

**Prepared Remarks**  
**2013 Annual Stockholders Meeting**  
**“Building a Stronger TI – Today and Tomorrow”**

by

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2012 has been a busy year: busy managing change; busy transitioning our product portfolio; busy developing a more diverse customer base. And along the way, building a stronger and better TI – one that can better serve our customers, our investors and our employees today and in the years ahead. 2012 marked the year where we completed the strategic journey of remaking TI into an Analog and Embedded Processing company, and it’s the year that we began some critical next steps in building a stronger TI for the years ahead.

Though we don’t often take time to reflect on what we’ve accomplished, I would like to do that this morning; taking stock of what we did from 2006-2012, and more importantly what this transformation has enabled us to become. We’ll take a deeper look at just one example of a stronger TI – our recently announced capital management strategy. Then, we’ll lay down some broad brush strokes of where we want to take TI over the next five years, building on a foundation that we’ve already put in place.

**Benefits of Analog and Embedded Processing**

At the end of 2012, our company was firmly rooted in the technologies of Analog and Embedded Processing. More than 70 percent of our revenue comes from these portfolios; when we began this journey in 2006, that number was hovering just south of 45 percent. I think it is important to remind everybody why this change really matters.

Simply said, we view Analog and Embedded as the two best semiconductor markets in the world. These technologies are pervasive. Analog, for example, can be found in every electronics device there is. They offer us the opportunity for growth, solid profits, greater stability, and compelling cash generation.

Both Analog and Embedded Processing are very diversified, meaning there are tens of thousands of customers who use these technologies in a wide range of applications – from consumer to computing, and industrial to automotive. That breadth is a good thing as it doesn’t lead to us being dependent only on “the next big thing.” Instead, we can be a terrifically successful company being involved in both the highly visible big things, but also a myriad of smaller-scale applications that you find across many markets and thousands of customers.

This translates into greater stability and growth for TI as we're less likely to become overly dependent on a single customer or a single product. Our changing customer profile illustrates this point, with no single customer comprising more than a mid-single digit percentage of our revenue. We now have a diversity and a breadth that bodes well for us in the future.

Analog and Embedded Processing also offer great opportunities for us to expand our position in industrial and automotive, end markets where we are underrepresented today and that echo many of the characteristics of the technologies that we value: lots of customers and applications with long product life cycles.

Industrial has the added benefit of having semiconductor penetration still in its infancy, so there's lots of headroom to grow as customers' transition from electromechanical to electronic solutions. And while this market isn't highly visible, its breadth and diversity translate into great growth and great returns over the long term.

The opportunities are enormous. Think of home thermostats that are not only smart, but they learn to manage energy inside a home based on your personal preferences. Or a heating, ventilating and air conditioning systems with remote diagnostics enabled by wireless connectivity. Or motors that self-adjust to the environment and use less energy in the process.

Similarly, the automotive market is transforming before our eyes as infotainment and safety features make our cars smart and connected. New technology features are being rolled out with routine regularity. Features such as collision avoidance, lane-changing or blind-spot detection, and parking assist systems are being added not only to high-end cars, but are quickly transitioning throughout the fleet to entry-level vehicles as well.

Our Analog and Embedded strategy enables us to work with literally *every* customer and *every* market, and not be overly dependent on any one thing. This drives higher growth and consistent returns.

### **Capital Management Strategy**

We have already seen the financial benefits of our Analog and Embedded business model. It's led to important increases in dividends and share repurchases. It's firmly in place and we have confidence in its sustainability. This confidence allowed us to be clear and precise about our plan for the value we will steadily return directly to you, our shareholders.

Let me highlight just a few key points of what we call our capital management strategy.

First of all, our business model, based on Analog and Embedded Processing, generates a lot of cash. We will use some of this cash to increase our competitive advantage – things like new technologies, manufacturing capacity, working capital, and acquisitions. But our business model is strong enough that it generates more cash than we need. So we return it to shareholders through dividends and share repurchases.

In fact, we believe TI can consistently convert 20-25 percent of our revenue into free cash flow and then return 100 percent of that free cash flow, less any debt repayments, to you in the form of higher

dividends and share buybacks. As evidence, in 2012, we converted 23 percent of our revenue into free cash flow, which positions us well within the top quartile of all S&P 500 companies.

In February, we increased our dividend to an annualized rate of \$1.12. This 33 percent increase follows a 24 percent increase last September and marks the 10<sup>th</sup> consecutive year of dividend increases. It's worth noting that our dividend yield is also in the top quartile of S&P 500 companies. We also authorized an additional \$5 billion in share repurchases, continuing a practice that began in 2004 to reduce outstanding shares. Our repurchases have resulted in a 36 percent reduction in shares since then, making every share you own worth more.

This belief in the imperative of returning cash to our shareholders is nothing new for us. We've long employed tax policies that maximize the cash we bring back to headquarters, instead of leaving it stranded overseas, so that we can use it or return it. And in fact, over the past five years, we have returned 100 percent of our free cash flow to shareholders, or about \$12.5 billion. What *is* new is that with the transition of our business model to Analog and Embedded, we can now tell you that we're confident in our ability to keep doing this for a very long time to come.

This puts TI in a unique and small class of growing companies, especially in the technology field: a company that can both generate high levels of cash and return cash. Not many can make this claim.

#### **Now What: the Next Five Years**

We've accomplished a lot, putting in place a sustainable business that will serve TI well for many years to come.

But sitting still, especially in the technology business, is never an option. So what's next? Where do we go from here? How do we take what we've built so far and make it stronger and better over the next five years? Well, we've got some plans on that.

First, we intend to grow the company. Top-line growth is an important priority and we want top-line growth with high quality positions. In fact, we have a good growth story if you look inside the business. We've gained share in our core businesses of Analog and Embedded Processing consistently over the last several years. Now, as the wind down of our Wireless business comes to an end, we should see this growth become more obvious to the casual observer.

Second, we believe stronger execution can differentiate TI and positively impact our customers as well. So we're riveted on making execution a competitive advantage. How? By focusing on the fundamentals, sweating the details, and ratcheting up the discipline and consistency with which we do things. If we do this well, it will have direct implications across TI – in how we innovate, in how we create sustainable competitive advantages, in how customers value us, and ultimately in how well we're able to reward our investors and employees.

Third, our portfolio work isn't done. We like what we've done so far; we just want more of it: more Analog and Embedded Processing, more industrial and automotive penetration, more catalog and application-specific products, and more power management. We want each of these to make up a heavier percentage of TI five years from now.

- We've seen the benefits that can accrue with a higher percentage of our revenue from Analog and Embedded Processing. And our goal is to push that number to 90 percent of the company over the next five years.
- We like what the industrial and automotive markets have to offer: diverse customers and applications numbering in the tens of thousands with long product life cycles and long-term customer relationships. Though we participate in these markets today, we want to heavy up our penetration.
- We know that catalog and application-specific products are the keys to unlocking the doors at a multitude of customers. We want more of our portfolio focused on catalog and application-specific markets.
- We've seen the power of power. And that's power management chip technology. It allows a strong Analog play into the mobile and connected world. But it is also much more than that. In talking with customers, they all want – in fact, they need – lower power consumption in their products. I cannot think of a market or an industry that doesn't want to use less power in its applications in some form or fashion. It's a large market, we're good at it, and we intend to capitalize on our strengths.

Fourth, we've seen the benefit of focusing on many customers in many markets. We want even more customer diversity and more revenue beyond our largest customers. We have made progress in this area, but we think there's more we can do. For example, we can better leverage our online design tools, like WEBENCH, to offer a design environment that more customers want to use.

Finally, we want a model of innovation that fosters solutions that are both unique and also highly valued over the long term across a broader set of customers, applications and markets.

### **Conclusion**

So in conclusion, the thing I like about Analog, and it is mirrored in Embedded Processing, is there is no single or "one" anything – there's not one customer, there's not one solution, there's not one technological advantage. As a result, the risk of a competitor who can swoop in and take it away from you is diminished. Great business models that perform well over time typically offer a number of advantages. That's what TI has today – multiple layers of advantages – with Analog and Embedded Processing.

I believe our world rewards three things: focus...execution...and innovation. Not many chip companies do all of these well. But that is exactly our goal. I think we have the company focused on the best opportunities with Analog and Embedded Processing. Now we are working on bringing best-in-class execution and best-in-class innovation to comparable levels of strength. Good things will happen as we do this, and TI will be more highly valued over the long term. That's where we're putting our energies and putting our resources. And it's also why I believe the next five years will be among the most exciting and best that Texas Instruments has ever seen.

Thank you.