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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Christopher Brett Danely *Citigroup Inc., Research Division - MD & Analyst*

PRESENTATION

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Okay. I think we're live. Good morning, good afternoon, good evening, wherever you are, everybody. I'm Chris Danely, your friendly neighborhood semiconductor analyst here Citigroup. It's our pleasure next up to have, Texas Instruments. I think I say this every year at our tech conference, we've had a buy on them since 2012. So using my sell-side monkey map, I think that's about 9 years. Why we had to buy on them for so long? Well, as we coined the term, many years ago, we believe that TI is the Snuggly of semiconductors. It is basically the definition of compounding it. You see consistent market-leading returns, whether it's earnings growth or dividends. And here today, we have Rich Templeton, the Chairman, President, CEO, and all-around good guy, in charge of Texas Instruments. Rich, thanks for coming on.

QUESTIONS AND ANSWERS

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

I guess, to start, you're one of the gurus of semis, and there's a lot of news and current events regarding semiconductors. I feel -- I almost feel like a doctor these days because everybody asked me when they're going to be able to buy a car with all these shortages out there. Why don't we talk about the upturn first. Several of your peers have remarked that it's the strongest upturn ever or certainly, the strongest upturn that they've seen. What's your take on that?

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

Chris, it's great to be here with you again this morning. And I've been through enough of these cycles. You can go back to the strength of the upturn coming out of the global financial crisis in 2009 and '10. You can even go back to Y2K, as you recall, and really overdriven end of '99 and 2000 and then sharp drop in second half of 2000. These things are just going to work their way through. You see a lot of speculation or customer is going to change their inventory habits, and we'll have to watch over time, as that really happen. But to me, the thing that we just stay focused on, you've known us a long time, is what are the long-term secular trends look like? We love where things are going. The thesis that we've operated on for a number of years that semiconductor content is going to grow. It's going to particularly grow in industrial and automotive. So it's why we really just pay attention. We've got our Fab 2 coming online, new acquisition of a wafer fab from Micron and working on our long-term capacity road map as well. So I don't let the near term -- we don't do things that differently for upturns or downturns, but we do like where the long-term trends are going.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Definitely. And I get this question all the time. And by the way, for those of you in the audience, if you do have a question, feel free to e-mail me. Do you think that sort of the severe shortages we're seeing are more of a result of all the COVID issues? Or do you think that there's something else going on? And are you looking at changing anything long term for TI to sort of deal with these extreme shortages?

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

So really not, in some ways, looking at doing anything different other than the things that we had planned on doing. And for example, Chris, when Rafael and Dave updated on the capital management call last January or February, we raised the inventory range that we thought was going to be wise just because of the longevity and diversity of our parts. And now, it's just a case of us having the capacity to be able to build that inventory back up to that level. So that's not a new thing. We always thought that was a great thing to do for the long term to just get -- make things more convenient for customers, make supply better, steadier. It's something our customers value and we think we'll get rewarded for it. It served us well during 2020. As you know, when we kept the factories running strong, when a lot of other people went the other way. And so I think that it just proves having a wise long-term view of the value of inventory is really helpful. So those are the kind of things that we've had in plans, and I think will serve us well.

But then, as I've already mentioned, just good long-term planning of making sure you have capacity ahead of demand. And it's not something that the average earnings call likes as much because it tends to be very technical. When we talked about our Fab 2 coming online when we were planning it back in 2018 and 2019. Especially in 2019, most analysts were like, why do you want to bring it on? We don't need it now. Well, you don't bring it on now, you bring it on because you're going to need it in 2022. So that whole ability to plan for the long term is something that we think is really important.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes, I remember you talking about this way back in 2010 when you first started to increase your inventory levels. So it seems to me that the last time we had severe shortages like this was 2010. And here we are 10, 11 years later going through it all over again. I mean, did you foresee these sort of extreme shortages? And do you think this will be a regular occurrence going forward for subsequent upturns, I guess, is that we're going to see this kind of stretching out of lead times and that sort of thing?

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

Yes, we didn't -- we certainly aren't big believers in predicting cycles or the depth of these shortages from that perspective. But you did watch us, and you remember that earnings call in April of '20, right after the pandemic really started in the U.S., and we said we were going to run factories hot. And then there was even more cynicism in the July earnings call when we were continuing to run them hot, just about, "Hey, how much inventory are you guys willing to build?" And it wasn't because we predicted it, we just looked at the potential range of outcomes and said we would be far better served if we were on that side of things.

So that's how we viewed it. That's why we were able to navigate this first year of it, really quite well compared to a lot of the industry. And then you bring that same thinking to the long term. You can't predict precisely what's going to happen, but just look around you at the growth of semiconductors in equipment. It could be electric vehicles, could be industrial automation, could be health care. And then put together some projections of what 2030 and 2035 could look like. And let's make sure we've got the right type of technology and manufacturing footprint to be able to support that.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes. I think your inventory level has gone up maybe 40% since then. And as you alluded to, you just took it up again on the capital call earlier this year. How do you feel about your current level of inventory? Do you think it's enough for the situation we're seeing out there? And then do you see the industry because there's been some talk of this as the industry sort of following your lead and moving to sort of higher generalized inventory levels out there, whether it's in customers or distributors or elsewhere in the food chain competitors, that sort of thing.

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

Yes. So 2 pieces to that. First is we have been moving. But as you know as a student of TI, the mix of our business has been changing rapidly over a 10-year time frame. And you cannot do the things that we're doing today if you were TI Vintage 2008, where you had a very high mix of what were essentially sole-sourced parts are very high-volume devices by customer. So our portfolio, this all goes back to competitive advantages. You can make diversity and longevity a great competitive advantage because we can build a high percentage of our parts without knowing what demand looks like. So to your specific question, are we happy with the inventory levels is no, we want them higher, okay? That's simple. That's where we want to get them, and we'll get them back up there just as soon as the combination of manufacturing capacity coming online, offset by where demand is, lets us start to recover it.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes. So do you see your customers bringing their inventory up? It seems like there's been some pressure from maybe the political side to sort of fix this, this extreme shortage problem. Do you think we're going to move to some sort of higher normalized inventory level out there to try and eliminate something like this? Or is it just folly as some have suggested?

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

Yes. My personal belief is we're going to have to see over time. In the middle of a crisis, it's easy for customers or even personal individuals to swear, "I'm never going to do this or that again." So let's see over time how do the supply chains change or improve and make adjustments. What we're doing is to make sure that we become even more convenient even if our customers don't change their supply chains. And that means we can handle upsides, downsides, where customers want to go with demand. And we're able to probably do that better than any other semiconductor company. So I think we can do that, and we can do that in a way that it will be highly valued by our customers.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes. I don't know, you've been active with the SIA, et cetera. Do you think the industry is going to sort of change at all after this or as a result of this?

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

I'm careful with the specific nature of that question to where is it, is it COVID and the shortages? And is something going to change? I think we've seen the semiconductor industry continuing to evolve, be it the consolidation that we've really seen since 2010 and '11, the growth of companies in Asia. I think those trends are going to continue. I think -- again, I think the most powerful secular trend is just going to be the overall growth of semiconductor content, and that's where you got to pay attention.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Sure. And then let's dig into your distribution strategy. So several years ago, you kind of pared everybody down to 1 or 2 select distributors. Now that we've had several years to look back at it, how do you think that's done? How has that sort of helped TI relative to the competition? Is there anything that you would change? And then maybe going to the sort of the -- why as to you consolidate your distribution?

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

Yes. I think your last part is the really important one, which is the goal wasn't to consolidate distribution. The goal was to build closer direct relationships with customers. And I think if you just look around the world, even beyond the semiconductor industry, you want to have direct connections to your customers. Because you're going to be able to understand their needs better, you're going to be able to support them better, okay? You come up with new capabilities, you're going to be more efficient in being able to service them. So we have absolutely believed that,

that trend was going to be a powerful trend. You've watched us build our internal sales and applications team, you've watched us build up our capabilities of ti.com. And then coincident with that, we made a number of changes over time, narrowing down or bringing down the distribution network. And that's just simply going to continue because we can support our customers in a direct way, more efficiently.

And to the specifics, I am absolutely thrilled in the world of sometimes-you-get-lucky-in-life. I am thrilled that we were able to get that consolidation and reduction done going into this called shortage environment because we just have a much simpler channel. So we don't have noise. We don't have a bunch of different distributors. We have less activity going through distribution. And that's made navigating things much, much better. So thrilled with what we've seen overall on this direction. We gave updates, I think it was at the end of last year, just on really how dramatically we moved the percent of business from, I think, percent direct was in the 35% range, and we left the year in the 60-plus percent range. And that's -- it was just really fortuitous that we were able to get that done.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes, I call it the Amazonification of semis. Would you say that the changes in your distribution channel have helped your margin profile?

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

As we've always said on that, because when that whole distribution change occurred, people are like, "Are doing it for the margin gain?" And we've been very clear. No, this is about long-term growth, closer to customers, all the benefits that I've already talked about. And if you get additional margin gain, great. We're not -- we won't turn it down, but it certainly wasn't the -- it wasn't the #1 objective that we were after.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. And then the other is -- because we're getting all these questions coming in from the buy side. I'm going to ignore everything about the cowboys. Have you seen any impact to sales from the change in distribution?

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

I think the whole thing is go back, and I tend to normalize things right now in the fourth quarter of '19, just to get kind of the best pre-COVID benchmark. And everything that I've seen take place over the last 1.5 years, we continue to do very well. And to assign that just to us building closer direct relationships with customers, it's hard to parse all those down. But I think the combination of things that we've done from a competitive advantages point of view, control the manufacturing and technology, breadth of the portfolio, reach of the channel, diversity and longevity, you've seen continued gains across the board.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

As you guys continue to gain in scale, do you see any further changes that you would make to your sort of distribution channel, market activities, structure, anything like that?

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

Well, I think the thing that I've always described is this transition of building closer direct relationships with customers has been underway for a long time. The outside world tends to measure against milestones, when we narrow distribution or when we reduced distribution incentive, and I view it much broader in terms of where we are. And then equally with that, I think over the longer term, meaning 5 and 10 years, the power of us being in direct connection with our customers and what we can do, the reach of our channel, just continues to be a positive addition every year that goes by. So we've been extraordinarily busy the past year working on new capabilities, new things that we can do through ti.com. Hooking it

up with our fielded sales and applications people because these things really work together. And so there won't be any single dramatic thing that you see. We just hopefully have continued gains in share over the long term.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. So I've got 3 questions here. I'm going to try and aggregate them all into one. As I think as part and parcel of your consolidation of the distribution chain, you guys have really focused on efficiency. And your R&D -- and I get this question every year. I'm sure you get this question every minute. Your R&D tends to be lower than peers. So could you just address why TI has been able to have such high efficiency relative to peers, particularly so on R&D?

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

Yes. Chris, I think it's 2 things. First off is you can do the kind of classic math, which is look at the absolute R&D levels. And our absolute levels of R&D are much higher than our nearest competitors, okay? And we can obviously get scale. So if we do process technology development or design kit development or package development, I'm spreading those costs across a much larger analog business than our peers. And that answers some of what we can get on kind of classic efficiencies or classic scale.

But I really think the other part of it is that we've just been able to build a cultural discipline of making sure we're putting R&D to the best projects. And I think of it, just very simply, "Could I defend spending more?" And the answer is, "It's easy to." I could point to peers and say, "Let's go spend more because other people are spending more as a percent." But I like the discipline of making sure we're putting the investments on the best projects. And as I've already said, if we continue to see better and better projects, we will continue to increase the R&D in terms of what we're spending. We're not held to a percentage. We're not working on a fixed model. It's really trying to make. We're just make sure we're smart, more efficient about where we invest. And I think that discipline continues to pay off. We're growing our R&D. We're just not growing it as a percent of revenue. And that's not necessarily a bad thing.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

By the way, is it true that -- I don't know if it's every employee or every engineer or salesperson or manager or whatever, get some sort of TI playbook or the Rich Templeton playbook as far as -- this is how you conduct a meeting. This is how you do a product review. This is how you assess something. Is there any truth to that rumor out there?

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

Well, it's certainly not a Rich Templeton playbook, but we do believe having some processes in place so that when you've got an organization as large as ours that's scattered around the world, Chris, as you know, even in your world, the power of a common language makes organizations work very efficiently. And so we did get some structure in place -- well, it was probably 10-plus years ago to really try to just facilitate what I think of as a common language. It's not overly disciplined. It's not prescriptive. We still want to count on tremendously creative and energetic people to drive things. But having some structure and having some process does help things a lot, both on the sales side as well as on the product development side.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. And as part of that, with all this process and you guys taking up your inventory before everybody else, how do you feel about your current, I guess, capacity situation versus what's going on in the market? And you mentioned you're planning for 2025 and 2030, but certainly, you're -- I'm sure you're getting some near-term pressure from all kinds of different constituents. How do you feel about your capacity right now to adjust to these severe shortages we have? Does that even factor in then you just say, "These guys can grab about the lead times, and we're just kind of doing what we're doing?"

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

Well, I don't think it's quite that insensitive in terms of (inaudible) about the lead times. But you cannot change your capacity footprint in substantial ways inside a year or 2 when it comes to just equipment lead time, deliveries and where you sit. So you've got to have the right road map. And so we've been on a road map to bring up our Fab 2 in the second half of '22. We think that's great. We'd love to have more capacity now. But there's a lot of things in life you'd love to have, but I think we're going to have capacity coming online really during the time not a lot of other companies have capacity coming online.

I think we're going to really love the addition of the Lehi wafer fab for capacity beginning in early '23 as we talked back in June. And I think that's going to that's going to be a really good thing. And as you noted, we're off working on what's going to really handle growth from '23 and '24, out 10-plus years, and make sure we've got a very viable road map to bring capacity on as well. So I feel very good about where we are. Everybody would always like more in the near term, but they're also going to be pretty happy with what we're doing in 2022 and again in 2023.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes, it seems like you guys have been preparing for this moment for, I don't know, a decade. With this higher level of inventory coming into an environment or being in an environment where you have all these shortages, certainly, your revenue growth has been pretty strong. I guess relative to some of the peers, you haven't seen that sort of acceleration that your higher levels of inventory would suggest. Is there a reason behind that? Do you look at that? Do you pay attention to that? I'm sure you look at how your revenue growth is versus the peers.

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

Well, I think what I would go look at, Chris, is I disagree with the thing only with the statement because it all comes back to where do you anchor your [times zero] for judging growth. I go back and anchor it to pre-COVID at fourth quarter of '19, we're going to stand pretty well against anybody you want to compare to. And so I think it's really done quite well for that time frame. But once you get into -- and we talked about it in April and again in July, once you get your manufacturing capacity firmly utilized, you've drained down inventory, you are only going to grow as fast as new capacity comes online. So I love what we've done to date through this thing. I love where we're prioritizing and supporting customers. And I think it's going to translate to really great share gains over the long term.

Christopher Brett Danely - *Citigroup Inc., Research Division - MD & Analyst*

Yes. Do you think it's almost like an arms race to sort of bring all this capacity online? It almost seems like we're in that. Do you feel like it's a race versus your competitors? And then looking out, I don't know, whatever it is 6, 9, 12, 20 months, are you concerned about all this capacity coming online from the competitors or obviously other sources? Or does that even factor into your thinking at TI?

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

Yes. I go back to a really important thing. And that -- you've heard Dave and Rafael talk about this endlessly, and that is a belief that control of our manufacturing and technology is a competitive advantage, really foundational. It gives us lower cost and it gives us better control of the supply chain. And for years, when we would say it, most analysts would say, "Yes, I get the lower cost, love 300-millimeter wafer fabs." It's obvious, but who cares about control of the supply chain?

But look at what we've been able to do in the last 1.5 years with control of our manufacturing and control of our supply chain. And I think it's confirmation. And I will tell you that I believe -- could there be a continued up and then a down, and everybody will say what the heck is going on. But then in the long term, meaning between now and 2030, manufacturing and technology is going to be a competitive advantage for the long term. I think it will grow in terms of what matters. To the specific of, will there be capacity coming online in '22, '23, '24? Sure. But do I believe that

people have really been thoughtful about what they have to have available out through 2030 and 2035? I know we're going to be very well-prepared on that is the easiest thing to say.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. Another question I got from the "virtual audience" is just on the industry. I love how you get all of these sort of [joy-end] questions on semis. Some out there say that the industry is more rational. Do you think it's more rational? I guess as part of that, it seems like the last, I don't know, maybe the last 3 or 4 downturns have certainly been more mild to the downturns. If we take out the financial crisis, the downturns that you and I go up with in the '90s. I mean do you think that we're in a little bit of Dayton or some sort of mild or downturn type of environment going forward? I would appreciate any comments you have on that.

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

Yes, I wouldn't -- we've talked about this many times. And I looked at the data, I've got a sense of what these cycles look like and opinion, but I don't spend a lot of time worried about it because we're not going to predict them and make sure you're planning for the long term. So to me, that's the number one priority. The second part, is the market more rational? I don't know what that word really means. What I do know is that -- and I would say actually, for the past 10 years, and maybe a little longer, is that disciplined semiconductor companies can generate superior rates of return. And I think you've seen a much more balanced or a much more disciplined semiconductor market over the past 10 years. You can argue some of that is probably consolidation from M&A. You can argue some of that is probably growth that's inside of that. Some of it is companies getting more disciplined in terms of where they're focused, just look at TI. We're a pretty good example of that over the past 15 years. So I continue to believe that we have favorable tailwinds as an industry over the next 10-plus years, okay? That good discipline can result in good growth of free cash flow per share. And that's what we worry about.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

I'll take it. Let's dig into manufacturing a little bit. As you mentioned, you have the new Lehi fab. That's Lehi, spelled L-E-H-I, not the university. You were one of the first sort of analog-integrated companies to go use foundry. As an analog or primarily high-end analog company, how do you feel or what do you feel is sort of your ideal mix between foundry and internal? And how has that changed perhaps over the last few years? And do you see it changing going forward?

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

Yes, we did. We augmented -- we really started with foundry to augment the digital side during the strong wireless period, think of 2001, '02 and '03 when we really stepped in aggressively on that because we knew where we were going long term. And we've augmented a little on the analog side. It's kind of a shock absorber or just a dimension, but a much smaller percentage, meaning much less than 20%. We've never operated with an algorithm of what the exact right number is. So that will tend to rise up or down. But obviously, if the foundry industry continues to go in a direction of raising prices even higher, I just love where we are and that we can just simply let that percent of what we build on the outside continue to go down lower. And we've got -- in the analog world, 80-plus percent of our wafers are on the inside. So it's an easy thing for us to modulate that. You look at the majority of our competitors, and that modulation is not an easy thing to do. They've mostly gone on a one-way direction to work. They're counting on the outside world to build it. And that's where I keep going back. I think every year that goes by, manufacturing and technology will rise as an advantage for us, both in terms of cost as well as control of supply chain. I don't argue about this much publicly, but I do believe it is a dimension of differentiation just because you give your team more dimensions of creativity when you've got control of process technology as well.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Okay. And then how about on the back end? Some of your competitors have had some real issues on the back end. How has your back end performed during this -- I guess, during this time of shortages and are you looking to do anything different there?

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

No, it's really same directional statements that I just made on the wafer fab side for the exact same reasons. And our assembly test team has done a wonderful job. I am thrilled that we have a high percentage of our assembly and test on the inside. Just look at the challenges that you've seen across the outside assembly and test fields and houses in terms of supply. And we will continue to grow the percentage of that, that we do on the inside because we can do it very cost effectively. And it really -- we're just tremendously efficient by having it inside of TI. So control of supply chain is going to be a great thing on that as well.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

And then just to get into current events, the whole shortage situation. Do you feel like whether it's TI or the industry or both, is starting to get a handle on these shortages? Or do you think that things -- especially as we get -- start to get into the seasonally stronger time of year, could the shortages actually get worse before they get better? What's your sort of shortage temperature gauge?

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

Yes. I'll stay out of the temperature gauge or cycle predicting business, if that sounds like a consistent answer that you get from TI, Chris.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

I would expect nothing else.

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

We commented back in July that we had a growing number of hotspots. We'll get an update in October when we get earnings out. And we are -- as I discussed with customers all the time, we are going to do our absolute best in the near term. Our manufacturing teams are very, very committed to continuing to increase output, get as much out as we can because we've got a lot of customers that the more we can get out, the more they're willing to consume right now. Because we're probably one of the few that can continue to grow capacity in the near term.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. And pretty much all we hear about, at least these days, is automotive. Were you guys seeing shortages anywhere else? Or was it really just confined to the automotive space?

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

No, no, no. I think if you look at where pressure is, I think you have to say it's -- and I'm careful saying it's entirely across the board because there could be some exceptions. But I think when supply chains get upside down -- as you know you've watched it for as long as anybody, everybody goes from how do you minimize your inventory and CFO is yelling at procurement teams to buy less to where everybody says, "For the lack of a \$0.10 part, I don't want to be short of a semiconductor." And I think you've seen that supply-demand pressure across markets and across industries. So I don't think it's been just isolated. Certainly, the automotive impacts have been higher visibility or much more visible, and therefore, noisier.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Yes. How about for sort of your raw materials and your own equipment? Have you guys experienced shortages or severe price hikes and raw materials this year? Is it any worse than it's been in past upturns? And how is TI dealing with that?

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

Yes. No, nothing that stands out exceptionally. We've got a great team in terms of raw materials, piece parts, different things that you would think about. The team has done a good job managing and staying ahead of that. We've obviously got some tighter spots that you see on the assembly processes that we manage just like anybody else. Equipment lead times are equipment lead times, be it assembly and test or be a wafer fab equipment. We're not going to be any different on those. And the good news is that we've had longer-term plans. So getting our Fab 2 up and running and full of equipment is not a new thing that we're planning just as we got into this upturn. So I'm really pleased with how the team is managing that. They're doing a good job.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

By the way, one thing you talked about and you've talked about historically is your 300-millimeter advantage. And a lot of the -- I think you said a lot of the reason you've been able to do that is scale. So we just saw 2 of your bigger competitors merge. There's a lot of speculation that they might build their own 300-millimeter fab. Do you think that, that would erode your competitive advantage somewhat?

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

So Chris, I'm very consistent on this. We've talked about it many times, is bigger just so you have bigger revenue is not a great advantage in this world. You've got to go do something relative to competitive advantages. So you look at our 300-millimeter wafer fab footprint, you look at our assembly capability, you would have to go do something that significantly looks like that. That's a large investment and a long-term commitment that would have to take place to go and look at it. So that's how I judge that, I would look at it with that lens.

You've also got to go complete things, meaning breadth of product portfolio, reach of our channel and the diversity and longevity of our portfolio to really get to where you've got those advantages matched. So there's a long way from just gathering companies together to truly matching what we're doing across manufacturing and our different go-to-market channel strategies.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

You guys have always been very efficient. And you've not been afraid to sort of pitch large product lines, whether it was DRAM in '97 or the chipset business in the 2000s. As I look at your embedded business, granted the margins have very much improved over the last few years, but the revenue growth there as you want to say from a longer-term perspective and the margin profile is still markedly lower than the analog business. Why haven't we seen you either spin it out or wind it down or sell it or do something like that, which is what you've done with the other sort of larger businesses that you've had that have kind of like not fit into the TI strategy or that have lagged on a sort of a returns basis?

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

Yes. Chris, you've heard us very clearly on this, that if we thought something couldn't add value to the portfolio, it's not personal, it's not emotional, it gets dealt with. The fact is, I think the impact that we can have from embedded over the long term is really good. And I think it's right up there with what analog could do. And that does not mean it has to achieve analog margins, okay? It just has to grow and contribute. And I think you've seen the actions we took starting almost 2 years ago now to really get that thing turned around. I would call what we've now seen as the early signs of stabilization. And now we need to move from stabilization to proven growth over the next 2 and 3 years. That's what that team is focused

on. So you just sit back and look at this world open up a circuit board, be it in an automotive application, an industrial application, and look at the things that customers have on those boards from power to sensing, okay? But also look at processing and interface. We are going to love the footprint that embedded gives us and what it can do when it's running well. And I think the team is very focused on delivering that. So I'll just tell you to stay tuned. We think it's going to be a very important part of the company.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

You talked about planning for the longer term, and it certainly seems like China as an entity is going to be a longer-term concern for semis, given they're going to try and create their own semiconductor industry. How does TI plan for that? Do you guys even consider that as far as your thinking? Or is that just sort of somewhere off in the distance and doesn't really pop up in terms of longer-term strategy discussions at TI?

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

No, I think that if you're not paying attention to what's going on and has been going on in China for a number of years, I think it's naive. Our belief is very simple, and that is it's a large market. It's going to continue to grow, and it's an important market for us to be successful in. And if we can bring our capabilities to the Chinese customer base, meaning portfolio breadth, cost-effectiveness, convenience, but everything that we do everywhere else in the world, we believe we can continue to grow in China. And that's what the team is focused on doing. That does not mean it's easy. It doesn't mean it's not different than what we had to do 10 years ago, but we think it's very viable and very achievable. And I say that because even in my time, I've watched, gee, Japan is going to take over the world and then others were going to take over the world, and you've got to look at these things through the long term and get back to basics. And that is if you do a better job with customers regardless of the country, you will end up winning the business. That's where we have our team focused. That's what our strategy is.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Great. We just have time for one last question. Succession. So you had the briefest retirement this side of Michael Jordan, you got pulled back into the mix. You've been there for a few more years now. What's the latest on succession plan? And how much longer are we going to have the pleasure of you around?

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

Yes. Chris, it's really simple. And that is I love the work that I get to do, the technology, the people that I get to work with. So I'm as excited about it as I've ever been. I'll be around as long as it takes to have a strong individual takeover and keep the company moving forward. It's exactly what I said when I got back in 2018, and I feel really good about the team that we've got coming up inside of TI.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

Great. Thanks a lot, guys. Really appreciate it, Rich.

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

Chris. Thank you. Have a good week.

Christopher Brett Danely - Citigroup Inc., Research Division - MD & Analyst

You, too.

Going into.

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