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Richard K. Templeton *Texas Instruments Incorporated - Chairman, President & CEO*

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PRESENTATION

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

Good morning, everyone. I'm Stacy Rasgon, and I cover the U.S. semiconductor space at Bernstein. (Operator Instructions) You can submit questions for Rich and TI beginning right now and at any time during the presentation, and we will leave time for Q&A at the end of meeting.

Also, we're working with our partner, Procensus, to do live polling on the presentation after the session ends to get real-time investor feedback on sentiment for TI. A link to Procensus is also on the left screen. And again, this will be a live poll with immediate access to the results for those that choose to submit. So please take the 60 seconds on, if you would, to fill it out afterwards.

Now that all of that is out of the way, I can't express what an honor it is to have our guest here joining us today, Rich Templeton, Chairman, President and CEO of Texas Instruments.

So the multiyear transition story that is TI has been reaping tremendous benefits over, oh, probably the last decade, if not more. The company was one of the first to recognize the futility of competing in wireless. And those exits, while painful at the time, freed up investments to grow the much more attractive businesses that make up the bulk of the portfolio today.

The company's 300-millimeter manufacturing strategy was originally looked on with astonishment, frankly, but resulted in significantly lower CapEx and substantially higher free cash flow generation, and they're doubling down on that today. Gross margins have been on an upward trajectory for years as the benefits of the strategy has rolled through. And of course, TI has through both words and deeds committed to return at least 100%, if not more, of that higher free cash flow, which has been an attractive story for investors.

In my conversations with clients, obviously, the COVID situation has come up. Beyond the COVID though and macro situation, many of my conversations center on the structural case, for further gross margin upside, where margins could go from here, given how far they've come, the sustainability of free cash flow generation, the effects of changes to the inventory and distribution strategy, what initial impacts the current geopolitical environment could have, and frankly, what the next leg of the story could be given the current playbook has already resonated and seems to be understood so well.

And so to give us some color on these and ideally many other topics, it's my great pleasure to welcome Rich with us today. Thank you so much for being with us.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Stacy, it's a pleasure to be here. Thank you.

QUESTIONS AND ANSWERS

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

Yes. So Rich, in this format, I don't like to focus on the near term as much, though given what's going on out there, I don't think I can avoid it this time. But maybe before we dive into that more generally, you've been at this a long time. You've seen many cycles in your career. At least in my experience, this is my first pandemic-driven cycle. But overall, maybe could you talk a little bit about what you think is the same versus different from what we're seeing now versus kind of a "normal cycle"? And maybe talk a bit about some of the structural changes that TI has made over the years that's going to let you weather whatever is in store for us going forward?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. Stacy, we talked on the earnings call back in April that, in many ways, the best thing is to use the financial crash in 2008 to model or to think about things as we're working through that. And that's not a statement that this is going to be the same because it's my first pandemic, as it is yours and many others. But it's at least a reasonable analogy of a significant disruption. And I think we tried to be very clear. And that is the same ambitions that we've operated for years are going to drive our decisions today. We're going to act like owners that intend to own the company for the long term. We're going to make sure that we can adapt and succeed in any environment that's changing. And then finally, and just as importantly, we're going to make sure we can be a company you're proud to be part of and one you'd be proud to have as a neighbor.

And so I give those kind of higher-level ambitions, because that's exactly how we're looking at things right now. These are downturns or events that you've got to respect them. But there are also times where, if you make wise investments, if you spend your money in a smart way that we described even back on the earnings call, I think great ground can be gained. And that's certainly where we're focused right now.

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

Got it. So to be clear on the financial crisis as a model, we're using it as well. Although, I guess what I'm hearing you say is you're using it because it's sort of the best that we have. But like there's no guarantee that it's the right model to use, but we're using it. That's kind of the view at this point?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think that's accurate. I think we've said even on the April earnings call is that we're not trying to forecast the precise shape. We're not going to participate in the letter of the week or the shape of the swoosh or whatever people are going to try to decide. What we've looked at, though, is I think you can look back in time and you could make some smart decisions, both in terms of how you operate the company from a plant loading and an inventory perspective. But you can also make some really smart decisions for how you invest money, both for R&D or for SG&A or, just as importantly, the next leg of investment for capacity expansion on 300-millimeter.

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

Got it. Let's talk about that a little bit. So I mean the current 300-millimeter strategy, from my memory, I think it was announced in September of '09, so like kind of on the tail end of the financial crisis. And obviously, that decision that presumably was made in the middle of the financial crisis has paid enormous dividends. As I sort of think through and beyond the current pandemic, do you expect your current priorities to shift at all, especially as it relates to increasing levels or differentiation of investment or as it relates to cutting costs? Like how do you think about what we're seeing now might drive kind of future decisions along those lines?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So broadly, in terms of investments, and again, we mentioned this on the April call, R&D is essentially going to be unchanged because those are 5- and 10-year time horizon decisions. SG&A, to the degree that we're investing for new capability you mentioned in the brief overview of bringing more customers direct or changes to our distribution program or investments in ti.com, these aren't just a good time to make those investments, these are actually a wonderful time to where you can really accelerate and get ahead of people in terms of that. Where you can save incremental cost on SG&A, we'll certainly do that. But then when it comes to capital expenditures, that's probably going to be mostly unchanged because most of what we're spending today is looking out at a 2022, 2023 time frame for what that trend line of demand is going to be, which is why we're moving forward with the Renner 2 or the RFAB 2 project to make sure that shell will be done and it will be available in that time frame.

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

Got it. I guess in the near term, you've talked about -- again, I hate to ask so tactically, but I mean, I'm getting questions on online as well. You talked about sort of like order trends weakening in late March and April. We're through May now. Are you seeing any changes in May relative to what we saw in April versus your expectations when you had earnings? Any signs of green shoots from here? And again, this is a question that's coming in from the investors as well.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. No, near-term questions are certainly understandable. But we're going to, for today, stick with what we talked about in April. And then when July -- in July, when we get second quarter earnings out, we'll give an update of how things have shaped through the quarter.

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

Got it. Okay. I'm going to ask you about your inventory and fab loading strategy. So I remember what happened in the financial crisis. Like many others, I mean you guys have kind of tightened in, in '08 when things fell off a cliff. And you did kind of get caught by surprise by the demand snapback. As I recall, your lead times went out to something like 30 weeks. My impression was always that, that was part of what drove the 300-millimeter decision anyways, you never wanted that to happen again. So this time around, you made the decision to continue running the factories mostly normally, building inventories. We can talk about the broader inventory strategy in a moment. But in the wake of this, you seem to be kind of looking at the view that if there is a demand snapback, you would much rather be positioned to satisfy that and live with the risk if you're wrong. How do you sort of think about, I guess, the potential downside if you're wrong versus the potential upside if you're correct in terms of building that inventory and running the factories where they are? How do you sort of parse those decisions as you're making -- as you're trying to decide what to do in the wake of the current environment?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. Stacy, I generalize 2 things. I think you've commented on at least part of this. First is it's our portfolio today, very differently from what we were facing back in 2008, is much different in terms of the percent of our portfolio that are catalog parts, they sell across multiple customers. So the confidence of the shelf life being very good on those is high. So it ends up giving you an amazingly asymmetric bet, where the upside is huge and the downside is minimal. And it's not often in life that you get those, so you certainly, you want to take them when they present themselves.

But the other thing is even, listen in the short term, and you pay far closer attention to all the different semiconductor companies through the earnings calls, but we were very well served with the inventory position that we consciously have built up in addition to a great business continuity plan and a great geographically diverse manufacturing footprint to where we worked our way through first quarter of 2020 in a pretty seamless way compared to what I think was a pretty painful quarter for a bunch of our competitors. And so this treatment of inventory bad is kind of crazy. In fact, if you've got confidence in its long-term life in a period when customers are not going to be able to forecast what they need, okay, the company that can basically reach out to customers and say, "Do not worry, the day you need something, we'll have it for you, okay?" We're just going to be served very well during that time frame whatever the shape of the recovery wants to look like as we go through it. So we put a lot of thought into that. We've got a lot of detailed efforts behind it. We think it's serving us extraordinarily well now. And we think it's going to serve us well through the next couple of years as this economy tries to figure out what it wants to do.

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

Yes. Got it. And I guess to your credit, the company is in a good place right now where you don't have to worry about obsolescence of that inventory. I wouldn't say that everybody is in that same position. So...

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

There is no doubt. And I say that, one, compared to competitors, but, two, and even look at where we were back in 2008 and 2009, you couldn't take -- we were, what, 40% exposed to the baseband and the handset business with essentially custom parts. That is a very different game to play than the one we're in today.

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

Got it. Can you comment more broadly on just the overall inventory strategy? Because this is just as I said before, this has not just been something you've done in response to COVID. You've been deliberately taking up your inventory over the last several years. You've been staging it closer to your customers over the last several years and building out more stockpiles and everything else. Just how does all of that fit into -- where are you comfortable running? Maybe you can sort of review where your current targets are for inventory and where those could even go on. I mean I'm not even necessarily convinced that those couldn't go higher over time.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So I would -- before I go into the -- to the days of inventory number is go back to even some of your introductory comments about we've been moving in a direction to build closer direct relationships with our customers because we believe, over the long term, that is going to give us great advantages and allow us to win more business, because we'll be closer to them, we'll know what they need and we can better service it and support it. And so you watched it over a number of years as we've moved in that direction. I think a year ago at this time, we were talking about this kind of next phase of consignment. Then back in the fall of 2019, we announced that we were narrowing down significantly the distribution channel. These are all steps in that direction. So it's getting that inventory actually in one place, because it actually gives us even far more capability to be able to then aim at where the short-term demand is on that front. So even though the "days" have been trending up, if you actually look at the absolute dollar amount of inventory, it's actually remaining amazingly stable. And you can't necessarily see the number that I'm about to describe, but we also look at it when we look through the channel, meaning not just TI balance sheet, but what has been held on the balance sheet of our distributors, and we've been trying to bring that number. And we have been bringing that number down. I think we mentioned on the earnings call, we've been decreasing it for 7 quarters in a row or something like that. But it's all about how we get that inventory in one place. We provide great service and support to our customers. And I think we're going to be highly rewarded for that over time.

Where does that lend itself to a days of inventory metric? We've got some background work we're doing on that right now. The historical days of inventory metric, I find rather uninteresting. It's maybe even dangerous because it tends to be a 90-day trailing. And it may tell you to do the wrong things at the wrong time. And obviously, based on what we described we were going to do in the second quarter, we're not letting that metric drive us to do things that aren't wise.

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

Got it. Got it. I want to dig into the distribution strategy a little bit. Again, this is something that I get a lot of questions on. And clients wonder what impact you pulled away from some of your distribution partners. People wonder what impact that might have. But at the same time, if you sort of look at it, as far as I -- you've been going along this path for a while. You've been moving customers more direct. You've been taking away the demand generation function from the disties. Or maybe if you could talk a little bit about like the overall evolution of the distribution strategy over the last several years.

And how are you -- I've always been surprised that you're actually able to actually handle that demand generation function on your own. Typically, that's a big reason why the distributors in theory exist and you seem to be able to do that very well. Maybe just a little bit, if you could, on just the general evolution of the distribution strategy, consignment, everything else and like -- and what impact that has on how you run the business today.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think the best way that -- it's how I think of it. It's how we have architected it, is really go back to the discussion here from Dave and Rafael a lot about our 4 competitive -- or 4 sustainable competitive advantages of manufacturing and technology, then a broad set of analog and embedded products, then the broadest reach of our sales and marketing channels and then diversity and longevity. And we really -- we don't believe that this discussion on competitive advantages as slides for Dave and Rafael to share during capital management, but it really is what we believe is how you fundamentally invest to build a very sustainable business model for the long term, which is what -- lets you do the things that you described in the opening -- your opening speech.

So in many ways, the distribution changes are just part of, think about investing in a strength or leveraging a strength. So we invested over a 6-, 7-year period, building out that applications and sales footprint, building out the capabilities of ti.com. And now we continue to not only build out that capability, but now we want to leverage it as well. And the fact is, distributors have never been very good at creating demand. And we proved that just very clearly because we wound down theoretical involvement by distributors 5, 6, 7 years ago. And not only did our share not go down, it's continued to go up. So I think it just comes back to -- it really proves that our view of where we're heading is the right one. And these final changes of just really now pulling order fulfillment out of the channel, it's just something that we can do much more efficiently because we can have the inventory in one place, we can ship and fulfill it quickly. And it's going to give us advantages. And I actually believe these are advantages that -- and Stacy, I think you know our competitors pretty well. These are advantages that are very difficult for our competitors to replicate because they don't have the reach of the sales channel, the breadth of the product capabilities, the ability to call on literally deep customer bases in the mass market. So that's what is really fascinating, it's really exciting to me. And it's going to continue to roll out quite nicely, I think.

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

Got it. That's helpful. If I sort of think forward, like how that kind of like rolls out into the model, I mean, historically, if you look at TI, especially for a long time, as you were exiting some fairly sizable noncore businesses like top line didn't grow much. All that is done. Margins obviously went up a ton. But it feels to me, and please correct me if I'm wrong, does growth need to be more of a focus now just given where the margin structure is today? And I can look at some of the signs that would suggest that uptick in R&D, the inventory staging that we've talking about. Has TI's focus on growth changed at all? Does the growth actually need to be more of an imperative maybe going forward than it was in the past, just given where the margins have come over the last several years?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So Stacy, and I forget, I think you've done some of this math. The answer is this funny yes but no. And I'm not trying to be cute with that. What I mean is if you actually look at the long-term growth of the Analog and Embedded business, you've been watching it consistently growing and, in fact, gaining share over the past, pick it, 10, 12, 15 years. And so when people say is growth more important, well growth has always been important. But back to this top level view of we want to act like owners that are going to own the company for decades, we've really emphasized internally that our focus is on building a company stronger, not just necessarily bigger. And if you build the company stronger and you aim it at the right markets, size is a result, not an objective unto itself. Now the reason I gave a slightly cute answer, if you look at the math, okay, certainly, over the next 10 years, you're not going to get the same "free cash flow margin lift" that you got over the past half. And so to that degree, as you've now got Analog and Embedded at 90-plus percent of the revenue, it's got to grow, and that certainly has got to be the prime driver of long-term free cash flow per share.

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

Got it. Got it. Let's talk about those businesses. And in particular, I get a lot of questions quite often on the differences between the Analog and the Embedded businesses, both in terms of margin structures and scale. Also some of the more recent headwinds that have impacted the embedded processing business because the growth hasn't been there. There's some reasons for that that we can talk about. But if you can maybe talk a little bit about like how you view the differences or not between those 2 businesses in terms of margin profile and growth? And maybe touch on some of the near-term headwinds that we've seen in embedded. I think the audience will find that helpful.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So I think there's a couple of things inside of that. I think you hear from Dave and you hear from Rafael very often when they get asked, what's the difference between Analog and Embedded. To me, it's very different. It's very simple that they are different. And we don't sit around trying to figure out how to get the Embedded business to the Analog margin structure. The goal for that business is to simply grow and add value over time. And so we're not trying to push that margin structure to be identical on that front. And we think that over the long term, just like it's been for the past 10 or 15 years, Embedded it will certainly be able to do that. It had great growth in the, pick a time frame, kind of '15, '16 and '17. You started seeing slowing of growth because it had quite a bit of dependency in just a couple of areas during the end of '18 and into '19. And I think I've been extraordinarily direct with investors. And our job is to get that thing back on a long-term growth track, and we think we're certainly going to be able to do that. And so that's why we've got great confidence that it's going to add a lot of value to the business, and it's a business that we want to have a part of our portfolio for the long term. The Analog business, I think, has been doing amazingly well and consistently well. And it's even been growing quite well compared to our competitors even during the past couple of years, as we've been working through the consignment and now the distribution transition, where clearly, that's going to have some temporary headwinds on the revenue. But the team has actually been performing at or a little better than market, which is really pretty positive for what the indicators are for the longer term.

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

I guess to follow-up on that, I mean you've been a consistent analog share gainer although you typically talk about it as something like half a point a year or so maybe. I guess given these changes, do you think there's any reason to expect that, that could potentially accelerate? Or do you think that's still the right trajectory just given the product cycles that are -- the length of the product cycles that are in this market?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think it's -- to me, it's one of these things that if all we do over the next 10 years is gain at that rate. We're going to be happy as owners. That doesn't imply that, that -- that our objectives are stronger than that, but I think you got to be just very careful of overstating or having bragging contest about the future as opposed to let history speak for itself. I think the other thing that's embedded inside of it, and to me, it's a great aspect of the Analog business is as hard as it is to gain share, that says something about the structure of the market and the moats to use that term of defensibility, which means it's difficult for competitors to take it away as well. So to me, that's also a good statement for the robustness of the business model over the long term.

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

Got it. And I guess, again to build on some of that like around the end markets. So obviously, you guys have focused on industrial and auto. I think you were one of the first to clearly articulate that strategy, although it is a widely adopted strategy at this point for many companies. Can you review for us again, how you think about the attractiveness of those markets versus where you were, say, 10 years ago, whether it's content or sustainability or barriers to entry or the long life and terminal value of those portfolios? Like what -- like can you just review for us the rationale to be doubling down your efforts there?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. Stacy, you said it in the question. And I know you know it pretty well. And I just -- I've watched this industry for a long enough period of time that over 10-, 15-year periods, end markets or select end markets tend to become the most important ones driving the semiconductor industry. And you can go back to mainframes, giving away to many computers, giving way to personal computers getting away to personal electronics. And I really believe when you sit back and look over the next, probably at least 10 and 15 years that the trends on content or semiconductor content growth, meaning dollars per system, and what those dollars per system are going to do in the automotive applications and the broad set of end markets that are captured under industrial, just say that they are going to be the most important semiconductor market's driving growth. And that doesn't mean that personal electronics are going away. They're going to be with us for a long time. They're going to be large markets. We're going to be involved in them. We're going to be successful in them. But you really have to be well positioned in industrial and automotive to be in the right spaces over 10 or 15 years. We do believe we got lined up ahead of the industry on that by choice, our breadth of our product portfolio. If you then look inside to our breadth of process technologies and package technologies and you look at our road maps of what we're investing in, they really have the needs and careabouts of the automotive and the industrial market in mind. So think higher voltages and higher power isolation, RF. Those types of things all really matter in that world. And we've been investing well for that.

In addition, our customer reach investments that we've already talked about. When you want to win in the industrial market, you need to be able to cost effectively get to 80,000 and 100,000 customers. And we're really the only semiconductor company poised to be able to do that. And I think it's going to be great to have on our side.

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

Got it. I want to ask about one of the other markets where I think your view has been maybe different from others. And so that's comm infrastructure, particular 5G. So if I sort of put companies on a spectrum of how they view the potential of that market, you guys are, for sure, on one end of that spectrum, on maybe on the less enthusiastic side of it. Could you maybe talk a little bit about like why and like what's sort of driving your view of 5G and maybe comm infrastructure worldwide? Because I do know it's a market where you are focusing less.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Well, I try and use careful words on this, Stacy. I think your characterization is accurate in terms of what the perception is. But we think the comm infrastructure market, we think, the 5G market is a wonderful market, okay? It's one we participate in. We certainly participate more with the Analog business because we thought that was a really smart thing to do 5 and 6 years ago, and I think it's proven to be pretty wide. The reason I think we get described as being at the weaker, the left-hand side of the distribution is that I just don't think over 10, 15 and 20 years it's got a potential for secular growth because capital spending, by wireless operators is not going to go up. And if their capital spending is not going to go up, semiconductor content is not going to rise. And so to claim that, I just think is going to end up being a false promise. So we think it's an important market. It's a great market. We've got teams that are very good at it, passionately involved in the thing, and we like it. But we like it as one of the things that we do, not the growth story or the primary driver of growth over the longer term.

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

Got it. Got it. Can you talk a little bit about your R&D strategy? I mean this is another sort of interesting controversy. Sometimes people complain to me that they don't think you're spending enough, which is not something that I typically hear. People usually don't want to see companies spending more money, in your case, that comes up sometimes. How do you make the decision on how much to spend and where to invest and what the criteria? I mean you tend to run the company overall for free cash flow growth or free cash flow per share. Is that the primary metric that's going into like when you're making decisions on where and how much to invest?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

It's certainly an end outcome for the long term. But the biggest thing that we try to look at, you and I have talked about this for years, is there are other analog companies that spend more money as a percentage of revenue. They don't spend more than us on an absolute, okay? And certainly, we could go use some competitive filter and defend spending more. But I think the most important thing when you're "allocating capital" is to have a team of people that are really good at getting those investments to the best opportunities. And so I think one of the great disciplines that we have inside of our product line and business unit and SBE, our strategic business entity structure, is that we've got leaders that are really good at knowing what the 10 projects are that people have thought about and then having the discipline to put the investment on the 6 best ones as opposed to investing in everything. And even though we could go defend it or explain it. And I think that, that discipline has really allowed us to "invest less as a percentage of revenue, yet we're gaining market share compared to these competitors that are spending a higher percentage." So I think that discipline goes to many of the things that Dave and Rafael will talk about on capital management. We live it and breathe it on a daily basis, and I think it's going to continue to help us going forward.

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

Got it. I want to ask a little bit about China, just given some of the geopolitical things that are popping up now. First of all, around the Huawei restrictions. What did you see with the prior Huawei restrictions? Where -- how much are you shipping to Huawei now versus what you were shipping 2 years ago? And what impact, if any, do you think like some of the new restrictions on Huawei are going to have for you?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I don't have that specific data. I am going to guess it's down in general, but only because of some of the lumpiness of how things looked a couple of years back on that front. In general, I think I mentioned, Stacy when we talked even a year ago, I would far prefer to see both the leaders in the U.S. and the leaders in China figuring out how to grow the collective GDPs of the country. I think it would do better things. But I'm not going to have influence on that decision. What -- the approach we take internally is very simple, and that is the environment is the same for us as it is for all our competitors, and now go do a better job taking care of the customers and meeting their needs. And we really try to keep things that simple.

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

Okay. Do you see any potential impact from the new Commerce Department restrictions?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

I think we've -- I'm careful on that because there's been a recent new set. I don't think -- depending on the set you're referencing, I don't think they're going to have a big impact for what we do. But I give a very careful answer on that. There's always activity inside the U.S. government. I don't always know what all those things are, obviously.

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

Got it. A question from the folks on the line here also around China. They want to know like how your share is trending in China. I think some of it has to do with potential blowback against U.S. suppliers. There's also the question dropping WPG as a distributor. Did that impact your China share at all?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. My general guess is we're more than holding our own, and I say that carefully. You heard Dave, I think, on every earnings call, when he's asked for the geographical breakdown of revenue. He gives the cautionary statement that that's where revenue shifts to as opposed to where it's designed or necessarily consumed on that front. But no, I think even with the trade tensions, we're holding up really quite well. And relative to the distribution comment, in general, we've been working through, as I mentioned before, the design win change and the order fulfillment change. And these distribution changes are going to have 0 impact in terms of what our customer positions look like in the long term. And the fact is we're in a really good place right now as our strategies in terms of higher availability of product, keeping our lead times short, making the investments in inventory, continuity plans, BCP plans, geographically diverse manufacturing have led us really function pretty well through the current environment, which I think is going to continue to help us, independent of the distribution channel.

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

Got it. I want to ask about the 300 -- the new 300-millimeter strategy. So I know you've been -- you were building a new factory. I think -- I don't know if you maybe completed it, but you're working on the parking structure first. What is the current time line for when you might expect production out of that fab? Admittedly, I know with COVID throwing a little bit of monkey wrench into things in the near term. Once it's here though, you expect that the cost savings potential of that to be similar to the prior 300-millimeter, even though this was going to have a higher percentage of new tools rather than used tools? Like how do we think about the margin evolution potential of this as this starts to ramping over time?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. So we've got the -- the parking garage is done now. And what -- what's important on that is where the new fab is going to go with the old parking lot. So one had to get done before the other. So that is done. They'll be moving -- they'll be breaking ground literally any week now in terms of things of getting that new shell in place. And then the intention is to have that thing done and ready to be occupied by the end of '21.

And Stacy, with your background, I think you can appreciate this probably as well or better than any analysts, the real beauty of having that thing literally connected to our fab, one, is that it allows us to expand with a very fine grain or small granularity. Meaning if you start up a clean field site, as you know, you might have to go tool 1/3 of that facility from a capital point of view and get a team of, pick a number, 300 or 400 people in place to be able to even operate anything. Well, the beauty about being next door to Renner is you can actually make very small incremental decisions on capacity expansion and just literally be layering equipment in and adding people as you need it with that new facility. So it's really going to serve us quite well in a world where who knows what the ramp-up will look like.

And then lastly, on the question of fall-through, even though we're assuming a higher percentage of the equipment is new, the real beauty about 300-millimeter is the wafer diameter, not do you get it at 10 cents on the dollar or you're paying a dollar for a dollar. And just go do the math. These wafer fabs are going to operate 30-, 40-plus years. And it just makes the -- is it nicer to be able to buy the stuff at 10 cents on the dollar? Sure. But it's -- the cost benefits are all about the wafer diameter. So we're going to be very happy with that.

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

I guess that makes sense. If you're using it for 40 years, you could appreciate it getting 5. For the bulk of its lifetime, it's going to be depreciated anyways, whether it's new or whether it's used.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

It certainly is. And when we talk about the fact on a 300-millimeter wafer, you basically can get a 40% cost reduction on the same equivalent die that would be built on a 200-millimeter wafer. And we've also made this subtle comment, but it's not a small one, that puts aside the advantage you get on any chip scale packaging, which is a growing percentage of the business. And certainly, we get the benefits of that.

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

I see. That makes sense. I want to ask a question. This is a topic that's coming up a lot broadly with my clients on ESG. Can you talk a little about your corporate responsibility strategy? And like what are the material ESG issues? What are the risks or opportunities that you've identified in your business? Like how do you think about ESG investing on as it relates to TI?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Yes. I think what's -- and I don't know if we're different with this, but it really is the heart of how I think about it. We, as a company, the Board, is it really goes to the heart of some of my opening comments. And that is we have a set ambitions that is how we've run this company literally for decades now. I mentioned them earlier. Act like an owner, act like an owner that's going to own a place for decades, be able to adapt and succeed in a world that's always changing and be a company you can be proud to be part of and proud to have as a neighbor. And we really have that set of ambitions and a set of values that go along with that. And it's how we run the company. And it's not separate from how do we talk to the ESG people, it's how we run the company. And I think that is really the real intent behind the ESG activities on a broader basis is making sure that you're doing good things that when you execute well, not only do your employees win, not only do your communities win, not only do your customers and suppliers win, but your investors win as well. And I think if you look at us over the long term, you've seen great consistency in that. You can see it today in the material that we talk about internally as well as externally. And I think it serves us well.

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

Got it. So Rich, we have about 1 minute left. So I'm going to finish this up the way I always do. I'm going to give you your soapbox. Especially maybe for investors who are not owners at this point, why should they be? Why should investors buy Texas Instruments stock here?

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Well, I'll give you the same answer I give you any other time you give me the soapbox. And that is because we're going to act like owners, and we're going to operate the place like we're going to be owners for decades to come. And if we do that well, I think potential investors will find participating with us beneficial.

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

Got it. That's wonderful. For everybody on the line, I want to remind you again, we are doing live polling with our partner Procensus. If you could at least click on the link on the left side, the Procensus link, you'll see a new window open up with a very short poll, will take you about 60 seconds, and you'll benefit from real-time tracking of investor sentiment on TI.

With that, I think we're going to close today's session. Rich -- sorry about that. Rich, thank you so much for being with us today. Really appreciate it.

Richard K. Templeton - *Texas Instruments Incorporated - Chairman, President & CEO*

Stacy, thank you and your insight. Appreciate everybody participating today, and everybody stay safe.

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

You, too. You, too, take care.
