

# Capital management

**Rafael Lizardi**

Senior vice president, chief financial officer

**Dave Pahl**

Vice president, head of investor relations

February 4, 2021, 10 a.m. Central time

# Agenda for this call

## Introduction

- Executive summary
- Our objective and strategy
- Business model built on sustainable competitive advantages

## Capital management scorecard and update

## Historical view of our capital allocation

## Strengthening our sustainable competitive advantages

- 300-millimeter Analog update
- R&D allocation priorities and results
- Building closer direct customer relationships

## Free cash flow per share\* results and cash returns

\* Free cash flow (FCF) = Cash flow from operations minus capital expenditures



# Executive summary (from Investor Overview on TI.com)

## At Texas Instruments:

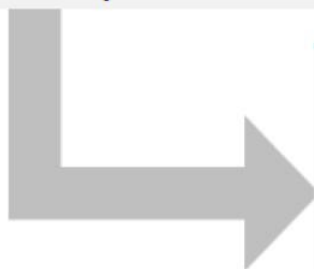
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- We run the company with the mindset of being a long-term owner.
  - We believe that growth of free cash flow per share is the primary driver of long-term value.
  - Our ambitions and values are integral to how we build TI stronger; when we're successful in achieving these ambitions, our employees, customers, communities and shareholders all win.
  - Our strategy is comprised of a great business model, a disciplined approach to capital allocation and a focus on efficiency.
  - Our business model is built around four sustainable competitive advantages: manufacturing and technology, broad product portfolio, reach of our market channels, and diverse and long-lived positions.
  - After accretive investments in the business to grow free cash flow for the long term, the remaining cash will be returned over time via dividends and share repurchases.
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# Our company **objective and strategy**

## Objective:

Maximize long-term growth of free cash flow per share



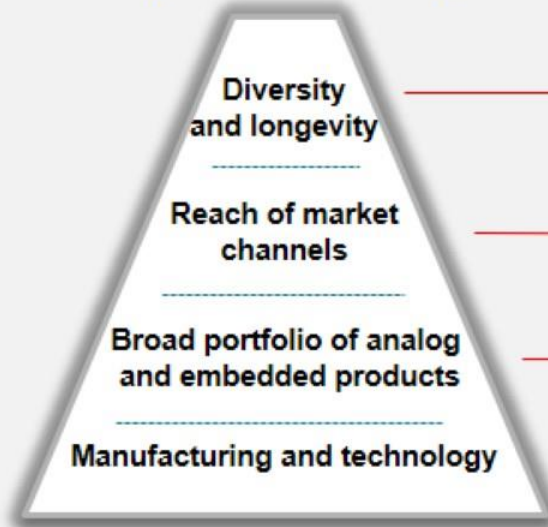
## Strategy:

1. **Great business model** focused on analog and embedded products and built around four sustainable competitive advantages
2. **Discipline in allocating capital** to the best opportunities
3. **Efficiency**, which means constantly striving for more output for every dollar spent



# Building competitive advantages **unique to TI**

**Business model built on competitive advantages**



**What we get (tangible benefit)**

Less single point dependency and longer returns on our investments

Access to more customers, projects, sockets per project, and insight

More opportunity per customer, more value for our investments

Lower costs and greater control of our supply chain

# Capital management 2020 scorecard

Metric	Long-term objective	Target	Result
Free cash flow generation	Maximize long-term growth of free cash flow per share.	25 – 35% of revenue (TTM)	✓
Capital expenditures	Invest to support new technology development and revenue growth. Extend our low-cost manufacturing advantage, including 300-millimeter. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~6% of revenue	✓
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on percent of direct revenue, market conditions and consignment levels.	115 – 145 days	✓
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for strategic buildup or drawdown of cash.	10% revenue (TTM) + dividends (NTM)	✓
Pensions	Be fully funded on a tax-efficient basis. Have annual free cash flow reflect what is available to owners by minimizing one-shot calls for cash, unless there is a P&L or cash advantage.	Fully funded	✓
Debt	Increase rates of return with some leverage on balance sheet when economics make sense. Avoid concentrated maturities and ensure strategic flexibility.	When economics make sense	✓
Cash return	Return all free cash flow via dividends and repurchases. Recognize there may be times for strategic buildup or drawdown of cash.	All free cash flow	✓
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 60% of current year free cash flow	✓
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)	✓

# Capital management **scorecard update** for 2021

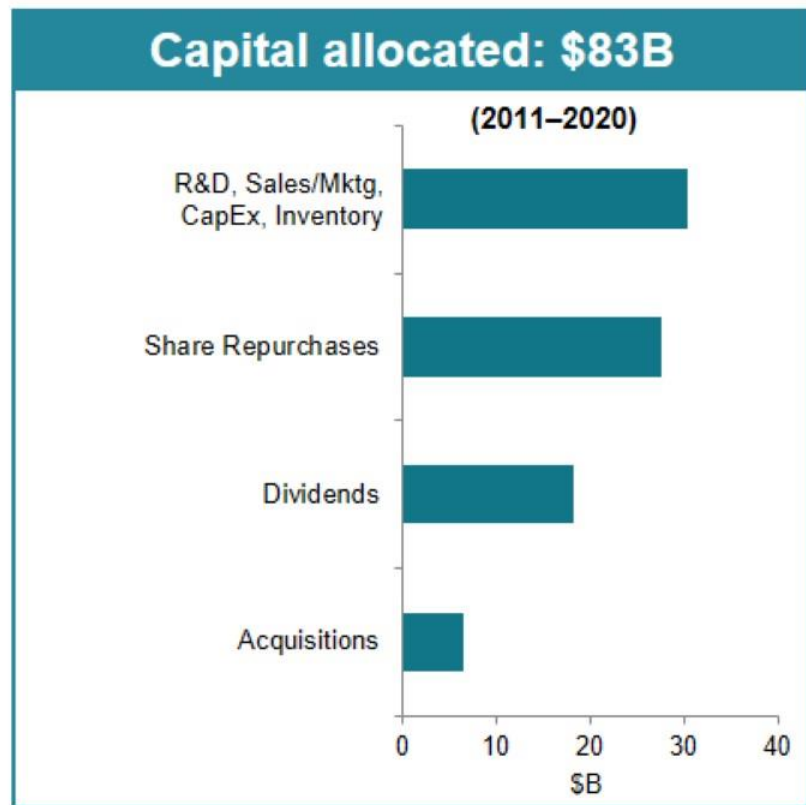
Metric	Long-term objective	Target
Free cash flow generation	Maximize long-term growth of free cash flow per share.	25 – 35% of revenue (TTM)
Capital expenditures	Invest to support new technology development and revenue growth. Extend our low-cost manufacturing advantage, including 300-millimeter. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~6% of revenue
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on market conditions.	130 – 190 days
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for buildup or drawdown of cash.	10% revenue (TTM) + dividends (NTM)
Pensions	Be fully funded on a tax-efficient basis. Have annual free cash flow reflect what is available to owners by minimizing one-shot calls for cash, unless there is a P&L or cash advantage.	Fully funded
Debt	Increase rates of return with some leverage on balance sheet when economics make sense. Avoid concentrated maturities and ensure strategic flexibility.	When economics make sense
Cash return	Return all free cash flow via dividends and repurchases. Recognize there may be times for buildup or drawdown of cash.	All free cash flow
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 80% of current year free cash flow
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)

# **Disciplined allocation of capital: a 10-year view**





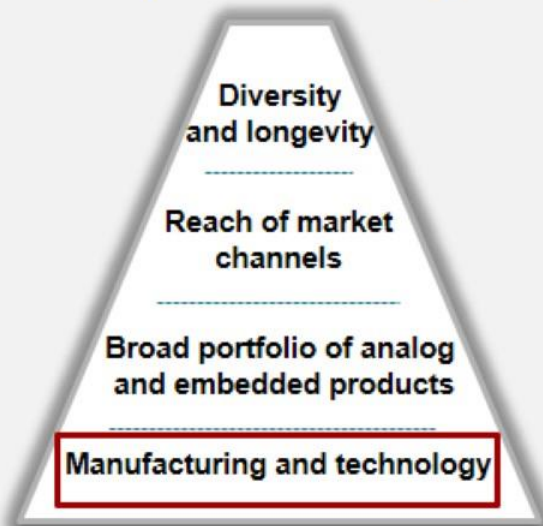
# Where and why we've allocated our capital



Purpose
Organic growth of business
Accretive capture of future free cash flow for long-term investors
Appeal to broader set of investors
Inorganic growth

# **Strengthening our sustainable competitive advantages**

**Business model built on competitive advantages**



# 300-millimeter analog wafer advantage:

Extending our cost advantage and greater control of our supply chain

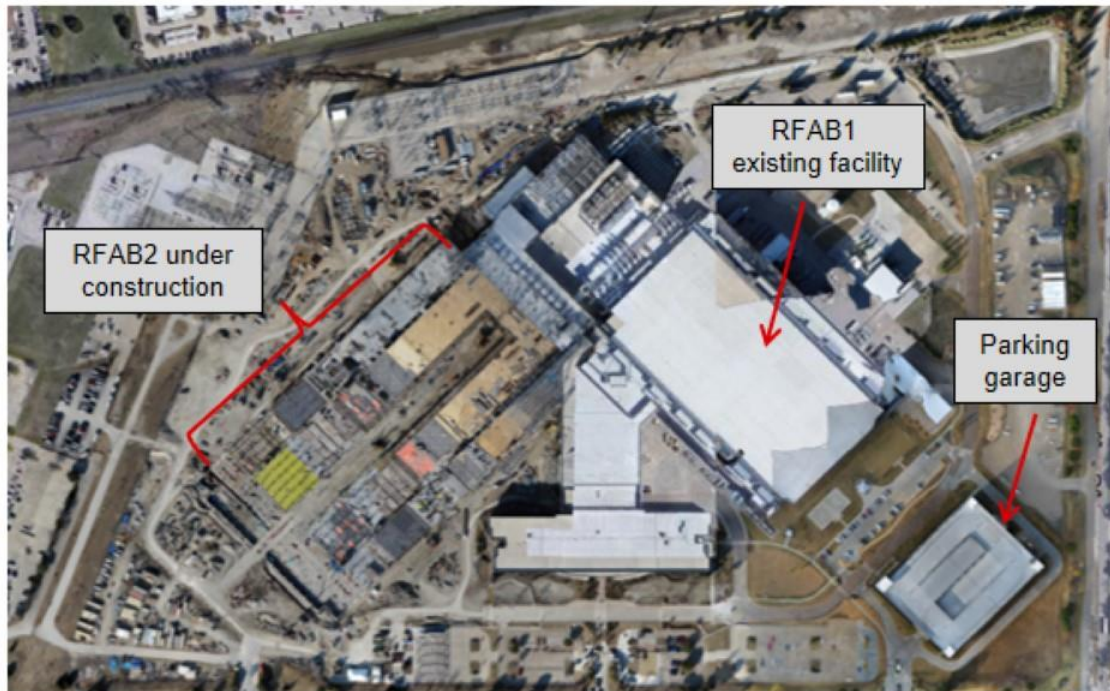
# Chip cost is ~40% less on 300-millimeter

## Illustration of the GPM impact from 300-millimeter

		Built on 200-mm wafer	Built on 300-mm wafer
Sales price of example part		\$1.00	\$1.00
Cost of goods:	Chip cost	\$0.20	\$0.12
	Assembly, test, other	\$0.20	\$0.20
	Total	\$0.40	\$0.32
Gross margin %		60%	68%



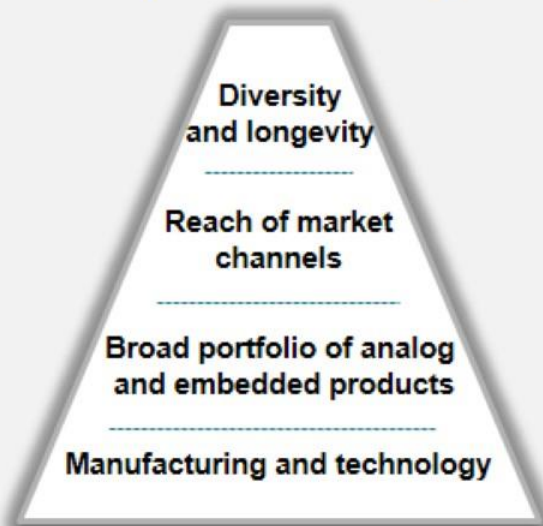
# Investing for growth **300-millimeter Analog**



## Texas Instruments 300-millimeter site in Richardson, Texas

- Construction underway for TI's third 300-millimeter Analog wafer fab
- Will support demand for the 2022-2025 time frame

**Business model built on competitive advantages**



## **R&D investments:**

**Strengthening our technology and our product portfolio, while improving our diversity and longevity**

# Disciplined allocation of R&D strengthens portfolio

Market segment	R&D investments	% of TI revenue		
		2013	2019	2020
Industrial	Up broadly	30%	36%	37%
Automotive	Up broadly	12%	21%	20%
Personal electronics	Slightly up, continue to be selective	32%	23%	27%
Communications equipment	Steady, continue Analog only	15%	11%	8%
Enterprise systems	Slightly up	6%	6%	6%
Other	Flat, at low levels	5%	3%	2%

# Disciplined allocation of R&D strengthens portfolio

Market segment	R&D investments	% of TI revenue		
		2013	2019	2020
Industrial	Up broadly	30%	42% 36%	37% 57%
Automotive	Up broadly	12%	21%	20%
Personal electronics	Slightly up, continue to be selective	32%	23%	27%
Communications equipment	Steady, continue Analog only	15%	11%	8%
Enterprise systems	Slightly up	6%	6%	6%
Other	Flat, at low levels	5%	3%	2%



**Business model built on competitive advantages**

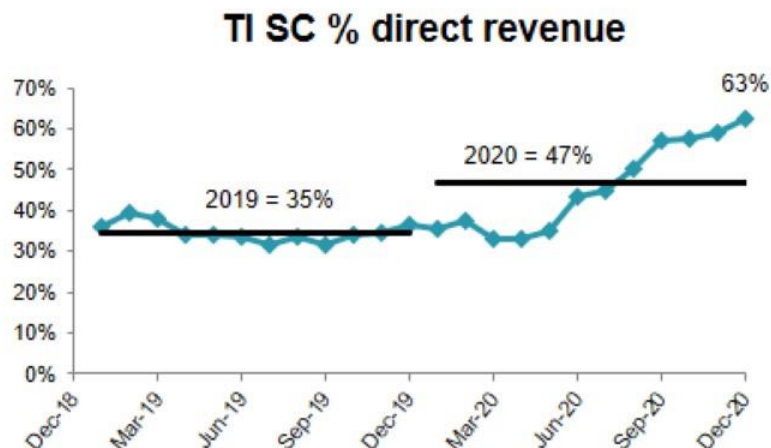


# Building closer direct relationships with customers:

**Strengthening and extending the reach of our market channels**

# Building **closer direct customer relationships**

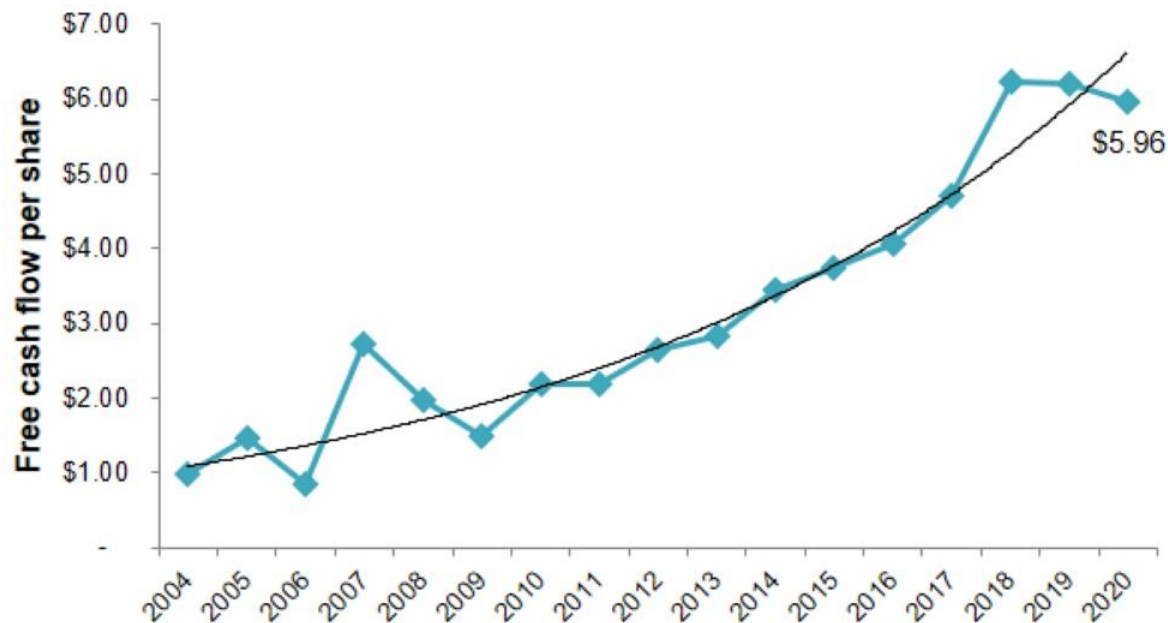
- Secular trend: growing demand for the convenience and productivity of online relationships complemented with skilled technical and commercial support.
- TI's multiyear investment in our sales and applications team, TI.com, business processes and logistics uniquely positions us to lead in this transition in the semiconductor industry.
- We took a critical step in 2020, leaving the year with 63% of our revenue direct.
- TI's reach of market channel advantage results in higher growth through access to more customers, projects, sockets per project, and better insight of customer needs.



# Free cash flow per share growth and cash returns

# Free cash flow per share **drives long-term value**

TXN free cash flow per share



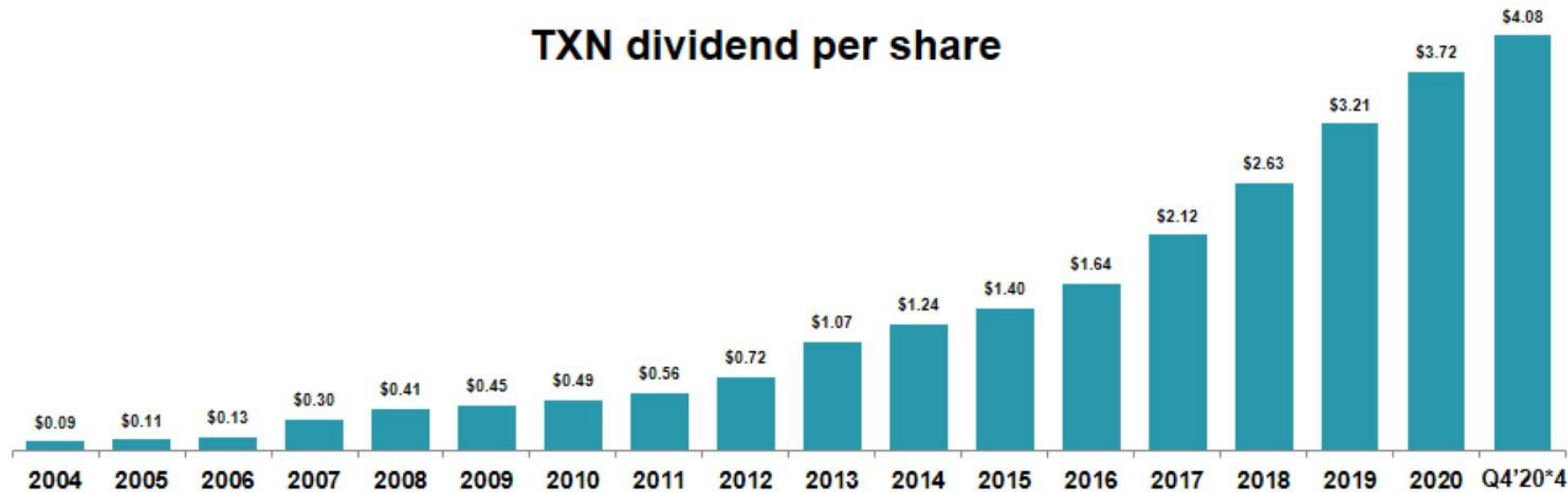
2020 free cash flow per share of \$5.96:

- -3.8% versus 2019
- Free cash flow margin 38%
- 12% annual growth 2004-2020



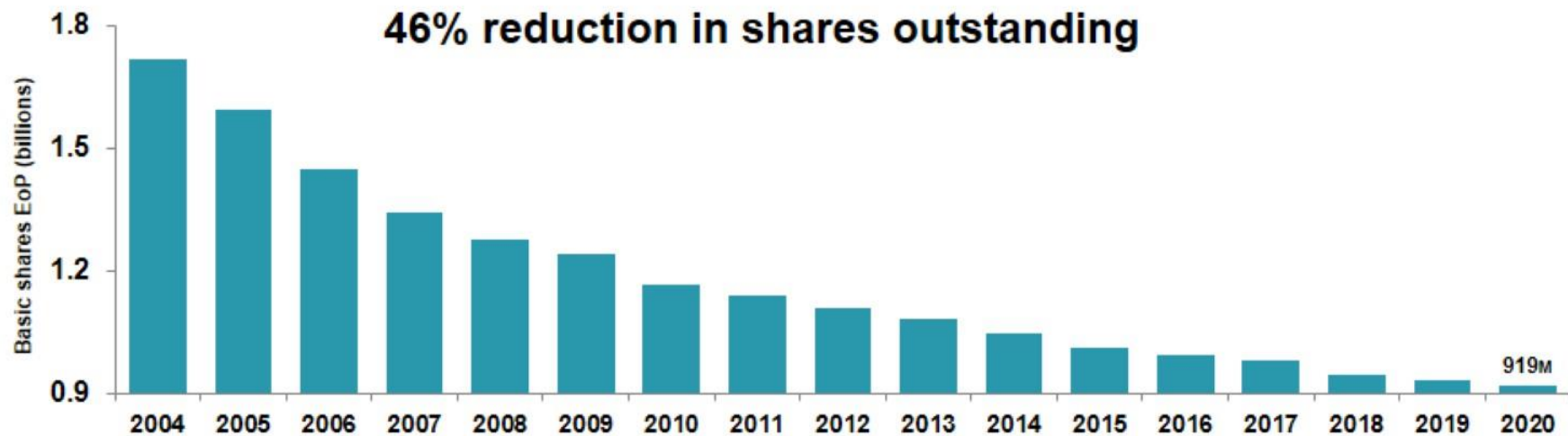
# Sustainability and growth of dividends

TXN dividend per share



- Increased dividend 17 consecutive years, including 13% increase in Q4 2020
- ~22% CAGR (five- and 10-year)
- 2020 dividend payments used 62% of 2020 free cash flow
- Yield is 2.5% (as of 1/31/2021)

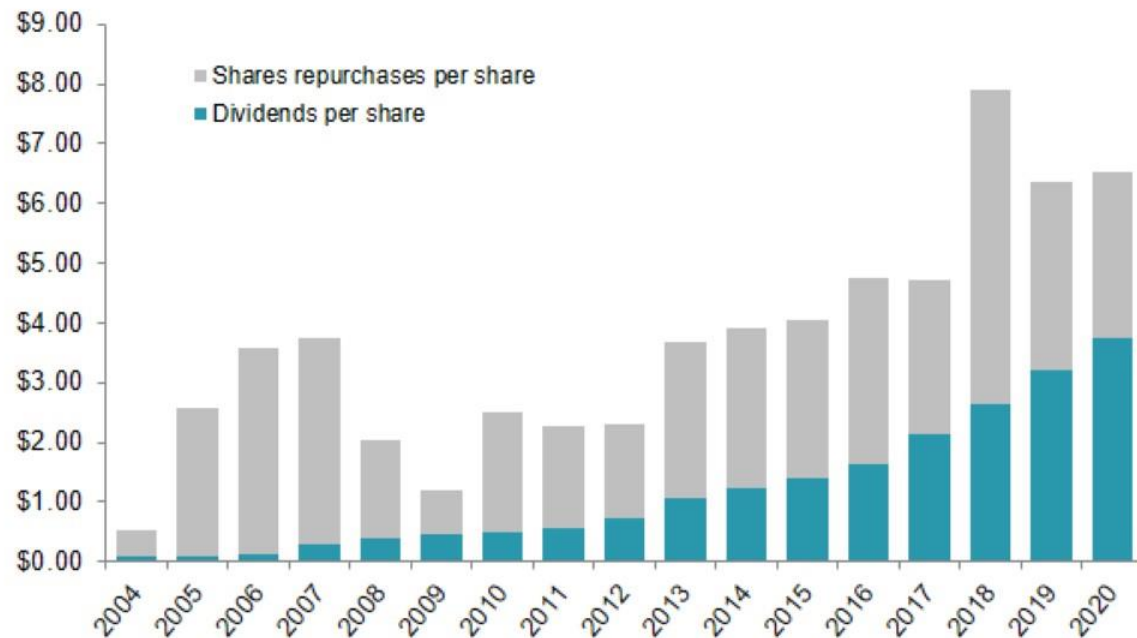
# Accretive capture of future free cash flow for long-term investors



- Repurchase steadily when discounted cash flow value exceeds stock price
- Disciplined with stock-based compensation
- Shares outstanding reduced by 1.4% in 2020, 46% reduction since 2004
- \$10.6B of authorization remaining as of end of Q4 2020

# Cash returned per share continues to grow

## TXN cash returned per share

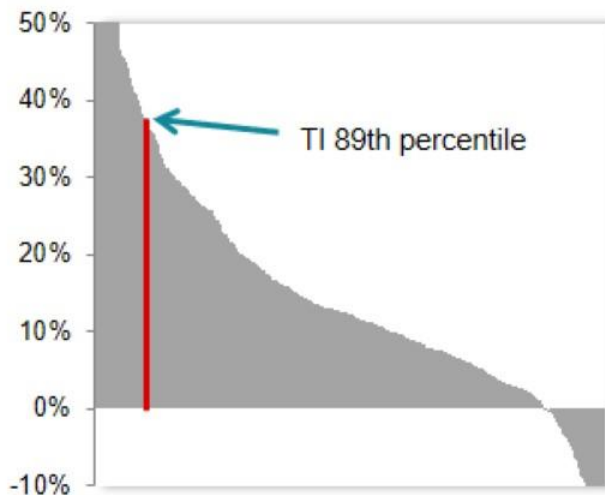


2020 return of \$6.49  
per share:

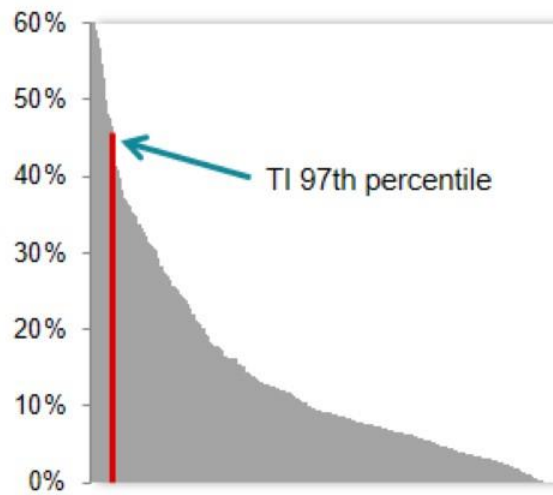
- +1.9% versus 2019
- Returned 109% free cash flow in 2020
- 17% annual growth 2004-2020

# How TXN ranks on **cash generation and returns**

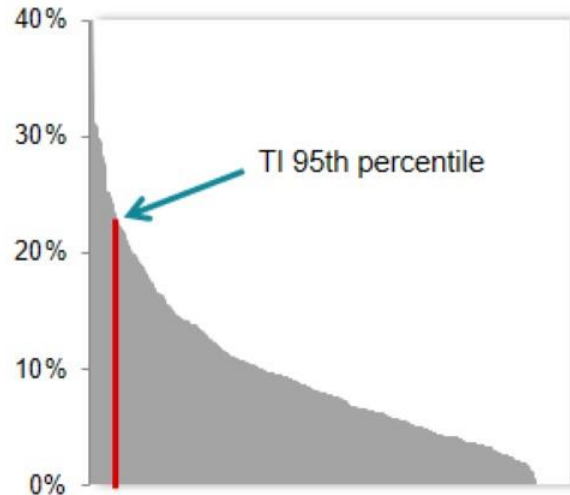
**Free cash flow as % of revenue, S&P 500**



**Cash returns as % of revenue, S&P 500**



**Return on invested capital, S&P 500**



Source: S&P Capital IQ, Public filings as of 1/15/2021



# Summary (from Investor Overview on TI.com)

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- As engineers, it's a privilege to get to pursue our passion of creating a better world by making electronics more affordable through semiconductors.
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- We were fortunate that our founders had the foresight to know that passion alone was not enough. Building a great company required a special culture to thrive for the long term, and we continue to build this culture stronger every day. The desires of ESG and sustainable investors are aligned with our long-term ambitions and have been part of our formula for success for decades.
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- We will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies.
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- You can count on us to stay true to our ambitions: to think like owners for the long term, adapt and succeed in a world that's ever changing and behave in a way that makes us and our stakeholders proud. When we're successful, our employees, customers, communities and shareholders all win.
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# Risk factors and non-GAAP measures

This presentation is a statement of management's intentions and describes a strategy that TI intends to pursue as management, in its judgment, deems appropriate. The application of this strategy during any given period may vary depending on market conditions and other factors that management deems relevant. This presentation includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. See Part II, Item 1A of TI's Form 10-Q for the quarter ended March 31, 2020, for a detailed discussion of risk factors that may cause results to differ materially from the forward-looking statements. TI undertakes no obligation to update forward-looking statements to reflect subsequent events or circumstances.

This presentation contains non-GAAP financial measures, specifically free cash flow (FCF) and ratios based on it. See [www.ti.com/ir](http://www.ti.com/ir) for reconciliation to GAAP. Free cash flow per share is not an alternative to earnings per share as an indicator of TI's performance, and investors should not consider presentation of free cash flow per share as implying that stockholders have a contractual or other right to the cash.



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