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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Texas Instruments Capital Management Strategy Conference Call.

At this time, I'd like to turn the conference over to Dave Pahl. Please go ahead.

David Pahl, Director-Investor Relations

Thank you, Carrie. Good morning and thank you for joining our conference call and allowing us to share an update to our capital management strategy with you. Kevin March, TI's CFO, is with me today to provide details and answer your questions.

This call is being broadcast live over the web and can be accessed through our website at ti.com/ir. From the website, you'll be able to see our presentation slides. A replay will be available through the web as well as any relevant non-GAAP reconciliations.

This call will include forward-looking statements that involve risks and uncertainties and that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor Statement contained in the presentation slides as well as TI's most recent SEC filings for a more complete description.

Last February was the first time we shared the details of our capital management strategy. The goal then, as it is now, was to provide a detailed review of the objectives of our capital management strategy and the associated financial metrics. Today, we will also review our 2013 performance to those metrics as well as provide an update to a few of them.

This quarter marks the first quarter of the completion of our strategic transformation as we started that journey several years ago. Last quarter marked the last of any significant shipments of our legacy wireless products and now our portfolio is firmly rooted in Analog and Embedded Processing.

These markets continue to be some of the best opportunities inside of semiconductors and offer compelling financial characteristics, growth, diversity and stability. They also offer good exposure to the growing opportunities inside of the industrial and automotive markets. Our capital management strategy is a direct result of the strong business model that results from the company's focus on Analog and Embedded.

We appreciate your time today to allow us to provide you a full look at our capital management strategy. With that as a backdrop, let me turn it over to Kevin and he can share the details.

Kevin P. March, Senior Vice President and Chief Financial Officer

Thanks, Dave, and good morning to everyone. We really appreciate you making the time to join us on this call today. Let me go ahead and get started. Many of you are very familiar with TI, but I think it's worth noting again that we believe TI is in a unique class of companies. We believe we are able to grow, to generate and, importantly, to return significant amounts of cash to shareholders for a long time to come.

Basically, our business model focuses on the diversity of markets and customers where we are able to benefit from assets and products with long life cycles, which in turn results in TI having meaningful terminal value; where we can enjoy differentiated positions in our markets with our customers; and where we can substantially grow our revenue and returns over time.

Our capital management strategy reflects our beliefs that free cash flow growth, especially on a per share basis, is most important to maximizing shareholder value over the long term, and that free cash flow will be valued only if it's returned to shareholders or productively reinvested in the business.

Now, let's get started with cash generation. Some of the comparisons that you will see in this presentation are against the S&P 500. That is because we recognize that many of you are more focused on sustainable cash generation and cash return as opposed to trying to guess the direction of the semiconductor cycle and, therefore, compare TI against a broader universe of companies and not just our semiconductor or other technology peers.

This slide does a nice job of illustrating TI's ability to generate free cash flow. Last year, we converted 24% of our revenue into free cash flow, ranking us in the 86th percentile in comparison to the S&P 500 companies. We expect our business model will keep us well ranked on this metric well into the future.

If you were to look over the last decade or so, you would see that our free cash flow growth has averaged a little over 5% per year, and this occurred during a period when we had relatively little revenue growth. While 2009 was a trough year for the economy, it was also the year in which we stepped up our pace of structural improvements, accelerated our move to highly cost efficient manufacturing and focusing the company more intently on our Analog and Embedded Processing portfolios.

The result has been that our free cash flow growth over this period has accelerated to over 10% per year. With a drag on our revenue growth from the wireless wind-down now complete, the resumption of top line revenue growth bodes well for continued growth in free cash flow, especially

as the quality of our revenue benefits from our improved mix of analog and embedded processing products.

So while generating cash is clearly important, as I mentioned earlier, we believe that it's only valued if it's returned to shareholders or productively reinvested in our businesses. We enjoy a business model that not only generates significant amounts of cash; it generates more than we need to grow the business. Simply put, we are committed to returning the extra cash to our shareholders in the form of dividends and stock repurchases.

As you can see from this chart, our cash return as a percent of revenue ranks us in the 95th percentile of the S&P 500 companies. In fact, there is only a subset of the top generators that are also top returners because many companies choose not to return their excess cash. While TI is in the 95th percentile of cash returners, TI is one of the few companies that is both a top cash generator and returner. In fact, we are in the top 4% of the S&P 500 for cash generation and return.

Before I move on to our capital management strategy, I'll make just a few comments about where TI is today. Over the last several years, we have been undergoing a transformation as we have focused more on Analog and Embedded Processing. That transformation is now complete, with about 80% of our revenue in 2013 coming from these markets.

Legacy wireless revenue, which was $2.6 billion in 2009, will be essentially zero this quarter. As we wound down legacy wireless, much of the underlying growth of our core businesses was masked. In fact, while the wind-down of the wireless held TI's top line growth to about a 4% CAGR over this period, our Analog and Embedded portfolios have been growing at more than twice this rate. In total, our Analog and Embedded businesses have grown double-digits over this timeframe.

I should point out that 2009 was an especially weak year and 2013 includes the addition of the National acquisition. Adjusting for the National acquisition, our organic Analog and Embedded businesses added $2.5 billion of revenue over this timeframe, with 40% of that or about $1 billion of incremental revenue coming from share gains.

I think our capital management strategy is nicely summed up by this graphic. At its core, we enjoy a great business model because of our focus on Analog and Embedded Processing. Because we choose to employ an effective tax strategy, we are able to bring the majority of our cash back home. This results in us having a very strong balance sheet with well funded pension plans and other liabilities, in turn, maximizing our access to debt when the economics make sense.

This further allows us to deploy cash in support of our competitive advantages, including technology, manufacturing, working capital and, when available, acquisitions. And once we've met those needs, we then return our cash in the form of dividends, repurchases and periodic debt repayment.

It was a year ago when we introduced our capital management strategy. And at that time, I provided you with a lot of specific details. Before we move into the update to our strategy, let me just take a moment to provide our performance results against those targets.

Starting with free cash flow, our model is to generate 20% to 25% of our revenue into free cash flow, and we closed 2013 at a little bit better than 24%. Turning to cash-on-hand, our model is to have cash as a factor of our trailing 12 months' revenue plus our next 12 months' obligations, and versus that model we ended the year at about 109%, so a little bit above what the model cash balance would have projected.

Turning to cash onshore, our model is to keep at least 80% of our cash onshore, and we ended the year with 82% of cash onshore. On pensions, our plan is to keep our pensions fully funded on a tax-efficient basis, and we ended the year with our global plans funded at 97% level.

As it relates to debt, being part of our capital structure, the bottom line here is when the economics sense. We ended the year – or we presently have about $5.6 billion of total debt with an average coupon of about 2%. I might just mention – remind you that we assumed some debt with the acquisition of National Semiconductor. So if you look at the actual debt that TI has issued, of that $5.6 billion, $5 billion of it was issued by TI and it averages at a coupon of about 1.6%. So clearly, economics is in our favor.

On our capital expenditures, the model is to spend about 4% of revenue, and in fact last year we spent about 3%. For customer service, inventory model is to hold 105 days to 115 days, and we closed the year at 112 days.

On cash return, our model is to take our free cash flow minus any amount used for debt repayment and return all of that to our stockholders. In fact, we returned more than that last year, 164% of that last year.

In the area of dividends, the model is to allocate 50% of our trailing four years average free cash flow to dividends, and we were a little bit above that last year at about 53%. And finally, with repurchases, the model is to take our free cash flow less any amount used for debt retirement and dividends and return all that to our shareholders. In fact, we exceeded it sizably at 224%. That was really due to stock option exercises, and I'll have more on that later.

Turning now to the major elements of our capital management strategy, let me begin with cash. First, where your cash is really matters. To that end, we believe that the responsible thing to do is to repatriate offshore cash not needed to run the operation, albeit at the lowest possible tax rates, so that they can either be reinvested into the businesses or returned to shareholders.

To that end, our model is to keep at least 80% of our cash onshore, with the balance deployed to run our international operations. Once your cash is where you need it, then there's the question of how much to hold. Our model is to keep enough cash-on-hand to meet our operational needs as well as our expected dividends and debt repayment.

Specifically, we will have average cash-on-hand equal to the sum of 10% of our trailing 12 months' revenue, plus our next 12 months' expected dividends and debt repayment. We believe this not only allows us to have ample resources to run our operations, but also gives our investors confidence that we have the liquidity to fulfill our dividend and debt obligations.

On the tax front, because we intend to repatriate the majority of our cash, we model our incremental profit growth to be taxed at the U.S. statutory rate of 35%. For 2014, we estimate our effective tax rate to be about 27%, which is about three points higher than 2013 due to the expiration of the R&D tax credit as well as expected higher profits.

Keep in mind, the effective tax rate does not include discrete tax items so our total tax rate may be different from time to time if discrete items occur.

Moving on to pensions, we watch this because globally it's a large commitment for us and has a direct bearing on our debt capacity. Our objective is really quite simple: fully fund on a tax-efficient GAAP basis and invest that funding using an asset-liability model that's designed to de-risk the plans.

Turning to debt, I'll remind you that we have about $5.6 billion of debt, with maturities extending to 2023. This debt carries coupons ranging from 0.45% to 2.75% for debt issued by TI and from 3.95% to 6.6% for debt issued by National that we assumed with that acquisition. We expect debt will be part of our capital structure when the economics makes sense, and at the rates I just mentioned, it clearly makes sense. We believe that our high credit rating of A1/A+ provides comfort to both our debt and equity owners as to the ability of TI to fulfill our obligations.

So to that end, we'll limit our debt outstanding so as not to negatively impact our credit rating. In addition, we'll consider rolling some of our debt over when interest rates are below what we expect for inflation or alternatively below our dividend yield.

Finally, we'll target our maturities such that they exceed no more than $1 billion in any one year so as to minimize future roll-over risks.

In order to ensure a quicker access to capital markets, we maintain a current shelf registration in addition to maintaining long-term credit lines which we recently renewed for five years for a total of $2 billion.

We often get asked by our investors whether we are spending enough R&D in Analog to remain competitive with other companies who are investing a higher percent of their revenue in R&D. You can see from the chart on the left that our Analog R&D spending as a percentage of revenue has been consistent, even slightly increasing over the last eight years. The chart on the right shows that these investments have, in fact, been producing results and our organic market share has increased about 30 basis points per year over that period.

Of course, as our revenue has grown in Analog, we've increased our total R&D dollars by about 77% over that time period. We believe the right question isn't how much you're spending on R&D, but instead are you spending it efficiently and on areas where you can profitably grow and differentiate yourself. Given our consistent albeit modest market share gains, I think the evidence indicates our spending is passing this test and is adequately balanced for growth.

Additional investments we are making our designed to extend our advantages in low-cost manufacturing assets, manufacturing processes and packaging technologies. Our objectives in this area are consistent with our focus on free cash flow, meaning we focus on maximizing the long-term free cash flow and not being distracted by short-term measures such as factory utilization levels.

This frees us up to be more opportunistic purchasers of manufacturing assets, typically at very low prices. Even at 2013's CapEx level of just 3% of revenue, we were able to both expand our capacity and advance our technologies. Some 2013 CapEx spend includes the recent acquisition of the new assembly test factory in China, upgrading our assembly test capacity in wide leadframes for more throughput, and additional acquisition of low-cost 300 millimeter equipment for our analog wafer fab in Richardson, Texas.

On the technology front, we increased investments in support of our power technologies, including a non-volatile memory used in microcontrollers, a GaN reactor for high-voltage FETs and magnetics for flux gate current sensor.

A few more comments on the topic of capital expenditures. We've discussed in the past the CapEx model where we expected to spend between 4% and 7% of revenue on capital. You can see from this chart that I show our model now can hold capital spending to about 4% of revenue. You can also see from the chart, our CapEx has remained quite low for a number of years despite substantial additions to our capacity.

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We believe we can keep this spending low for an extended period as we remain focused on capacity additions when costs are very low rather than holding off on additions to the last minute and costs are often higher.

Since most of our spending is on manufacturing assets that depreciate over a five-year period on a straight line basis, the change in our depreciation is lagging the change in our capital spending and will continue to do so for a few more years. In 2013, depreciation was 380 basis points higher than our CapEx as a percent of revenue. As we continue to hold our CapEx at low levels, depreciation will decline by about the same amount and gross margins will benefit.

In 2013, TI's free cash flow exceeded net income by 37% or $810 million. This is made up primarily of depreciation exceeding capital expenditures, which is not likely to converge before 2016, and amortization of intangibles which we expect to remain at similar levels for the next six years. These non-cash accounting items have created a significant gap that can distort traditional valuation metrics.

Over the life of an enterprise, free cash flow and net income should be roughly the same. And you can see this in the table at the bottom of this chart, where the S&P 500 valuation multiples are the same for earnings and free cash flow.

However for TI, the multiples are not the same, solely due to these non-cash accounting items. As a result, we traded somewhat of a premium to the S&P on earnings, however when you look at real cash, we trade at significant discount.

As I said previously, we are in the top 4% of the S&P 500 companies in terms of the combination of cash generation and returns. However, we are in the bottom third in terms of valuation on a free cash flow basis.

Turning now to some updates to our capital management strategy beginning with our free cash flow margin. Our free cash flow margin has expanded these past few years and continues to expand as our portfolio continues to get stronger and manufacturing costs are lower. A year ago, we told you that we expected to operate with free cash flow margin in the 20% to 25% of revenue range, and we just closed 2013 a bit over 24%.

Now that we are approaching the upper-end of that range, it is clear that we have the ability to convert revenue into free cash flow at an even higher rate. As a result, we are increasing the upper-end of the range to 30%. So our new target for free cash flow margin is now adjusted upward to 20% to 30% of revenue from the prior 20% to 25%.

There are multiple reasons we believe our free cash flow margin continue to expand, most importantly in our portfolio and its growing strength, not only because the growing portion of our revenue continues to come from Analog and Embedded but also because a growing portion of our revenue is coming from long-lived markets such as industrial and automotive and long-lived products such as catalog products which are becoming a bigger portion of our total product offering.

In addition to our portfolio, we expect to continue to benefit from very low-cost manufacturing especially as we continue to build out the world's first dedicated 300 millimeter analog wafer fab.

On the headwind side, the recent expiration of the R&D tax credit will cost us in the form of higher tax payments. So we remained hopeful that Congress will repeat its pattern of the past couple of decades and, once again, renew this important tax incentive.

The second update to our capital management strategy has to do with our cash return. We discussed last year that our plan to return 100% of our free cash flow, less the amount we use to retire debt. As you can see from this chart, there have been several years when we returned more than this targeted amount. The reasons we've been able to do this is because of cash proceeds into the company as a result of stock option exercises, a source of cash that occurs outside of free cash flow.

To recognize the source of cash, we are adjusting our cash return model up to include 100% of our free cash flow less amounts used to retire debt, plus proceeds resulting from stock option exercises. In other words, our cash return model is now increasing to recognize proceeds from stock option exercises. The reason is really quite simple: we expect to be repurchasing shares when we believe the intrinsic value of TI exceeds the market value.

To this end, our objective is to reduce shares outstanding each year, which means also buying back exercised shares. We believe this is a much more valuable outcome for our shareholders.

Just a couple of additional comments on equity compensation. As you know, it's customary in our industry to include equity in our employee compensation packages. But it's also incumbent upon us to be responsible with this tool. This is because we believe free cash flow per share is what really matters to shareholders over time.

To that end, our goal is to keep our net annual dilution from equity grants to under 2%. Last year, it was 1.3%. This is a manageable amount that reduces the likelihood of diluting stock holders beyond our ability to repurchase these shares.

2013 was unusual for us in that the increasing stock price and some aging option grants led to an unusually high level of exercises, about three times the five-year average. Had we not repurchased these shares, our share count would have increased 5%. Because we used the proceeds from these exercises and additional cash as defined by our cash return model, we not only repurchased all these potentially dilutive shares, but we actually closed the year with about 2% fewer shares outstanding than we began with. We expect that going forward, exercises are likely to decline back to the 1% to 2% level.

2013 marks the 10th year in a row of steadily declining shares outstanding as the result of our stock repurchases, with our total share count down 37% over that period. For 2013 itself, total shares outstanding dropped by 25 million shares or 2.3%.

As I mentioned earlier, our plan is to steadily repurchase shares when we believe the company's intrinsic value exceeds its market value. The amount of spend we allocate annually for repurchases is our free cash flow, plus proceeds from stock option exercises, minus the amounts to be used for dividends and debt repayments in that year. As of year-end, we had remaining stock repurchase authorization from the board of $6 billion.

Over that same timeframe, we have also been steadily increasing our dividend, with 2013 marking the 10th consecutive year of increasing dividends. Our budget for dividends is to use 50% of our trailing four years' average free cash flow. Because we believe regular dividend increases are important to many shareholders, in years when this math may not suggest a dividend increase, we would still expect to recommend one.

The reason is this formula makes our dividend quite affordable. In fact, this formula resulted in our 2013 dividends equating to just 40% of our 2013 free cash flow, leaving us plenty of headroom to meet this obligation.

So to summarize, let me just say once again that we believe TI is in a unique class of companies, able to grow, generate cash and return it to shareholders for a very long time to come. Our business model focuses on diverse markets and customers, where we not only have great positions but yield high terminal value.

Our capital management strategy reflects our beliefs that free cash flow growth is most important to maximizing shareholder value in the long term, especially on a per share basis, and that free cash flow will be valued only if it's returned to shareholders or productively invested in businesses.

To that end, today we have increased our targeted free cash flow margin range to 20% to 30% of revenue from the prior range of 20% to 25%. And we've updated our targeted cash returns to include proceeds from stock option exercises, such that our cash return model now is 100% of free cash flow, plus proceeds from exercises, minus any debt retirement.

With that, I'll turn it back over to Dave.

David Pahl, Director-Investor Relations

Okay. Thanks, Kevin. Carrie, you can now open the line up for questions. In order to provide as many of you as possible an opportunity to ask a question, please limit yourself to a single question. After our response, we'll provide you an opportunity for additional follow-up. Carrie?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take first Ambrish Srivastava from Bank of Montreal.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Hi. Thank you very much and thanks, guys, for all the details, as usual, on the subject. My first question, Kevin, you did touch on this, on the growth side of things. And this is really to do with innovating versus harvesting, and I get this question a lot from investors as well. With the new focus on free cash flow, 20%-25%, which is obviously now raised, could you share a little bit with us your insights into the R&D and the innovation pipeline and how are you guys balancing innovation versus the focus on the free cash flow?

<A – Kevin March – Texas Instruments Incorporated>: Sure, Ambrish. It is a good question. It's a fair question, because I think as people have noted in the past, we tend to spend a little bit less of our R&D as a percent of revenue than many of our analog competitors. But frankly, we have been engaged in a number of processes for a couple – quite a few years now, where we look really hard at where we spend our R&D at, with the focus being to make sure that we spend money in areas where we can differentiate ourselves and where we can expect revenue streams to last for a long time.

When you do that, you're less likely to spend money on too many science projects that don't result in real revenue growth. And in fact, I'd say our Analog team has become quite good at that over the years. And as I showed on that chart, I think on slide 11, with the R&D spend that we've had, we've actually been able to increase market share at a modest rate over a multi-year period.

But that's not the only place where you spend your R&D. You also spend it over in technology development that you might use in your manufacturing areas, and I made mention of the fact that we spent money last year that helps extend our capabilities in certain power management technologies which, of course, is also important to our analog position as well as our microcontroller position in Embedded Processing.

So when you put it all together, what really is important in our mind and, we think, for our investors is not really just the absolute measure of how much you spend, but really where you spend it and is it turning into growth? There's a thousand different things you got to do and you don't always get the guesses right on these projects when you decide to invest in certain ones, but spending more doesn't necessarily guarantee a higher outcome. That's probably the best way I can describe it.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Okay.

<A – Dave Pahl – Texas Instruments Incorporated.>: You have a follow up, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Yes, Dave, thanks. And thanks for that granularity. On tax structure, Kevin, can you just share with us how difficult or not it is for others to copy? Because this does give you an advantage to repatriate cash, then that translates into better shareholder return? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Ambrish, I guess I'll probably say it in a way that may not be the way you expect to hear it. I think that many companies spend a lot of time managing their tax rate. And when you do something like that, you put into place your corporate structure, your subsidiary alignments in a way that can minimize your tax rate but has the unintended consequence of making it very difficult for you to access you actual cash because your cash now winds up in the wrong location.

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In our case, we started many years ago with an objective of maximizing our cash onshore at the lowest possible tax rates. And that kind of changes the discussion when you start thinking from that perspective, as opposed to just targeting a lower tax rate.

But what we have done is the result of many, many years of effort. I would argue that probably a number of other companies could duplicate it, but probably not overnight. They'd have to make a concerted effort to go ahead and change the way they want to think about what are they managing; are they managing their tax rate or are they managing access to their cash. And we believe it's much more responsible to manage access to cash, because after all that cash belongs to the shareholders over time and if we can't get to it to give it to them, we're not helping our shareholders, not at all.

<A – Dave Pahl – Texas Instruments Incorporated.>: All right. Thanks, Ambrish. Next caller, please.

Operator: We'll now go to Mark Lipacis with Jefferies.

<Q – Mark Lipacis – Jefferies LLC>: Thanks for the presentation, Kevin. The question I have is on – you provided a framework for helping us understand how you treat your debt. You have some debt due over the next two years. I think it's $1 billion a year for the next two years. What is the framework implied for what you're going to do with that debt? Can you just spell it out for us?

<A – Kevin March – Texas Instruments Incorporated>: Mark, it goes back to what the economics are at that time. So for example, just this past week, given a different interest rate that occurred here in the last couple of weeks, we made the choice to go ahead and go back into debt markets and we issued $500 million in bonds. We're going to use those proceeds along with cash-on-hand to pay off $1 billion of debt that we have coming due in May of this year. So effectively, by the end of second quarter, our total debt outstanding will be reduced by about $500 million.

As you pointed out, Mark, we have another $1 billion due a year from now, and I'd say it's too early for me to be able to tell you whether we would be rolling over any or all of that. It's going to be really what's the functions of the economics and the economics being what interest rates can we get on money that we might chose to borrow in a year. It does look like interest rates are rising. The rates that we just paid for the money we just raised this past week were a bit higher than money we raised year a ago at this time and it does appear it's going up. So, that will certainly weigh in our decision when we get there in 2015.

<A – Dave Pahl – Texas Instruments Incorporated.>: Do you have a follow-up, Mark?

<Q – Mark Lipacis – Jefferies LLC>: Yes, I do, thank you. M&A, is it, to the use of cash, in the past you haven't been afraid of making large acquisitions. What's your appetite for large acquisitions going forward? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Mark, when it comes to large acquisitions, really, I think you've heard us talk in the past, any acquisition, we do the numbers on; meaning the numbers have to make sense. And the math for us is that the return on that investment, on that acquisition, has to exceed our weighted average cost-of-capital in a three-year to four-year kind of timeframe. So that's, really, our starting point when we look at acquisitions. I mean obviously, the acquisition has to be of strategic benefit to us for our long-term objectives.

As we look today, our focus would be in the analog space because clearly that's for – we think the best long-term opportunities exist and they're probably the most logical ones to try to integrate into our portfolio. As we look at analog companies today, attractive ones that may be out there that have great products, frankly they're quite highly-valued. And so, it's almost impossible at today's

numbers to make those numbers work. So, it's not likely that we'll see any certainly any large acquisitions any time soon.

Now, that being said, as we look at acquisitions, I wouldn't expect those acquisitions to have – if we were to make any – have any meaningful impact on our cash returns to shareholders. That's because we would do what we did just last time, and that is we'd use cash-on-hand and we'd use the availability of the balance sheet and it's availability to support debt to support any acquisition that we might take a look at. So, the debt strategy and the acquisition strategy all kind of tie together as a whole package.

<A – Dave Pahl – Texas Instruments Incorporated.>: Okay. Thanks, Mark. We'll go to next caller, please.

Operator: The next question comes from Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. It's probably similar to the questions are asked but asked in a slightly different way. I remember on the last call, you guys gave a very good description of your end markets and I believe industrial, automotive, comms infrastructure was around 53% or so of sales last year. I'm curious, is that the right mix to help you grow at or faster than your peers, or will it require you to consider other options, whether it is increasing R&D or whether it is looking at M&A? So basically, I'm asking what others have asked but in a different way, from a perspective of what your product mix is right now and where do you see it going and what implication does that have on your cash management strategy?

<A – Dave Pahl – Texas Instruments Incorporated.>: Okay, maybe I'll take a shot at that, Vivek. And as you're alluding to, in our last earnings call, we updated how we look at our end market. And as we have focused on industrial and automotive, we found it necessary to basically better understand a market like industrial. And the way it used to be measured and the way it's commonly measured, industrial always ended up being left over and didn't fall into any other bucket, and was kind of the other bucket so to speak.

So we've got several – we've got a little over a dozen different sectors under industrial as an example that's giving us a lot more visibility. If you add up the revenues in industrial and automotive, that's a little over 35% of our revenues last year. And clearly, that's an area that we think, just from a secular standpoint, has a good growth characteristics. It also are markets that provide lots of diversity. It's also market that is attractive or beneficial to our broad catalog of product as well as our application-specific products.

But if you take kind of the opposite of that and you can look inside of personal electronics, we still believe that there's areas inside of there that we continue to invest in. And as an example, if you look at mobile handsets, inside of there we sell hundreds of devices into the mobile segment, the largest of which, I think, is around .6%, .7% of our total revenues, and that's excluding the legacy wireless product. So we can have diversity even inside of a market like wireless. And really, if you look at our performance over the last 5 years and 10 years inside of Analog, our strategy hasn't changed in those areas and we're producing the results that we like.

So to that, yeah, do you have a follow-up, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yes. Thank you, Dave. I'm curious, on your free cash flow, it's good to see that you sort of raised the mid-point, it used to be 20% to 25%, now you're saying it's 20% to 30%. But I'm wondering, why is it a bigger range than before. What's the reason for that change? Why not just have the same 500 basis points range, but just move it upwards a bit?

<A – Kevin March – Texas Instruments Incorporated>: Vivek, it's really simple. We're aimed at the upper-end and not at the lower-end, and our objective is simply to give investors insight as to our confidence that we believe that we're going to be generating more free cash flows as we move forward in time than what we have in the past.

If I can just loop back for a second to the question you asked a moment ago on end markets, I might also point out or just add to what Dave said, because he made an important comment, that there is a meaningful secular growth going on today for semiconductor content in automotive and industrial. And versus other traditional markets where semiconductors are sold, those spaces are probably under-penetrated at this point in time.

So just based upon those secular trends, we would expect that a bigger portion of our revenue as we move into the future is going to be coming from automotive and industrial. And in fact, probably not just our revenue but the industry's revenue as whole as semiconductors is beginning to penetrate those spaces more.

<A – Dave Pahl – Texas Instruments Incorporated.>: Good point. Thank you, Vivek. And we'll move to the next caller.

Operator: We'll go now to Craig Ellis with B. Riley.

<Q – Craig Ellis – B. Riley & Co. LLC>: Thanks for all of the information, guys, and a quick question just on the confidence that's driving the increase in the free cash flow margin. Kevin, you listed three items: the core business evolution, manufacturing cost reduction and operating expense/restructuring. Can you just kind of put those in context, which are at the high-end of list in terms of driving the confidence? And when you look at things like the recent action on belt-tightening with operating expenses, should we expect that type of thing to occur again in the future, or is that now something that's really behind the company, you have the operating expense intensity where you want it as you look forward not just for this year but on a multi-year basis? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Craig, I would say that near term, as you alluded to there, the belt-tightening that we announced last quarter with our fourth quarter earnings release as it relates to Embedded Processing and our Japan operations, that will have, probably, a near-term impact on our free cash flow. Once we get that behind us, that will be a benefit to us.

As we looked over the longer term, I'm kind of back to the comment I made a few minutes ago on Vivek's question, the increasing penetration and sources of revenue that we will get from the industrial and automotive spaces are areas that will probably have the next biggest impact on our increasing free cash flow over time.

And then, probably, a third element as you look through that is going to be just the ongoing efficiencies we're getting out of our manufacturing footprint and our ability to acquire capacity at very low cost by continuing the methods we've used this by past few years. Those all together are really going to be elements that will have a meaningful impact on improving our free cash flow generation capability over time.

<A – Dave Pahl – Texas Instruments Incorporated.>: Great. Do you have a follow-up?

<Q – Craig Ellis – B. Riley & Co. LLC>: Yeah. Thanks, Dave. The follow-up question is this, the response on M&A and current valuations was very clear, but TI does also have a goal to gain share in the market place. If that were not to occur, would the company think differently about potential

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M&A so that its business was out-growing the market either organically or with its excess cash capability?

<A – Kevin March – Texas Instruments Incorporated>: Yeah. We have long resisted the idea of revenue growth for revenue growth's sake, and that also ties into acquisitions. So acquiring companies just to become bigger, just to have more revenue or more market share, we think, is probably not a good long-term strategy.

Acquiring companies that can help us expand and maximize our ability to generate free cash flow on a per share basis, that makes more sense to us. And if the company happens to bring along revenue with it, then that's great. But doing it for the purpose of just growing our revenue or gaining market share, it really is not the first question that we ask. It's actually kind of the last question that we look at. The first question is, does it really makes us a more profitable, a higher cash-generating enterprise?

<A – Dave Pahl – Texas Instruments Incorporated.>: And I'd add, Craig, that when we talk about market share gain, we're speaking specifically to the organic growth of our organization. And back on, I think, at slide 8 or slide 9, or maybe slide 6 – my eyes are going bad – but that's where we show our actual revenue growth, we make it clear that that the Analog share gains are specifically organic. And those can have – yeah, it's slide 6 – that those can have a meaningful impact to free cash flow growth over time, even with a small amount share gain.

So thanks, Craig. We'll go to the next caller, please.

Operator: We'll move now to Christopher Rolland with FBR Capital Markets.

<Q – Chris Rolland – FBR Capital Markets & Co.>: Hey, guys. Thanks for letting me ask a question. So of the 100% free cash flow, right now you guys are targeting 50% for dividend. But perhaps you guys can give us some high-level thoughts about how that mix might change, perhaps based on some business or stock price scenarios which might change the mix and your thinking there? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, the formula again is to look at our prior four years average free cash flow and basically take half of that, 50% of that, and that's the amount of dollars that we would set aside for the following year's dividend payment. That's kind of how we get to that formula.

And then beyond that, the free cash flow plus proceeds of stock option exercises, minus what we use for dividends using that formula I just described, minus any money we use to repay debt would be then used to buy back shares.

Again we're focused on buying back shares when we see that the intrinsic value of the company is above the fair market value. And we, quite frankly, view that we have quite a bit of room to continue doing that based upon where we're at today.

So the only thing that might change that formula as we look out in time is if, for some reason, the market were to value TI higher than the intrinsic value. At that point in time, we might slow down or even pause and stop buyback for a while and let the cash build up but have it ready to redeploy again if the intrinsic value would move back below – the market value move back below the intrinsic value. So that's kind of how our thinking, would shape up on those kind of events.

<A – Dave Pahl – Texas Instruments Incorporated.>: Do you have a follow-up, Chris?

<Q – Chris Rolland – FBR Capital Markets & Co.>: Yes, great. Thanks for the color there. That's what I was sort of thinking. And this might just be a little housekeeping, but I think you said there was a 380 basis point difference between CapEx and depreciation in 2013. Did you say you expected that to be similar for 2014? And then, also if you have feelings about where that delta might be a few more years out and any more color into the nuances that are driving that CapEx and depreciation differ?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, so Chris, I did not say what it would be in 2014. But what I did mention – and this is somewhat dependent upon, of course, our revenue growth and our CapEx needs over the next couple of years – I wouldn't expect our depreciation and CapEx to converge before 2016, and that's simply a function of the depreciation schedule. Most of our capital is for manufacturing equipment and we depreciate that on a five-year straight-line basis. So you can go back and look at our CapEx over the last few years and – actually, you can just compute the math for yourself and you'll probably come to a similar conclusion, it'll probably 2016 at the earliest before they converge.

Beyond that – again, what's driving this delta is that we have, beginning in 2009 and 2010 timeframe, begun to employ a strategy of buying our capacity in advance of our needs, at times when that capacity's price are very low, versus our traditional practice in the past where we would wait till the last minute trying to maximize utilization, buy it when we needed it which also tend to be when the prices were the highest. And consequently, we'd use more cash than what was really necessary. So that's what really changed that and that's why you've got this gap going on. And as I say, it will take a few more years before that gap closes up.

<A – Dave Pahl – Texas Instruments Incorporated.>: Okay, Chris. Thank you for your questions and we'll go to the next caller, please.

Operator: Our next question comes from the Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys. Thanks again for doing this call and all the detail. Kevin, one question that was kind of asked earlier, I'll try to take another shot at it, it's great to see the 20% to 25% get raised up, the high-end. What would be scenario that requires you to keep the low-end of your free cash flow margin, still at 20%?

<A – Kevin March – Texas Instruments Incorporated>: That's almost an impossible question, Ross. But I suppose that if the financial markets were to collapse again like it did last time, that might take us back down towards the low-end. But frankly, I think the portfolio structure is such that we're going to be moving – we're on our way towards moving to the upper portion of that new range.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Got you. And then my second question is on the tax side of things. A year ago, in the slide you showed a revenue level and the tax rate that would come along with that, from $13 billion in revenues, up to $18 billion, and the tax rate going from 22% to 28% within that. Even including the expiration of the R&D tax credit, it looks like 2014s' goal is above that range. So I'm just wondering if year-over-year, there was something that changed in the tax strategy or your ability to keep it where it is that we need to be aware of?

<A – Kevin March – Texas Instruments Incorporated>: It's really pretty simple on that; it's a good news/bad news story. The good news is our profitability is expanding faster than we anticipated. The bad news is we got to pay taxes on it. And that's as simple as that, Ross, which is also not only is the profitability expanding faster, but that's also what's leading us to have the confidence that our free cash flow generation is going to be stronger as we move forward, because this portfolio is improving more quickly than we had planned a year ago.

<A – Dave Pahl – Texas Instruments Incorporated.>: Great. Thanks, Ross. And we'll go to the next caller, please.

Operator: We'll move now to Stacy Rasgon with Sanford and Bernstein (sic) [Sanford C. Bernstein & Co. LLC] (47:24).

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for letting me ask a question. I wanted to ask a bit about the share gains you talked about. So you said, it was $2.5 billion organic share gains, 40% so $1 billion of share gains. How do you actually measure those share gains and then what specific areas do you think they took place in 2013?

<A – Dave Pahl – Texas Instruments Incorporated.>: Yeah. So, we take a fairly simple approach. We use WSTS from a market standpoint and we take their projection or their estimate for the market size from last year. And then, we take our Analog segment and Embedded Processing segment as the numerator and calculate that.

And so, what areas? I'd say that the good news is that with the portfolio of products that we've got, those share gains are very broad. Inside of Embedded Processing, as an example, we've been making very good progress on microcontrollers. And inside of Analog, I'd just say has been a very broad set of products where we've had share gains. It would be inclusive of the Silicon Valley Analog products and that, as we've talked about before, was ahead of our original expectations, so we're making good progress there as well.

Do you have a follow-on, Stacy?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: I do, thank you. Around the, I guess, the outlook for industrial and automotive, it sounds like you're looking for, I guess, stronger secular growth from those categories going forward than we've seen. I'm just curious, what is behind that? And can you maybe give us something, how much of that might just be the stereotypical content increase [ph] or versus (49:17) how much of that might be a macro statement versus something else?

<A – Dave Pahl – Texas Instruments Incorporated.>: I think, really, the statement we're talking about is more of the secular trend and specifically on the content, not making a comment about the macro environment because that will be what it will be and we'll operate inside of whatever environment we're given. But just every time that we go out and visit customers, it gets very exciting of the content that they're adding, whether that's connecting things into the Internet or making – the joke I always use is our bathroom is smarter and the lights turn on automatically and we've got LED light. So it's really a statement more about the content and the increases in different places where it hasn't been before.

So thanks, Stacy. We'll go to the next caller, please.

Operator: [Operator Instructions] We'll now take Tore Svanberg with Stifel.

<Q – Erik Rasmussen – Stifel, Nicolaus & Co., Inc.>: Yeah, hi. This is Erik, calling in for Tore. Thanks for all the details on this and the update. I wanted to talk about your 300-millimeter fab, with regards to that. What is the current state of your capabilities such as utilization? And maybe, can you comment on what level of investments do you see in near term to get your target levels for utilization and such?

<A – Kevin March – Texas Instruments Incorporated>: Erik, let me just start with targets levels for utilization. That's really not a metric that we get ourselves tangled up on. It's more a – the metrics we pay attention to is how inexpensively can we acquire the capacity and what's the cash

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carrying costs of that capacity once we acquire it, and that's really what we're after in trying to maximize, therefore, long-term free cash flow and not short-term utilization.

As it relates to utilization in our 300-millimeter fab, we are still in the early stages of the build out of that fab. Some of the equipment we bought last year, actually we purchased from a Taiwanese company very inexpensively that we are putting into that factory. And we've got lots of growth opportunity to expand there.

<Q – Erik Rasmussen – Stifel, Nicolaus & Co., Inc.>: Okay, thanks. And then, with regards to your confidence in the free cash flow margin increase, it seems like at 30%, you're going to be marching towards that higher end of the range. But how much headway do you have in that 30%, the higher-end of the range? And how quickly can we expect further increases? How do you measure that range? Maybe you can give a little more insight there.

<A – Kevin March – Texas Instruments Incorporated>: Well, I think that kind of going back to Ross' question on our tax rate, it's a little higher in 2014 than, we expected a year ago what might be driving that. But what we're seeing is a accelerating change in our mix, our profitability and our resulting free cash flow. So for us, to be able to predict precisely when we'll get there, I'd say we put that range out there because we have confidence that it's the right range for us to be looking at and it's important that our shareholders know that the company that they own, the portfolio that we have, we believe is capable of delivering those kinds of free cash flow levels and that they will consequently benefit from that free cash flow because of our cash return policies. Exactly when we hit there, I'll leave that to you to model that. I'm sure you got a great spread sheet that you could pop some numbers into and figure out when that might happen.

<A – Dave Pahl – Texas Instruments Incorporated.>: Okay, thanks. We'll go to the next caller.

Operator: We'll now take Chris Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hey. Thanks, guys. Just a follow-up on M&A. So you said you think that the valuations are pretty expensive on the potential M&A targets. But given that that money is essentially free, thanks to the powers that be. We've seen some of your competitors or contemporaries make acquisitions that are immediately accretive, does that change the equation for you guys at all given the status of debt out there and how easy it is to access it?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, that's certainly an important element of consideration. But again, we don't look to just make an acquisition that is accretive on a GAAP EPS basis; we focus on making sure that we actually get a return on that investment that's going to exceed our weighted average cost of capital in a reasonable timeframe.

And looking at what will be more attractive potential acquisitions for TI, they're very well-valued today. I'm going to assume that none of them would be willing to allow us to acquire them at their present market price; they'd probably demand a significant premium. And it's when you add that premium on, that it begins to be difficult to see can you truly overcome integration risks and other factors in a timely fashion that allows you to actually be accretive to your WACC in a reasonable timeframe.

So that's a lot of things that weigh into it. It's not to say there may not be small opportunities that pop up, but for other people the math might work differently, but that's the way we approach the math.

<A – Dave Pahl – Texas Instruments Incorporated.>: Do you have a follow-on, Chris?

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<Q – Chris Danely – JPMorgan Securities LLC>: Yeah, thank you. And so, in terms of the product line and the product mix, now that we're through with the baseband wind-down, can you maybe talk about a couple of the other products you have that are carrying below corporate average margins and/or growth rates and what the plans would be? I mean I know you guys divested S&C a while ago, maybe address the E&T or the calculator situation, could that be a potential for divesting or a spin or maybe even of ASIC line that carries below-average margins?

<A – Dave Pahl – Texas Instruments Incorporated.>: Chris, I don't have any comments to – we just don't typically comment on things of what we might spin off or anything like that. So, I'm not going to go there. I would say from a product mix standpoint, the real way we look at these things is to decide how much money we put into market and into technologies. And when we feel the opportunity for it to be profitable, cash-generating market or technology diminishes, then the amount of money we put in will be cut back.

We recently did that in Embedded Processing. For example, we curtailed the R&D spend that we're going to do in certain areas of Embedded Processing because we see those markets maturing. The comms infrastructure, the large base station, for example, is a good example where we think that the cycle of change is slowing down and so the amount of R&D that we were spending to support that previously faster cycle, we believe that's no longer necessary. And so consequently, we're cutting back on that spending.

We'll tend to look at the portfolio more along those lines of adjusting how much input cost, if you will, that will be put into them versus the output benefit that we'll get over the long haul. And those are the kind of tweaks that we'll make. That's where focus is today and will be going forward. That's not to say we may not have some instances where we decided that something doesn't fit anymore, but our real focus is what I just described.

<A – Dave Pahl – Texas Instruments Incorporated.>: Great. Next caller, please.

Operator: We'll move now to William Stein with SunTrust.

<Q – Will Stein – SunTrust Robinson Humphrey>: Great. Thanks for taking my question. I'd like to ask you about the debt. In your prepared remarks, you talked about using debt when the economics make sense and you highlight a condition whereby the interest rate is below your expected rate of inflation or the yield on your stock. But I'm wondering if you think about things like total leverage or net leverage, more traditional metrics. And would it imply that if rates were to rise above, let's say, your dividend yield, that you might just left the debt expire and pay it down over time and run debt-free?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Will, there's a balance that we look at on this. I mean, certainly, there are certain benefits to a capital structure including debt and we're leveraging those benefits today. And the balance side is to have enough debt capacity to be able to use your balance sheet in support of your strategic objectives. If you take a look at us coming through the 2011 timeframe, we had no debt coming into the acquisition of National Semiconductor, and that was actually quite fortunate because the entire size of the balance sheet was readily available to be able to go and lever in order to support that acquisition, which was a cash acquisition.

So there's a real strategic benefits to having capacity available on your balance sheet, especially if acquisitions are going to be included as part of your strategy going forward, which it is for us. So from that standpoint, the balance that we're looking at is not only on cost of debt and what it does to our capital structure, but also the flexibility that our balance sheet provides for us in being able to take advantage of the debt markets in support of our strategic objectives. And so, it's not

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necessarily optimized in a particular debt-to-equity ratio; it's included in that line of thinking, our strategic flexibility as well.

<A – Dave Pahl – Texas Instruments Incorporated.>: Will, do you have a follow-up?

<Q – Will Stein – SunTrust Robinson Humphrey>: That's helpful. Yeah. And maybe I'd like to follow up with one other area, that is M&A, which I guess it's another topic people hit on today. But I think in your prepared remarks or, perhaps, in response to a question, you said that Analog was the focused area for potential M&A. I'm wondering why not the Embedded Processing segment, in particular given that this is the part of your business where margins are trailing relative to your own targets and where they're certainly trailing relative to the other segments and M&A could be a way to accelerate kind of getting to a mature position in that market, where you could get, probably, well, better margins?

<A – Dave Pahl – Texas Instruments Incorporated.>: Okay. Well, maybe I'll make a couple of comments on that. First. I think as Kevin described, we favor Analog and specifically analog companies that would have a broad portfolio of product that has a high exposure to industrial and/or automotive. And if you look at the National acquisition that we did, it kind of fit all of those characteristics.

The other side, as you're talking about, on the Embedded Processing, one of the keys to running a good embedded processing company is to have as much revenue on as few of architecture as you can. And we've got essentially three different platforms or architectures that we make investments in and picking up another set of architectures, and we've got some of our competitors that will run 20 or some even pushing 30 different architectures. That fragmentation doesn't allow you to get to scale.

So our challenges on operating profit in that segment are really because we're making investments to growth. We're seeing nice growth from those investments over the last couple of years. So our expectation is is that we'll be able to grow that business organically and get that performing consistent with the rest of the company and where we'd like it to be.

And we got time for one last caller. Operator?

Operator: Certainly. Our final question comes from Jim Covello with Goldman Sachs.

<Q – Gabriela Borges – Goldman Sachs & Co.>: Thanks for taking my question. This is Gabriela Borges on behalf of Jim. I want to ask a follow-up to the early 300-millimeter question. Could you talk about how you think that's contributing to your competitive positioning today, whether it's with respect to scale or pricing or other factors? And then, what's the right way to think about the product portfolio moving to 300-millimeter potentially more over time?

<A – Dave Pahl – Texas Instruments Incorporated.>: Sure, Gabriela. I'll make a comment on that. I think someone had called the 300-millimeter the death star at one point in time. And we actually put that manufacturing footprint in place to support growth, not that it would generate growth by itself or really change any of the strategies that we've had.

So that capability allows us essentially to have lower costs for the products that we manufacture inside of that fab. I'll also mention that we multi-source our products. So, we'll actually build a product in more than one fab just from a continuity supply as well as efficiency. But that's the benefit it gives us.

It also allows us to ramp products very quickly, as you can imagine, for those high-volume applications. And we can run products as small as on a single wafer inside of a lot, so we can run

multiple products within a lot. So, we've got a lot of flexibility because of the automation of that facility as well.

So with that, do you have a follow-on?

<Q – Gabriela Borges – Goldman Sachs & Co.>: That's helpful, thank you. Just a quick one to follow-up. Within your broader CapEx plans for this year, could you give us anymore color on where you're most focused on investing? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Gabriela, I think I mentioned earlier in the call that we acquired a new assembly test factory in China late last year, and that will certainly be an area that we will be spending capital on as we get that factory up to TI standards and ready for production 2014. Of course, there are other areas that we'll spend, but that's probably an obvious one that we'll be putting capital spending into.

David Pahl, Director-Investor Relations

Okay. Thank you, Gabriela, for your questions. And thank you all for joining us. A replay of this call and the slides that we've shown today will be available on our website. Good day.

Operator: Once again, that does conclude today's conference. Thank you for your participation.

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