers buy it, based on how long the product life cycles are.

And that's why our inventory has gone -- when we started the COVID cycle, we had 150 days of inventory, I think it was. Now we have 227 days of inventory.

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**Vivek Arya** - BofA Global Research - Analyst

But shouldn't all that data, Rafael, theoretically give you a reasonable sense of whether you are 10% below parity, 20% below parity, like where?

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

I think, yeah, I'd go back to the chart that Rafael referred to earlier.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Slide 19.

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Yeah, slide 19. And you can see, and we've got red dots at the peak of each cycle, we bottomed sometime last year. That bottom by the way is below the previous bottoms. First time it's ever happened in the 30 years of data, and world GDP has grown over the last five years.

So how can the semiconductor units be so far below even the last trough? It's because we shipped too much stuff on the upside, right? So the delta is inventory burn, and that data is through November. We presented in early February. I think we missed December by a week or so. But if you update those, you can see that hook that you see, that bottoming is continuing. So if that long-term trend line that you see there, pick your percentage, but we're below it.

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

You can eyeball it. It's trailing 12 months, you got to be careful but, yeah.

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

That's right.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

I think one of our competitors actually gave a percent. Maybe that's why you're asking. Didn't someone say 10% or something like that?

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**Vivek Arya** - BofA Global Research - Analyst

Yeah. Does that seem reasonable? Low, high?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

We just don't know. I don't want to venture a number because we don't know. We're prepared if it's 10% below. We're prepared if it's 30% below, and we're going to have a tremendous spike. So whatever comes our way between inventory and capacity, we'll be ready.

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**Vivek Arya** - BofA Global Research - Analyst

Can we not push back and say, well, if you're looking at historical data, a lot of that was driven by a rise of smartphones, right. Rise of China, industrialization, et cetera, that maybe it was on a slope that we may not see that same slope. So to compare it to that past history may not be as useful?

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Yeah. I think when we look at the market, that longer term trend line sits between 5% and 6%, so unit trend line. When you look at the secular trends in industrial, the secular trends in automotive, the secular trends in enterprise or servers and AI, there's just more content going in systems. And our belief long term -- longer term is that those are the markets that will drop. There were other markets that drove it in the past, and we're positioned well to take advantage of that secular growth.

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**Vivek Arya** - BofA Global Research - Analyst

Right. And industrial, is it broad-based recovery? Is it in all industrial market and especially factory automation? And then is it China and non-China? Like just give us a sense for how broad-based industrial --

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Yeah. And as we saw through the first quarter, that strength was very broad-based. We've got about 10 sectors that make up industrial. So they were all contributing growth to the total. And there wasn't one region that was contributing. They're all in the same ZIP code from that. So that's why after eight, 10 quarters of sequential declines, we think the first signal coming out is that cyclical recovery.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. And then the last -- actually, before I go to that last one, automotive, right? What are you seeing in that market? Is there a similar sense, X percent below parity? I know there's a lot more direct customers, right, other than distribution, in automotive. But give us a flavor for what are the trends you're seeing in automotive, China versus non-China?

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

Yeah. So -- and just to give it a reference point, go back -- automotive was the last market to begin to weaken almost two years after we saw a weakening in personal electronics. From peak to trough, it was only down mid-teens, so fairly shallow. And it's troughed and kind of run more sideways since then. Inside of that, if you go back a year, we had a couple of quarters of 20%-plus sequential growth in China, followed by the third quarter of high-single digits.

This last quarter, that has moderated. I think we're up low-single digits, both sequentially and year on year. So that low-single digits kind of feels like it's still running sideways. It doesn't feel like an inflection, but that's kind of where it is at this point.

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**Vivek Arya** - BofA Global Research - Analyst

And do you think it's low-single digit because the inventory restocking is done? Or is there still a lot left? Or is that the content argument because of the slowdown in EVs is not playing out the way one would think it should be?

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

I think it's hard to tell with just so few data points. EV expectations, of course, have come down. They're still expected to grow, though, right? So that is content increases. If you look at cars being delivered today versus three or five or 10 years ago, there's just more content. And I think one of the things that we saw is there used to be a 3x or 4x delta between a combustion engine car and EV. But if you look at a combustion engine car, everybody wants a good screen inside of it. They want a good cockpit experience. They want LED lights, LED turn signals, ADAS, safety systems. So that has narrowed some inside of those cars.

So we're positioned well in China, in markets in the West. We service about 1,000 different automotive OEMs out of our 65 product lines, 60-ish shipped products into automotive. So very intentionally trying to be very broad-based. So we're not dependent on a region or a technology or one sector inside of that.

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**Vivek Arya** - BofA Global Research - Analyst

Rafael, this is more a broad subjective question, but how are you feeling about the second half of the year? We are kind of middle of the year. Qualitatively, versus what you might have thought, right, three or six -- So I get the cyclical recovery aspect, but there's also been a lot of tariffs and other macro factors, so how are you feeling about the second half versus the first half of the year?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. As we said at the earnings call in April, and it's reflected in our guidance that we published at the time, we think we're in the early stages of a cyclical recovery.

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**Vivek Arya** - BofA Global Research - Analyst

So it means no seasonality? Seasonality will not play a role for second --

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

I didn't say that. So unlike some of your competitors, just for clarification for others, we don't update our guidance mid-quarter. We don't give a new guidance.

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**Vivek Arya** - BofA Global Research - Analyst

No body language.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

We don't talk about further quarters other than the quarter. So all I can give you is --

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**Vivek Arya** - BofA Global Research - Analyst

But you two are smiling, so I will take that as a good sign. (multiple speakers) Good to see you in an optimistic mode. Let me ask this last question on pricing. There we have heard, we had some of your peers present earlier, and they suggested that for some new designs, they are starting to see -- they are proactively pricing a little more aggressively. So my broad question is that, first, are you seeing any of that phenomenon?

And in general, are customers becoming more aggressive because they -- just like we see all this inventory on your balance sheet, right? They do see it, they see all this capacity that you're putting on. Are they getting to be more aggressive in asking for a price concessions?

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

So let me answer that last question first and then the first question last. No. So we have the leverage in that situation. It's not, oh, we have capacity of inventory, we're going to ask for a price concession, not at all. We don't have any pressure to drain that inventory. That inventory is long lasting. It's not a fire sale, nothing anywhere close to that. So no, that's not an issue.

On the first part of your question, we are -- the way we think about prices as we're a price taker. We're not a price setter. So whatever the market price is, we go and meet it. And that's an oversimplification potentially because of course, parts are so complicated. Price is but one of 10 different factors that they take into account.

But at a high level, a voltage regulator for this many volts and that much current with this specs sells for X amount, and then we go and price for X amount in order to win the business. And what we're seeing -- I'm sorry -- what we're seeing from a trend standpoint is low-single digit price declines on an annual basis. That's what we've been saying for some time since the end of the --

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**Dave Pahl** - Texas Instruments Inc - Vice President, Investor Relations

For a couple of years now.

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**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah, for a couple of years now, and that's what we're seeing, and that's what we're expecting.

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**Vivek Arya** - BofA Global Research - Analyst

Got it. Final question, I know we are out of time. Capital returns. At what point do you think you will get back to the prior trend line of buyback? Like as the CapEx comes down next year, does that start to help that?

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

Yeah. So big picture, over the last three, four years, our focus on capital allocation has been on the CapEx line to protect -- to make those investments, on cash to protect those investments and the dividend, right, to make sure we maintain the dividend and continue to grow the dividend.

What took a second place was the buybacks, M&A and anything else on capital allocation. Another place that we protected was, of course, R&D. And R&D, we've actually continued to invest and did increase investment.

To your point, once we get to even late this year, but definitely by next year, when the \$5 billion goes to something lower, the table starts turning, and then we will do less CapEx. If we're in a cyclical upturn, revenue will be up. And then that should translate -- we won't need as much cash on the balance sheet. All that translates into more cash to return to owners. My expectation would be that you see buybacks to be higher than what they've been in the last few years.

**Vivek Arya** - BofA Global Research - Analyst

With that, thank you. Thank you so much, Rafael.

**Rafael Lizardi** - Texas Instruments Inc - Chief Financial Officer, Senior Vice President

All right. Thank you very much.

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