

Annual Meeting of Stockholders  
Texas Instruments Incorporated

Prepared Remarks  
by  
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**“The Right Strategy for the Right Time”**

The right strategy for the right time is the linchpin of a company’s long-term success: it gives you purpose and direction; it simplifies decisions; it defines resource allocation; and ultimately, it focuses everyone’s efforts and makes you faster. We have this at TI, and I believe it enables us to be uniquely positioned to solve more of the semiconductor needs of our customers, and at the same time return more benefits to our shareholders.

Let’s take a closer look at why.

At TI, we’ve been fortunate to have had our strategy in place for several years and have built a company focused on Analog and Embedded Processing semiconductor technologies. We believe these technologies are the best places for us to be in the industry, and our consistent share gains in each of the past six years back that up.

Why else do I believe these two technologies are best?

- Because they are pervasive, existing in virtually every piece of electronics equipment.
- Because they are diverse, supporting multiple markets and a myriad of applications.
- Because they are long-lived, giving us the benefit of time to recoup our investments.
- And lastly, because they use mature manufacturing assets and processes, allowing a measured approach to capital expenditures.

Let’s dig a little deeper to understand how these characteristics translate to strategy:

- First, we have a broad portfolio of differentiated products that allows us to engage across many markets and many customers. With tens of thousands of products, our portfolio generates a lot of interest, and once design engineers come to us for one particular product we can offer others they need to build their systems.
- Second, the diversity and longevity of our products means we are not dependent on any one product, nor are we bound to the fortunes of any one customer or market. We understand that the “the next big thing” doesn’t always translate into sustained progress. So our strategic approach is to invest in products that reach tens of thousands of customers and thousands of applications.

- Third, given the size of our sales force and the sheer number of visits to TI.com, we have the broadest market reach of any direct competitor. This gives us unique access to more than 100,000 TI customers and their projects.
- Finally, we are the first company to apply 300-millimeter manufacturing technology to Analog production, and by doing so enjoy a 40 percent cost advantage over the 200-millimeter wafer technology that most of our competitors use... simply by putting more chips on a single wafer. We also take the long-view on capital purchases, and we buy well ahead of demand so that we are at-the-ready when our customers and markets need more.

The net results of all of this are competitive advantages that benefit our customers, generate greater cash flow, and overall are difficult for competitors to duplicate.

Our 2015 numbers speak for themselves. We had record gross margin of 58.2 percent and record operating margin of 32.9 percent. We invested nearly one point three billion dollars in research & development – an amount higher than any direct competitor – for new technologies and products to fuel *our* future and our *customers'* futures. And still, our free cash flow margin set a record at 28.6 percent of revenue. We also made important capital investments by qualifying our second 300-millimeter Analog factory, which gives us a total of 6 billion dollars' worth of open capacity for future revenue growth. Then, as we promised, we turned to our commitment to shareholders and returned 100 percent of our free cash flow in the form of dividends and stock repurchases.

Nothing stays still in our industry. So while we have a strong strategy that gets results, we are well-attuned to changes and new market opportunities. Historically, personal electronics have been a key driver of semiconductor growth as computers, cell phones and tablets generated successive waves of *new* innovation with products that previously didn't exist. This remains an important market to us now, and far into our future. But equally exciting today is applying semiconductor technology to *existing* systems, helping them get smarter, safer and more efficient. Specifically, we believe nascent and growing opportunities in industrial and automotive markets will be key drivers for semiconductor growth in the years ahead, and therefore, we are focusing more resources here.

Industrial, in particular, is in its formative stages. Many industrial applications have yet to be touched by semiconductors, as their underlying technology remains more mechanical than electronic. Imagine the possibilities in this vast, diverse market. Things like:

- an HVAC technician who can run a remote, wireless diagnostic before rolling a service truck, or
- a washing machine with a variable speed motor that reduces energy consumption by up to 60 percent, or
- an airport parking garage that identifies which rows still have empty spaces for your car.

The list of applications rolled out in the last few years or, more importantly, still waiting to be developed, is huge. And that's exciting to us at TI, because we make the chips needed for these types of technological changes.

Similarly in the automotive market, the cars of today are much smarter than those built just 10 years ago. Things like tire pressure sensors, blind-spot detection or collision-warning systems are becoming the new norm across fleets at all price points. And more is coming.

These new applications are just the tip of the iceberg in the industrial and automotive markets, and it's all made possible with analog and embedded technologies.

Another change is the growing importance of the World Wide Web as the primary tool for design engineers to make purchase and design-in decisions. Just as with their personal shopping habits, design engineers are moving online to find products, or in our case, chips.

Here too TI is advantaged because we have invested in our website with the design engineer in mind. We get 5 times more visits to TI.com than our largest competitor does to its site. A quick browse on TI.com can quickly lead you to a deep dive on an application or product you're researching, similar to experiences on a retail site. Today, we believe the web experience for design engineers on TI.com is among our industry's best.

Certainly, the world is changing at an unprecedented pace, and with these changes come new opportunities for which TI is exceptionally well positioned.

But there is something we intend never to change – our core values of integrity, innovation and commitment. These values have been at the heart of who we are and how we behave for decades. In concept, they date back to our founders and their vision for TI at its inception. Certainly we have evolved along the way, taking into account changes in industry and in the world. But we are proud that Tiers long since departed and the TI people of today share a common character and a foundation of ethics that are instilled in our company's DNA. And this, we never intend to change.

As I finish these remarks, I want to emphasize that we are focusing on the right markets at the right time – markets that are diverse and long-lived, that produce profits and generate cash, and that offer some stability in a macroeconomic environment that can be both tepid and volatile.

We're committed to innovation that strengthens our businesses and enables our customers to reach new heights. We're equally committed to deserving the trust that you, our shareholders, have shown throughout our strategic journey. And we intend to do that by delivering results that get you a great return on *your* investment in us.

Thank you for listening.