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PRESENTATION

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

All right. Great. We'd like to get started. Good morning, everyone. My name is Toshiya Hari, I cover the semiconductor space. At Goldman. We're very excited, very honored to have the team from TI with us this morning. We have Rafael Lizardi in the middle, Senior Vice President and CFO. We also have Mike Beckman from IR. I have a bunch of questions, but I'll definitely go to you guys for questions. So please have them ready.

First of all, Rafael, Mike, thank you so much for coming.

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

Good morning.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Good to be here. Thank you.

QUESTIONS AND ANSWERS

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

So my first question is about Haviv. He was appointed CEO a little while ago. I think, whether it be earnings calls or your capital management calls, Rafael, yourself and Dave would typically take them. I think Haviv going forward is attending the earnings calls and the capital management call as well, I think, which is great. I'm curious, what drove that change? Is that just Haviv and his personality? Was it feedback from investors? Is it both? I'm just curious about the change going on the TI.

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

Yes, sure. We've got feedback from investors, one in particular. But it was good feedback that -- and we took that to heart. And you've seen Haviv leading the earnings call and the capital management. I think it's working out very well.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Great. In terms of the key priorities and some of the debates that you guys would have at TI, I'm curious, what are the key debates when you and Haviv and the broader team sit down? What are the KPIs that you at TI follow most closely? And I guess when you think about priorities, top two or three going forward, what are they?

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

Yes. Clearly, our focus right now is on deploying our capital investments, our CapEx, in manufacturing to enable the long-term growth of the company on the top line and, of course, the free cash flow per share line. So maintaining -- completing those investments, and I'm sure we'll talk about those some more. And also, the R&D investments, also be ready with inventory, so that we can support short-term, midterm and long-term demand for the company.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Great. A question on sort of cyclicality and how you think about sort of the structure of the industry, if you will. Rafael, you've experienced many cycles. Every cycle is different. I understand that. But as you sort of look back, and I guess you're sort of at the early start of the upturn, as you look back at this most recent downturn, what were some of the fundamental differences, what were some of the fundamental similarities vis-a-vis past cycles?

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

Yes. The obvious difference was the asynchronous nature of this cycle, and we're still in the asynchronous behavior where different end markets and different geographies behaved very differently, right? So personal electronics became weak early on, while industrial and automotive were still strong. And as we reported in the last quarter, personal electronics is now -- well, it has been for a couple of quarters now -- growing sequentially. So it's coming out, whereas industrial is still mixed, auto could be a shallow dip. We don't know yet, but we'll see.

And then on the geography, similar, China and Asia, Asia weaker upfront. And now as we reported, China was -- grew sequentially for the first time in seven quarters in second quarter.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Great. And I guess the asynchronous nature is that -- again, it's difficult to predict this. But is that fairly specific to this cycle, you think? Or going forward, is this kind of the new normal?

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

I'm not going to predict the next cycle and how it's going to behave, but it's been unique to this cycle compared to previous cycles for sure.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. And I guess you touched on this a little bit, but I wanted to throw in a near-term question. You grew revenue 4% sequentially in the June quarter. You guided Q3 revenue to grow about 7% quarter over quarter at the midpoint. Which end markets or geographies are kind of the standouts whether it be to the upside or the downside as it pertains to the September quarter outlook?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Yes. I think Rafael's description of the end markets was a good one, and it kind of highlights the fact that we are seeing them transition at different times. Personal electronics did appear to bottom in the first quarter of 2023; it’s grown well since then.

Yes, as we look at industrial, some of those early-to-correct sectors, we started to see some stabilization in those in the first half, but still some of those larger sectors like factory automation, still down double digits sequentially in the early half of the year. So as we think about the future here, we've got to be ready for whatever these markets want to throw at us. We'll take it one quarter at a time and make sure we're prepared from an inventory perspective, from a capacity perspective.

Rafael also talked about automotive. That was the last of the end markets for us to begin to correct. It so far has been a shallower decline in the quarters, starting in fourth quarter. So again, we just want to be ready for what these will do moving forward.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. All right. I realize you guys don't have perfect visibility when it comes to customer inventory. And I know with your products, particularly or specifically, they don't really have a strong incentive to build a ton of inventory because it's your strategy, you have relatively short lead times. But curious, how would you characterize OEM inventory, if you will, today vis-a-vis three months ago, six months ago? Are we at a point where you can kind of call it healthy and normal? Or is there still excess stuff in the system, if you will?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

I think if you look at where unit shipments are today in our industry compared to the last low point, which was, I think, 2019, they're currently below that point. So I think it's fair to say there's still work being done in getting inventory to where it wants to be. I think it's mixed across customers, depends on the customer and where they are on that journey. Again, I think there are some of the end markets where they're well through that. I think personal electronics is an example of that.

So again, it's hard to know exactly, but I go back to -- for us, what we want to do is make sure that when those customers do end up in a position where they want to add more, or they want to grow faster, we got to have the inventory ready on our end to be able to support them with it.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

And Rafael, you talked a little bit about China. In the most recent quarter, revenue was up 20% sequentially, still down double digits year over year. What are you seeing today in China from a demand perspective? And more importantly, what are your medium to long-term expectations specific to that to that --

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

Yes. A couple of things. China is -- the competition is intense there, and it has been and probably got a little more intense over the last a few years, but it hasn't changed dramatically from that regard. You've got to compete, you've got to be good there. You got to leverage your competitive advantages. So we feel good in our prospects of winning, given our competitive advantages.

I also want to clarify, about 20% of our revenue is -- comes from customers that are headquartered in China, and about 80% obviously comes from customers that are not. And our geopolitically dependable capacity is very important for all customers, both the ones that are outside of China for obvious reasons, but even the ones in China; many of them are exporters, and they're looking at exporting in Europe, South America, the United States. So having assurance of supply is very important to them.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. That's great. Shifting gears a little bit, slightly longer term in sort of scope, the secular growth drivers in automotive, I think you guys talked a little bit about some of the applications that you're pretty excited about on your most recent capital management call. You talked about body electronics, and lighting and ADAS are two applications within the end market that have grown at about 20% per annum. Looking ahead, I guess, when you think about the automotive business overall, what are your growth expectations? And again, within that, what are some of the applications that could drive that business forward?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Yes, I'm glad you brought up that. That was a lot of fun putting that slide together and talking about the opportunity. If you look at the sectors we highlighted, body and lighting and ADAS were two of them. Obviously, for us, we have five that exist in the vehicle. Infotainment, powertrain, and passive safety are the other two -- or the three. All of them are a great opportunity for us.

I think body and lighting was one where it doesn't get discussed a lot. But if you look at the how rich the content is there, just in terms of the socket count, and it's not just catalog; it's application-specific products that we have to go into that. This is an amazing opportunity. And it's not just in EV. Think of electrification. There's electrification happening in internal combustion engine vehicles, too. Plug-in hybrids or hybrid electric vehicles, you see this as well. So, great opportunity there. I wanted to highlight that and talk about that.

ADAS also has an opportunity both in that application-specific products which we can address, as well as the catalog space. And again, the socket count is just breathtaking. It's great. So we wanted to highlight those.

And of course, powertrain is going to be an important sector for us, as well as infotainment. And so we look forward to all of them contributing.

And I think as we look into the next chapter of growth for us in automotive, you have that capacity and inventory there ready as well. It's going to be a lot of fun to see that.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Great. And sort of the overall growth rate for automotive medium to long term, is there a way to kind of contextualize that relative to SAAR growth or GDP growth or relative to overall TI? I would assume it outperforms against all three. But how do you guys think about that?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Yes. And if you look under the hood of TI, that's grown in kind of that mid-teens range over the last decade or so. As we look into the future, the content is continuing to grow. And that's in a -- if you look at the past, that was without SAAR really driving that growth. It's been content. And we're continuing to see that.

I think we're still in the early phases of that electrification, especially on the EV side. It's not the majority of cars on the road. And I think we look out five and 10 years out, there's probably going to be more on the road. So it's going to be a good growth opportunity for us. And I think we're really well-positioned from a portfolio perspective.

I think we've talked about this before. This wasn't on accident that we're growing in this market. It's because of the products we've been putting into it. So do look forward to it, contributing, I'd say, at or above the levels that we would see in the overall market just because of the growth opportunity there.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. And then a similar question for your industrial business. Again, you sell into all sorts of applications. You've got really significant breadth there. Any specific applications that you would point to? And again, how should we think about growth on a three-, five-year time horizon?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Industrial is probably even harder to come up with a single one or two sectors or even end equipment. Maybe the way that I would think about it is maybe themes that are driving it that are exciting, because I think it kind of spans across many.

And I think one of the themes that is driving a lot of what you see in industrial for us is automation. And that's factory automation. It's automation of robotics. It's automation involving agriculture. It's the scarcity and cost and safety of labor and things that you can now automate that you couldn't before, presents not just probably a one- or two- or three- or five-year opportunity, but probably a multidecade opportunity across those sectors.

The other one I'll highlight is greenhouse gas emission reduction ambitions across the world are going to require a much more advanced, smarter grid. So the energy infrastructure sector will benefit from that. For us, motor drives, building automation, power delivery, all sectors that benefit from that. And again, that's probably decades or generation type of theme that drives that.

So those aren't the only two. There's many. And again, this comes back to, it's been also investment in a portfolio that is well-geared for those sectors.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Automotive and industrial at this point account for the vast majority of your business. I do have a question on the other businesses, PE and personal electronics and comms equipment and enterprise systems and, I guess, other. From a resource allocation standpoint, how do you think about those businesses? Is there a through-cycle ROIC metric or some sort of financial metrics that you impose on your team when making investment decisions? How do you think about the nonauto, nonindustrial part of your business?

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

Well, there are different angles to that question. I mean, from an R&D standpoint, our focus when we release parts is auto and industrial is probably where the bias is. But many of those parts can be leveraged into personal electronics and other ones. Not all of them, of course. There are some parts that are more specific, but then you focus the investments on where the bigger opportunities are in auto and industrial.

On the sales front, for example, those investments there, and I think of that as investments as well, that is maybe a little more segregated because then you go by accounts. So then you have some accounts that are primarily or even entirely personal electronics. But there are good opportunities in all our end markets. Clearly be biased towards auto and industrial, but there are good opportunities elsewhere.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

And the only thing I would add is if you look at how -- I don't think I've ever seen an ROI on a business plan that wasn't amazing and perfect, right? And so you have to really spend the time to understand, what are the problems you're trying to solve for a customer when you define a product? And so the bigger hurdle a product has from an ideation to actually getting resourced, and something we've worked a lot on strengthening in the last decade, has been making sure we understand how customers are going to be using these products and also how they're going to need to use them in three, five, 10 years down the road. That's not an easy thing to do. And that's really where the rubber meets the road in getting products that customers actually want. And so those are probably the biggest hurdle metrics.

And when you look at the catalog portfolio, typically, you define a great, highly power dense or low power or a low-noise catalog product. Every end market is going to care about that. You can service the personal electronics market, communications, as well as industrial and automotive. And so you can do it in ways where you can address all the markets as much as possible.

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

And the capacity on the manufacturing front, very fungible, where that moves to.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Yes. Makes sense. I appreciate that. A couple of questions related to the off-cycle capital management call you guys hosted a little while ago. So the 2026 CapEx number is now a range. It used to be $5 billion, $5 billion, $5 billion for the three years. 2026 is now $2 billion to $5 billion. I guess just to level set, what drove that change? And what kind of environment or setup would get you to $2 billion versus $5 billion?

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

Yes. So at the end of the day, more time over target, right? So we've had an extra couple of years looking at factory performance, looking at productivity metrics, modeling these future factories with more precision, and we're able to now give you that range. Think of the $2 billion as about the floor where we want to be and still accomplish the strategic objectives that we're trying to accomplish and namely to have -- if you go back to our presentation, there was one slide, I guess it was slide 17, I believe, where it has Phase 1, Phase 2, Phase 3.

Phase 1 is the current upturn, loading the factories that are running with equipment so they can -- we can maximize revenue. Phase 2 is anything that's brick and mortar that needs to be built because half a building is not going to help you. You need a full building with cleanroom. So that is for Lehi 2 and SM1. So think of that as Phase 2. And then Phase 3 is once you have those buildings, that is purely incremental, it’s modularity. So you just go with whatever revenue you need on a very incremental basis. It's just equipment lead time, right?

So the $2 billion, along with the several billion dollars that we have spent over the last three or four years, gives you the foundation for the Phase 2. And then after that, if we go from $2 billion to $5 billion, that delta is primarily equipment that will be -- that will serve to fuel the growth beyond that.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. Okay. That makes sense. And I guess you sort of answered this question as well, but the capital intensity beyond '26 that you presented in this most recent update was slightly lower relative to the prior one. What drove that?

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

Yes. So -- and to level set, we said 1.2 times. So for example, 1.2 times revenue growth equals capital intensity. So if you have revenue growth of 5%, so capital intensity 6%, and that is gross capital intensity before we get ITC benefits, which I'm sure you asked about in a second. So that is just more time over target, same answer as what I gave before.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Got it. You guys have talked about geopolitically dependable capacity and how you are continuing to build that and that being a competitive advantage. I think you spoke to there being breadth in terms of the customers wanting access to that geopolitically dependable capacity. But as outsiders, when do we see sort of the share gains associated with it? I know these things kind of take time. Design cycles, product cycles are very long in your business. But is it -- are we about to see an inflection in share gains purely based on sort of this advantage that you have?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

I'll start. First, every customer cares about their continuity of supply and where they're going to get their products long term. And I think that is something that has -- five years ago, very few customers were talking about it. Today, there's active projects going on to take existing designs and replace them with parts that they would deem are from geopolitically dependable locations. Those are great opportunities. But first, you have to have a product that solves a problem for our customer. That breadth of portfolio and making sure you have the right product is foundational.

From there, though, having that geopolitically dependable capacity, and if you think about a customer that has a longer design cycle, someone that's going to build an engine ECU that's going to last for 10, 15, 20 years, that's something you really want to be considering. Where am I going to get this product from for a long period of time? So I think that's where it's probably the most attractive and it's a big part of every discussion as you design in. But I don't want to minimize the importance of having a good product as well, which is a big part of our investment is.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Of course. Got it. On Embedded Processing specifically, I think Haviv was at a conference, another conference last week. And I felt like he made some comments about your team being pumped. And after several years of some structural changes, they're going to be playing offense. I don't want to paraphrase too much. But maybe talk a little bit about that. What are some of the initiatives going on the EP side of the portfolio?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Frankly, we're excited about the opportunity for Embedded Processing. It's -- we've spent a lot of time working on improving Embedded's ability to leverage TI's advantages. I think for a period of time, it probably didn't fully benefit from TI's manufacturing technology, the breadth of the portfolio, the reach of channel. Today, if you look at what the team is, first of all, getting to a place where we are really selling the portfolio we have, that's the first step and made good progress there. But if you look at the releases, several dozen devices released in the catalog MCU space in the last 24 months, adding new wireless connectivity products to make this whole pallet of different wireless connectivity standards easy for customers, building the RF front end for those easy for customers. It's exciting.

You look at the real-time control developments, very exciting in the industrial space. You look at radar solutions, something that would typically be very difficult for, again, a customer design-in. We've made it very easy, cost effective for customers. And then you combine that with the fact that we own the process nodes that goes in, and we own the factory it goes in and it's a geopolitically dependable location, we're excited about the opportunity in front of us. So it's part of our overall, we've got a strong Analog business, and we're looking forward to Embedded also contributing to growth in the next peak.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. And from an end market perspective, again, automotive and industrial should be the sort of drivers there?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Predominantly, yes. That's where it sits mostly, in auto and industrial. That's right.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. And the insourcing of Embedded Processing, is that already happening? Is that on the comm -- from a timing perspective, when does costs become even sort of an additional competitive --

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

That has been happening. It will continue to happen for a number of years before Embedded gets anywhere close to where Analog is, but it's already happening.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. And that's primarily Lehi?

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

Lehi is disproportionately Embedded factory. Not entirely, but disproportionate to the rest of the footprint.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Got it. I guess on the pricing outlook, I realize you're not in DRAM. You're not running a commodity business, and again, these cycles are very long for you. Curious how you think about pricing into '25 and more importantly longer term, just given how inflationary the environment has been and given how much capacity that's gone into the ground, whether it be the IDMs or foundry. I know your pricing has been much more stable than some of your peers, but at the industry level and more specifically for TI, how do you think about pricing going forward?

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Yes, you're right. The pricing doesn't move quickly in our industry typically, and our base case assumption is that it seems to follow at a low-single digit, maybe call it 2% to 3% decline annually. But that's a base case assumption.

Could you make a case for is it flat or inflationary depending on scenarios that could happen? We don't know. But what we do know is that we can adjust to where the market moves. And I think at the end of the day, you've got to realize that the market sets the price. And we choose whether we want to participate or not. And we're in a really good position to be able to participate and win more sockets.

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

So let me just stress. One, we -- the 2% to 3% is not just a base assumption. That is what we're seeing. In aggregate, of course, there are some places where it's a little more, some places a little less, but that's what we're seeing in aggregate.

And the other one is we're ready for whatever environment. If it's inflationary, great. If it's deflationary, or it continues to be deflationary, at whatever percent, we're well-positioned given our cost structure. The market sets the price. Our cost structure is such that we don't have to sub select.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. Got it. On your capital management call, you gave a 2026 free cash flow per share range of $8 to $12. The revenue scenarios were very clear. I'm curious, what kind of gross margin or OpEx sort of variability went into that sort of math? If you can to elaborate on that, that would be really helpful.

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

Yes. So on OpEx and R&D for the next few years, expect 4% to 6% growth. SG&A, 2% to 3%.

Now let me get to gross margin, which is the more important one. And of course, we run the company for optimization of long-term free cash flow per share. But I understand gross margin is important. That's obviously a component. So on gross margin, we gave you a range on the fall-through of 75% to 85%. And we said for the foreseeable future, we're going to be at the high end of that.

So you take whatever incremental revenue from one year to the next -- it works better on an annual basis, not on any one quarter. But on an annual basis, one year to the next, you take that revenue, the delta revenue times 0.85, then you add it back to the initial gross margin, and then you subtract an increase on depreciation because that fall-through doesn't account for significant step-ups that we're having on depreciation.

And I gave a range for depreciation, but the midpoint is roughly $1.5 billion this year, $2.1 billion next year and $2.5 billion the year after next, so in 2026. So you make those adjustments and you get to -- using whatever revenue assumption you want to make, you get to a reasonable gross margin estimate there.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Got it. Very clear. I'm going to pause here and see if we have any questions from the audience. If you do, please raise your hand, and we'll get you a mic. In the front row please.

Unidentified Participant

On the auto question, in light of particularly today's announcements, what's happening with GM and German auto manufacturers and the challenge of the Chinese, could you be more specific on your auto split between Chinese vehicles versus non-Chinese particularly if -- depending upon the outcome of the election, we're looking at significant Chinese tariffs.

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

Yes. So it's not significantly different than the overall footprint. So as I said, 20% roughly of our revenue is from Chinese headquarter – China-headquarter customers. So then the auto footprint would be similar.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Yeah, there’s not like a big skew and by region --

Unidentified Participant

(inaudible) so industrial and auto was 20%, which pass through China filter.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

So the percentage of our total revenue that's associated with auto isn't vastly different by region. So that's a good first order approximation of it. And also, keep in mind, our automotive exposure is pretty broad even across the sector. So we don't have a strong single focus on one socket in vehicles. So it's pretty broad across those sectors I described and across customer base, too. There's not like one customer or one socket that drives most of our revenues. It's pretty broad. And I'd say first order, very similar to the top-level exposures.

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

And to be more clear, so roughly 35% of our revenue -- so 20% of that would be out of China, so 7% of our overall revenue would be auto China ballpark. And that is when I say China, I mean in China-headquarter customers.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Correct.

Unidentified Participant

So yes, similar question on autos. Look, it's pretty obvious when you look at a car that socket count is going up, right? The harder thing to get our head around is content going up and also market share competition, pricing, et cetera, between you and say the Chinese competitors who are buying also a lot of equipment like you're buying a lot of equipment. So maybe if you could just parse that up for us a little bit in terms of how you get to that 15% revenue growth for the auto business.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

So the -- you're talking specifically in China, how to compete for automotive or just worldwide -- make sure we speak to it. And frankly, it's the same in both places. It starts with having a good product portfolio. I think that slide that we showed in our capital management highlighted it well. It's not one device, it's hundreds of devices and, in fact, thousands of devices when you look at a given vehicle as the opportunity is in front of us.

And we want to address as many of those sockets as we can. And it's not just the catalog. It's also the application-specific product. So it's going to start with having a broad portfolio. It's going to have our own manufacturing technology behind that. And then we're going to make it as easy and as low friction as possible for customers to design in and buy our product. Those are things that, regardless of region, customers care about.

And in China, it's an advantage that we have that many don't. We do build our own product. We do have the ability to reach our customers in more direct ways. We'll continue to leverage those things. And then, of course, these are faster-growing markets. And just being exposed to them is something we see as an opportunity for us.

Unidentified Participant

(inaudible - microphone inaccessible)

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

What we have seen generally is competition in China is -- has intensified, I'd say, but it's moved more into that we have to earn our sockets. It's not that it's impossible, it's actually really something that we have a great opportunity, given the competitive advantages. But typically, what you see is an emerging competitor will find a single socket that may be a single high-volume vertical socket that they can put an amount of R&D that can scale pretty easily or a high AUP type of device that's highly complex, but they only have to build one chip, and they can address a lot of TAM very quickly.

What's harder to do, which is why it took us decades to do it, is to build a portfolio of tens of thousands of operational amplifiers and voltage regulators and clocking chips and transceivers. That takes time, and it takes time over target and knocking on a lot of doors with customers to get those designed in, even across the automotive space, by the way, which has hundreds, I think, pushing almost 1,000 customers in it. So it is a diverse space.

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

Let me frame it maybe this way to help. And this is beyond auto. This is broadly speaking of everything that is manufactured in China. So now I'm switching to manufacturing, not customer headquarters, right? So manufacturing in China, roughly 15% is serviced by local suppliers. Roughly 15% is our share. And then the remaining 70% is non-Chinese European or American suppliers. Our sense is we are all-in in China. It's an important market. We're there to win. We want to grow share. We want to continue growing. Local suppliers are also all-in there. The remaining U.S. and European suppliers, not -- some of them are not as excited about being in China.

So we compete against the local suppliers, and we compete against also the U.S. and European suppliers. And in some cases, as Mike alluded to, the competition has gotten more intense. The local suppliers, there are some -- the local suppliers want to win, and they're aggressive, and they're smart. But in some cases, now instead of winning 100% share or 80% share, we have 50/50, right? Because if our part -- if our part is the best, then they'll take our part, but they also want to have some local supplier customers there, but want to have an alternative that is local. So that's the fight that we're fighting there.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Great. On CHIPS Act funding, $1.6 billion in grants, $6 billion to $8 billion in ITC. I'm curious, was this sort of the outcome that you had expected, what you had hoped for? And what are some of the key milestones that you need to hit to start receiving the cash?

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

Yes. So to level set, and you mentioned the numbers, but just to repeat that, so on ITC, investment tax credit, that really is the bigger one. We expect $6 billion to $8 billion when it's all said and done. This year, close to $1 billion, which we'll receive in cash, so that's really the bigger bucket of funds.

We were recently awarded on a preliminary basis, so we still have to negotiate the full contract, but on a preliminary basis, $1.6 billion of direct funding. That's the grants and $3 billion in loans, potential loans, if we decide to go that way. We always wish we had gotten more, but that's -- it is what it is at this point, and we're in the process of negotiating that long-term agreement.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Okay. Great. Just given how topical AI is, I've been asking this question to all my companies. I'm curious, at TI, to what extent you leverage artificial intelligence in your chip design or in your day-to-day operations. And to the extent you do leverage AI, what kind of benefits have you been able to identify or leverage?

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

We have versions of AI, machine learning, a lot of things that we do from R&D, manufacturing, sales, but we still have a lot of room for -- to leverage that and to do more of that. The other thing I would mention is that our parts help enable our customer systems that power AI, right? So that is another element of what we do.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Of course. Got it. In the last two minutes, maybe I'll give you the opportunity to kind of speak to anything that we didn't touch that you want to highlight to the group or -- I think TI is a well-covered stock, but anything that we collectively miss or underappreciate --

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

You didn't miss anything. We're -- just to rehash on a few things, we're 60% through our investments that we talked about. We're excited about that Phase 1, Phase 2, Phase 3 that I talked about. It's going to put us in a great position to grow the company, grow the top line, grow the free cash flow per share for many years to come.

We also -- I would mention that capital management call showed a framework of what free cash flow per share could look like under multiple scenarios. And our goal is to get it back to the growth trend line under any scenario.

Toshiya Hari - *Goldman Sachs & Company, Inc. - Analyst*

Great. Thank you, gentlemen. Really appreciate the time.

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

Thank you.

Mike Beckman - *Texas Instruments Inc - Director of Investor Relations*

Thank you.
