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EDITED TRANSCRIPT

TXN - Texas Instruments Capital Management Strategy Webcast - 2017

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OVERVIEW:

Co. provided an update on its capital management strategy.

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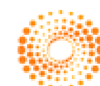

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PRESENTATION

Operator

Good day, and welcome to the Texas Instruments capital management strategy conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Dave Pahl. Please go ahead, sir.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Good morning, and thank you for joining our 2017 capital management call. Rafael Lizardi, TI's chief financial officer, is with me today.

This call is being broadcast live over the web, and can be accessed through our website at TI.com/IR. A replay will be available through the web.

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

During today's presentation, we will begin with a quick recap of our capital management strategy, and our scorecard for 2016. Then, we will provide a historical summary of our capital allocation, as well as deeper insight into specific areas of investment, and a view of our free cash flow per share performance. We will then wrap up with a look at our cash returns.

We believe the key points that investors can take away from our discussion today are: first, we remain focused on consistent execution of our capital management strategy. Secondly, our disciplined allocation of R&D is delivering growth from the best markets, industrial and automotive. We also have great diversity across all of the sectors within these markets. Our 300 millimeter analog manufacturing strategy is a unique advantage and continues to drive free cash flow margin. We remain committed to returning free cash flow to owners, and by the way, our updated dividend model provides a more robust longer-term framework for return of free cash flow to owners. These key points are consistent with what we have been doing over the last several years.

As a reminder, we believe TI is in a unique class of companies that can grow, generate, and return significant cash. We are focused in the best semiconductor markets, analog and embedded. These are large, fragmented markets used across a diverse set of applications and customers. While we have leading positions in both markets, we can continue to expand market share. And obviously, one of the most attractive aspects of these markets is that they are very profitable and can generate significant amounts of cash.

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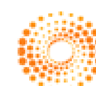

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And finally, our strategy is designed around four competitive advantages, that in combination, provide tangible benefits and are difficult to replicate. They are: our manufacturing and differentiated technology, the broadest portfolio of Analog and Embedded products, the reach of our market channels, and diverse and long-lived positions, which result in a high terminal value.

With that, I'll turn it over to Rafael, and he will review our capital management strategy. Rafael?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Thanks, Dave. Good morning. First, I want to remind everyone, we have had great consistency with our capital management strategy and that is something that will not change. As the controller of Texas Instruments over the last 4.5 years, I have been an integral part of the design and execution of this strategy. I am a fervent believer that it has worked well and will continue to work well for our company and for our long-term shareholders.

As we have said, our capital management objective is to maximize long-term growth of free cash flow per share, which I believe is the best metric to judge our financial performance and to drive higher intrinsic value for the owners of the company. We do this through the disciplined allocation of our resources to generate the best returns.

As a reminder, our capital management strategy begins with a great business model that focuses on analog and embedded, which as Dave mentioned, are the best markets in the semiconductor space. We have designed a business that is capable of growing, generating and returning significant amounts of cash to our shareholders. It comprehends cash availability with an effective tax strategy, a strong balance sheet and investments to strengthen our competitive advantages.

2016 was another year of good progress. For instance, free cash flow margin expanded to 30.5%, consistent with our belief that we can sustain 30% free cash flow margins in good markets. Inventory closed at 126 days, within our range. Cash retained in U.S. entities closed at about 80%. Cash levels, pensions and debt are on target, and the targets are unchanged. Capital expenditures were on target at about 4% of revenue, and finally we returned $3.8 billion of cash.

In summary, our capital management strategy continues to serve us and our owners well. Free cash flow per share continues to grow steadily, while we continue to invest in our long-term competitive advantages.

Now, I would like to provide additional insight on our capital allocation, and I will give you updates on several of our important investments.

Over the last 10 years, we have allocated about $73 billion of capital. We think it is helpful to look at all categories to which we allocate capital and to look at our allocations over time to give you some perspective.

In this chart, we have summarized 10 years of capital allocation, and broken it down into four categories: R&D, Sales and Marketing, CapEx and changes in inventory; share repurchases; dividends; and acquisitions. The logic behind grouping R&D, Sales and Marketing, CapEx and changes in inventory together is that they are the investments we make to drive organic growth. Combining them together is consistent with our approach of funding strategies, not projects. For simplicity, we have not included changes in net debt, which over this period was $2.6 billion.

There are two key points on this slide. First, with $73 billion of capital allocated over the past 10 years, you can quickly appreciate why capital allocation is a job we take quite seriously, and one that has a significant impact on shareholder returns.

Second, most questions from investors around capital allocation typically focus on the cash used for acquisitions, buybacks or dividends, all of which are important, and we will provide some insight into those investments and returns during today's presentation. However, like many companies, the largest category of capital that we allocate cash to is R&D, Sales and Marketing, Capital Expenditures, and Inventory. These are investments we make to generate organic growth. Therefore, we spend significant time ensuring these investments are delivering long-term competitiveness and generating returns greater than our cost of capital.

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We have a clear purpose for these investments. As we already said, R&D, Sales and Marketing, CapEx and Inventory are for organic growth of our business. Share repurchases are intended to generate the accretive capture of future free cash flow for long-term investors. Dividends help us appeal to a broader set of investors. Acquisitions are for inorganic growth.

If you drill down to the next level, we also have a very clear focus for each of these investment areas. For R&D, Sales and Marketing, CapEx and Inventory, focus drives significant actions across the company. We invest in new products like inductive sensing, or new process technologies like FRAM, gallium nitride, or new isolation processes, with particular focus on the industrial and automotive markets. We invest in capabilities that strengthen our long-term competitive advantages. This could be 300-millimeter manufacturing, enhancing TI.com or developing system solutions to help our industrial customers solve their problems and get to market quickly.

We invest to expand our product portfolio and adjust our portfolio investments, which will be described later. Finally, we have great focus on execution, which can simply be thought of as getting more output per dollar of input. This includes continued improvement in product execution or free cash flow generated as a percent of property, plant and equipment plus inventory, or sales productivity.

Share repurchases are focused on consistent repurchase when the present stock price is below intrinsic value, using reasonable growth assumptions.

Dividends are focused on sustainability and growth for obvious reasons.

And finally, acquisitions are evaluated through two primary factors: first, a strategic match, meaning catalog analog focused with high exposure to industrial and automotive; second is financial results that generate a return greater than our weighted average cost of capital within about four years.

With that framework set, let me now examine several of these areas. I will first focus on our R&D investment that we allocate to higher-value growth opportunities.

As you may recall, our broad portfolio of Analog and Embedded products is an important competitive advantage. This breadth of portfolio brings more customers to TI.com each year than any other competitor's website. But it is also critical that we continually grow and strengthen this portfolio with highly differentiated products that are developed with an eye on the best market opportunities over the next 10 years.

At the highest level, we see growth, we see good opportunities in all of our markets, but we believe that industrial and automotive will be the best opportunities over the next 10 years. This is primarily because semiconductor content in industrial and automotive will significantly increase as companies make their equipment smarter, more connected, safer and more efficient.

This chart summarizes the direction of our R&D investments across end markets and also provides the revenue break out for 2013 through 2016. In industrial and automotive, we continue to increase investments broadly, and we are excited to see the continued progress of revenue growth, as this market now comprises more than half of TI's revenue, up from about 42% in 2013. Personal electronics is an important market, and while investment level in total is down, we do invest selectively. In communications equipment, we announced several years ago that we were reducing our Embedded investments, but we continue our investment in the Analog growth opportunity. Our investments in enterprise systems and 'other' have been flat and at low levels.

We will now talk through our manufacturing advantage.

On this call two years ago we introduced our plan to have two 300- millimeter wafer fabs supporting our Analog business. When both of these fabs are fully utilized, they will be capable of producing about $8 billion a year in Analog revenue on 300 millimeter.

As a reminder, for those who were not familiar with the semiconductor industry, 300 millimeter is a significant competitive advantage, and we remain committed to strengthening this advantage for the long term.

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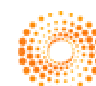

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We made good progress on this plan in 2016 as DMOS6 had its first year of Analog production, and we continued to increase factory loadings in RFAB. In 2016, we utilized about 30% of our combined 300-millimeter capacity, which means we had roughly $2.5 billion of 300-millimeter Analog revenue, up from about $2.2 billion in 2015.

As a reminder for those not as familiar with the SC industry, a product made on 300 millimeter costs about 40% less than a product built on a 200-millimeter wafer, providing a great competitive advantage. The reason it is an advantage is because 300-millimeter wafer has 2.25 times more area, which in turn means we can get about 2.3 times more chips per wafer. But the 300-millimeter wafer only costs about 40% more than 200 millimeter. The net result is that a chip built on 300-millimeter wafers costs about 40% less than if built on 200 millimeter.

To understand how a 40% less expensive chip impacts gross margin, it is easiest to use an example of a part built on 200 millimeter compared to 300 millimeter. This example shows a theoretical part that sells for $1, with a gross margin of 60%. The chip itself would cost about $0.20 built on 200 millimeter, and this would reduce to $0.12 on 300 millimeter.

In this example, the remaining cost of assembly and test are the same, regardless of the size of the wafer. The net result is that gross margin improves by 8 percentage points. As this simple example illustrates, our 300millimeter manufacturing capability and the resulting cost structure provide a unique competitive advantage for TI.

We will now go through our free cash flow growth and outlook.

As we described at the beginning, our overall objective is to maximize long-term free cash flow per share. We believe this is not only the best metric to judge our performance, it is also the one that owners ultimately care about.

Over the past 12 years, our free cash flow per share compounded annual growth rate has been 12%. In 2016, free cash flow margin increased 90 basis points to 30.5% of revenue. We reduced share count by 1.5%, and free cash flow per share increased 9%.

Going forward, we should have three drivers to continue the growth of free cash flow per share: top-line revenue, driven by Analog and Embedded; incremental free cash flow margin increases; and additional share count reduction, depending on the stock price.

Our free cash flow margin also stacks up pretty well against the S&P 500. Over the last 12 months, our free cash flow margin of 30.5% places us in the top 15% of the S&P 500. Generating cash is obviously important, but it is only valued if it is invested wisely, which we have already discussed, or it is returned to investors.

In comparing our cash returns of dividends and buybacks, we're in the top 10% of the S&P 500 in terms of cash returns as a percentage of revenue.

Our objective in buying back shares is the accretive capture of free cash flow for long-term investors. We focus on consistently buying back shares when intrinsic value of the company exceeds its market value. By using realistic discount factors and reasonable growth assumptions to calculate the intrinsic stock value, we are aiming to have confidence that investments made in stock buybacks are in fact earning rates of return greater than our cost of capital.

While the ultimate assessment of ROI depends on the future cash flow stream, the track record of this approach is encouraging. If you make the very conservative assumption that TI's future free cash flow remains flat for the next 10 years, we will be earning about 10% annualized return on all stock repurchases made to date since 2004. We have reduced shares outstanding 42% since 2004, including the 1.5% reduction in 2016, bringing our share count to fewer than 1 billion shares, or 996 million, to be exact.

In fact, we have reduced shares every quarter year-on-year for 51 consecutive quarters. We ended 2016 with $5.8 billion in open authorizations and bought back $2.1 billion in 2016, including $475 million in the fourth quarter.

We will now move on to dividends.

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As we commented earlier, our objective with dividends is to appeal to a broader set of investors, and our focus is on both growth and sustainability. We have now raised the dividend for 13 consecutive years, including the 32% increase made in 4Q 2016. We have increased the dividend at a compounded annual growth rate of 23% over the last five years compared with the S&P 500 dividend increase of 8% over the same timeframe.

To make our decision on dividend increases, we start by looking at our four-year average trailing free cash flow. This ensures that a single year's results, either good or bad, don't overweight the dividend decision. This approach, combined with our consistent growth of free cash flow, resulted in our dividend in 2016 consuming only 40% of free cash flow, supporting our objective of sustainability and growth of dividend.

I will wrap up my prepared remarks with a few summary comments. TI is in a unique class of companies that can grow, generate and return cash. We are focused on the best parts of the semiconductor business, analog and embedded, and the best end markets of industrial and automotive. Our business model is designed around four competitive advantages that deliver tangible benefits unique to TI, and are difficult to replicate by our competitors: manufacturing and technology, breadth of products, broad reach of our channel, and diversity and longevity of products and positions in the market.

We focus on growing free cash flow per share. It is the ultimate objective, and we believe it leads to the highest growth in shareholder value. We have a disciplined process and culture to ensure that we are strengthening our competitive advantages, and generating the maximum return for the investments we make.

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

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Thanks, Rafael. Operator, you can now open up the lines for questions.

(Caller Instructions)

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Rafael, one follow-up on the free cash generation side. You mentioned the drivers for free cash flow growth going forward. One of the three was free cash flow margins increasing. I know you were slightly above your 30% target rate. Is there a new target that the company has, or was the word incremental an important part of that statement that you made?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Yes, thanks for the question Ross. First let me highlight the premise in your statement. That's correct.

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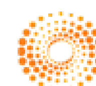

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Margins is going to be one of the key drivers for increasing free cash flow per share. The other two are revenue growth, that's the number one driver as we continue to grow our core businesses of Analog and Embedded. And the other one, as you mentioned, is reducing the share count, as we continue to buy back shares to reduce the share count of the company.

On your specific question, there is always noise in any one quarter. We are currently at 30%, we still have plenty of work to do before we feel that is sustainable. So at this point our focus is to grow free cash flow, particularly on a per-share basis, because we think ultimately that's what drives higher value to the long-term owners of the company.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

And I will just add, Ross, that when you look at the drivers of that margin and of free cash flow, and you look at the manufacturing footprint we've got, as we've just said, we've only used about 30% of our 300-millimeter capacity. So as revenue grows, if we built that even on 200 millimeters that would help margins expand. But because of the competitive advantage we have with the lower cost, of course, that will be even more accretive. Do you have a follow-up?

Ross Seymore - *Deutsche Bank - Analyst*

Just quickly, it's also a margin-related one, but switching over to the R&D side, where you guys gave the bucket as the organic investment category. R&D spending has increased the last couple of quarters after a number of years of decreasing. Can you talk a little bit about how you guys measure and strategically put in place those increased dollars, because it looks like a little bit of a change in strategy over what we seen in the last three years or so?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Ross, beyond today we are allocators of capital, it's one of the most important things we do. And in this case on R&D as well as sales and marketing, for example, and CapEx, it's all about organic growth of the business. So we are focusing on the best opportunities. So it could be new products and technologies. We mentioned gallium nitride, for example, and isolation technologies. It's also about strengthening the competitive advantages, so demand creation is another one where we're allocating more capital to. We're also improving our execution. At the end of the day all of that is just about making TI a stronger company, strengthening our competitive advantages so we can generate more free cash flow and then return all of that free cash flow to the owners of the company.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

And I will add too, Ross, as we focused on industrial and automotive markets, our product portfolio continues to last longer, just by the nature of those markets. There is actual efforts in place to take existing products and repurpose them into other sectors, and sometimes even other markets, and that helps with the sustainability of that portfolio over time. It is, as Rafael said, going into new technologies and new areas, and even some over the horizon type investments. But even more near-term investments of repurposing those products.

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

The other comment I will add is just in the big scheme of things, OpEx as a percent of revenue, our guidance is 20% to 30%. In good times we can be on the lower end of that. In fact in both 2015 and 2016, in both years, we were at 23%. So this has been an allocation of capital, of resources within the company, to drive the best results, to continue driving higher growth and free cash flow.

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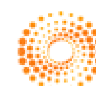

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Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Sanford C. Bernstein & Co. - Analyst*

I wanted to ask first about 300-millimeter capacity. So I was actually a little surprised to see only about $300 million in incremental 300-millimeter revenue in 2016, which suggests that of the gross margin upside that you have seen, very little of it was actually as a result of the mix toward 300 millimeter. I was wondering if you could give us a little more color on how we should think about how that mix shift from 200 to 300 should progress going forward, in terms of both new products ramping in, as well as potentially volume that's currently on 200 maybe ramping down, while complementary products are ramping up on 300?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Sure, I will start and if Rafael wants to add something, please jump in. I think Stacy, if you look at how we have been ramping the 300-millimeter capacity, I think this year is consistent with what we've seen in the past. We qualified RFAB back at the end of 2010, so 2011 was the first full year of production, and since that time, we have put in about $2.5 billion of revenue across now RFAB and DMOS6.

So I think that is being driven primarily by new products and new introductions, and I think as you look forward to our Analog growth, you can assume that the majority of that will be on 300 millimeter. We still have capacity available on 200 millimeter, as I talked about earlier.

We've taken and continue to take some existing products and repurpose them, so they still get designed into new applications. So we could still continue to see those assets be very well utilized as well in the footprint.

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

I would only add that this is a marathon, not a sprint, so we're looking at the long-term in how 300 millimeter will benefit the owners of the company over the long haul. With the example we gave, you can do the math on the pull-through, and see if we continue to grow in this case Analog, and that growth happens on 300 millimeter, how the incremental benefits will fall right through to the free cash flow bottom line, and we can then continue increasing those over time. And then, as always, returning all of that free cash flow to the owners of the company.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Stacy, do you have a follow-on?

Stacy Rasgon - *Sanford C. Bernstein & Co. - Analyst*

I do, thank you. To follow-up on those thoughts around organic growth, so I think this is the first one of these calls I've heard in a while where you're putting as much of an emphasis on discussing what you're doing to drive organic growth, and obviously we have seen the increases in R&D and everything to go along with that.

Can you talk a little bit about how you perceive your organic growth profile going forward, I guess, given what seems to be maybe a new focus on it, but at least a renewed focus on talking about it. Where do you think you can grow, relative to the analog industry, and relative to the market, given your product and end market shift in focus at this point?

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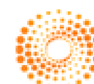

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Dave Pahl - *Texas Instruments Incorporated - VP of IR*

I will start again, Stacy. I think hopefully it's not a new focus on growth. I can tell you there's been a tremendous amount of focus on growth here inside of the company.

But I think first of all, I'd start with how you think the overall economy is going to do, because that will obviously drive the opportunity that we see inside of the market. We have been in a fairly low-growth environment, but if you look inside of our Analog and Embedded businesses over the last 10 years, they have been growing at about 8% compounded annual growth rate, or in that neighborhood.

We've seen consistent growth with that. That hasn't translated into top- line growth over that period as well, as we shifted our investments to Analog and Embedded, and specifically into automotive and industrial. I would say that we believe that Analog and Embedded will grow about the rate of the semiconductor market, overall, and in this low-growth environment, I think if you look over a longer period of time most industry analysts would believe that the semiconductor market is going to grow somewhere in the low single digits to mid-single digits. So if we can continue to gain share, we'd hope to be able to have something and add a few points of growth on top of that.

And lastly, I'll just make the comments that we have been shifting our investments for some time over into automotive and industrial markets, because we believe that's really where the superior growth opportunities will come from, and that's just simply due to the increasing semiconductor content that we have seen there. You've seen some results of that, most recently.

Automotive grew 23% last year, but I'd just point out that followed several strong years of growth there, meaning you can already see some evidence of a consistent track record. That's how we think about growth.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

[technical issue] 2017, because I think lower depreciation was at least 100 basis points gross margin benefit for you in 2016. How does that work in 2017, and is your CapEx minus D&A tailwind in 2017 as well as your free cash flow?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Amit, unfortunately, the first part of your question was cut off, so could you just repeat that for us please?

Amit Daryanani - *RBC Capital Markets - Analyst*

Absolutely. I'm trying to think how do you think depreciation will track through 2017, because I think lower depreciation was about 100 basis point tailwind in 2016 for your model. So I'm just trying to think how does that work out in 2017 for you?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

High level, you've seen how we declined over the last several years. We expect another step down in 2017. You can just look at 4Q 2016 and almost do the math based on that, but it's a smaller decline than it was before.

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But the key point is depreciation is a non-cash event, so we really don't stress over that. We focus more on free cash flow, and that's the key, how we have grown free cash flow year-on-year, and what we're doing to continue growing that free cash flow and returning it to the owners of the company.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Do you have a follow-on, Amit?

Amit Daryanani - *RBC Capital Markets - Analyst*

I do. Just to follow up, could you talk about the potential for share gains as you go forward, especially given the uptick in R&D that you are talking about in markets like auto and industrial? I would almost imagine companies would rather partner with TI versus smaller analog companies. So we should we think share gains could possibly accelerate versus the 30 to 40 basis points that you historically talked about?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

I think one of the great qualities of the market opportunities that we have in Analog and Embedded is the diversity of the markets, and its fragmented nature. It is really hard to consistently gain share, and we've been able to do that. I think if you look at that, just the sustainability of what gives us confidence, sustainability to be able to do that, I just highlight a few things that we think about, when we think about sustainable growth.

The first is, are you getting that growth across a diverse set of markets and sectors, as well as diversity across customers? Do you have proof that you were able to gain share, and the results translate beyond just one quarter or one year? We're always very cautious not to get too specific on either one of those, because we think they need to show up over a longer period of time.

And then in particular markets, like automotive and industrial, is there a reasonable logic that that market is expanding? We think that there is content gains that are going there. It's very obvious to see in the automotive market, and we believe there is evidence, clear evidence, inside of industrial as well.

The next is, are your products differentiated? And how do those products solve customers' problems uniquely, as part of that differentiation. And lastly, do you have a healthy pipeline of design wins that will continue to fuel that growth?

I think when we look at automotive, when we look at industrial, we feel very confident that we're actually seeing those drivers across sustainability. So I would say that would translate into us having high confidence that we can continue to gain share, versus looking for some type of inflection point of share gain.

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Amit, let me go back to your first question. I want to stress another point. I would encourage you rather than looking at depreciation, look at CapEx, because that is what the real cash going out the door, and in our case, our target is 4% of revenue, and that's what we've done for the last number of years, and that's really what determines how much cash is going out the door. And then, the difference is what's available to return to the owners of the company, so that's how we think of our allocation of capital.

Operator

Vivek Arya, Bank of America Merrill Lynch.

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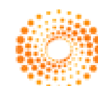

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Vivek Arya - *BofA Merrill Lynch - Analyst*

First one, what is the right leverage for your balance sheet in this environment? I can understand being a little cautious, if the baseline of that might be going into a downturn, but I assume that is not the baseline. So why have such an under-levered balance sheet, when every other part of your business is so well optimized?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Let me take that one. I will start by saying that in this particular question, reasonable people have different views of this and I respect that. I will tell you our view. We think of debt as a strategic tool.

You can look at what happened in 2011 with the National acquisition. We didn't have debt on the balance sheet, and we took on debt in order to make that acquisition happen. And then we been paying it down over time, so now the balance sheet is opening up for potential strategic options in the future. I'll also remind you, we still have debt on the balance sheet. We have $3.6 billion, which in my book is significant, so that's how we think about debt.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Do you have a follow-on, Vivek?

Vivek Arya - *BofA Merrill Lynch - Analyst*

Yes, thanks, Dave. So as my follow-up you mentioned autos and industrial are a little bit over half of your business, which is an improvement versus the last few years. At several of your peer group, it's a much higher percentage of sales, and I appreciate that you guys are doing extremely well in those markets and gaining share. But is there a target mix also in auto and industrial? Do you think, can you get there organically, or do you think now is the time to look at inorganic options, perhaps more than you might have looked at them in the last couple of years?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

I will start with that, and quite simply, Vivek, we don't look at trying to find an optimal percentage or an optimal mix. We steer investments where we see the opportunity. We see the opportunity, obviously incrementally, in industrial and automotive.

That said, we're still making investments in personal electronics, and we will have personal electronics products shipped, there's probably 2.5 billion of them shipped every year, and we will have that for decades ahead. So we will find good opportunities inside of there.

We will continue to make investments, and same with the other markets that we have. But I think what we try to do is describe incrementally where we see the best opportunities.

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

I will just add to that, you alluded to M&A, so let me just comment on that. Our approach to M&A is not changing. And it needs to have two components.

First, the strategic fit, so we look for analog catalog type of companies, we evaluate those from time to time, ideally focused on industrial and automotive, because we think those are the best markets. And then companies with differentiated products that then have a high GPM and high free cash flow, so that's the first part. The second part is just as important, the numbers have to work. So over time they have to be accretive to our cost of capital.

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Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

The first question is on total capacity. I think in the past, you have talked about $18 billion worth of capacity on a brick-and-mortar perspective, and then you can get to maybe $22 billion by adding some CapEx. Can you maybe update us on those numbers, and what type of CapEx would you need, in order to go from $18 million to $22 million?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Tore, those total numbers haven't changed significantly. We think we can achieve those levels of production inside of the 4%, when you look at that $18 billion footprint. We essentially have the vast majority of that equipment.

There will be places that we need to augment certain flows with certain types of equipment, but that is a fairly small amount, and certainly fits inside of that 4%. A large portion of that 4% goes to assembly/test, and the back-end manufacturing overall.

So I think our strategy, going back to our four competitive advantages and thinking of strengthening our manufacturing and technology, we've been in the market probably every quarter since 2009 buying some pieces of equipment, and I'd say that we continue to be open to and evaluating opportunities, if it presents itself, to bring on a larger amount of capacity, if those things present themselves.

So it really is about strengthening all four competitive advantages, and in this case strengthening the manufacturing and technology. Do you have a follow-on?

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, thanks for that. My follow-up is on M&A so obviously it's got two elements. It has to be strategic but it also has, the financials have to make sense. How do you balance those two because obviously there could be a really nice strategic asset out there, but sometimes the math may not work right away. So how do you balance those two, or do you basically just simply wait, and you are patient to find the right time from a financial return perspective?

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

So that latter statement resonates with me. To me, those two factors, there's an 'and' with those, not an 'or.' So they both have to work out. So no matter how good one of them, if the other one doesn't work, then the whole thing doesn't work.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

And I think it's grounded in a belief that you don't have to be bigger to be better. And if you look at some of the M&A that's going on, you have people trying to move into different markets, you have got people trying to build scale, other reasons that they are moving in those directions.

We really have all of those pieces in place, so being bigger isn't better. It really comes down to making sure that we've got and make the right financial decisions. With that, I think we have time for one more caller. Operator?

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Operator

Ambrish Srivastava, BMO.

Ambrish Srivastava - *BMO Capital Markets - Analyst*

Dave, a lot of good questions have been asked. I just had one on market share, and we have been, I think most of us on the call have been using WSTS data as a view for a while. Just a little bit confused and scratching my head, so wanted your perspective. I don't think there's a right answer.

Analog, for the first time, you didn't grow -- actually you have been taking share in analog WSTS for a very long time, so the first time you were below what the industry grew. And then if I look at the embedded, all of a sudden you were so good that you took per our calculation 300 BPs to 400 BPs of market share. So I'm just struggling with how to reconcile that. Thank you.

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Ambrish, what I would encourage you to do is to look at our performance, look at our peers' performance, to what's publicly reported. I think when you look at that information we believe that we performed both very well in both markets, so that's what we really look at to measure, WSTS would be one input into it. But we will pay most attention to what's publicly reported. Do you have a follow-on Ambrish?

Ambrish Srivastava - *BMO Capital Markets - Analyst*

That was it, Dave. Thank you.

Operator

Okay. I will turn it over to Rafael to make some concluding remarks.

Rafael Lizardi - *Texas Instruments Incorporated - SVP and CFO*

Thanks Dave. I just want to thank all of you for taking the time to go through our capital management strategy. To wrap up, just want to emphasize a few points. We remain focused on consistent execution of this strategy. Our disciplined allocation of R&D is delivering growth from the best markets, industrial and automotive. We have great diversity across all sectors within this market. Our 300-millimeter Analog manufacturing strategy is unique, it's a unique advantage, and it continues to drive free cash flow margin. And finally, we remain committed, and I am committed to returning all free cash flow to the owners of the company. Thanks. Dave?

Dave Pahl - *Texas Instruments Incorporated - VP of IR*

Thanks you all for joining us. A replay of this call will be available on our website, as well as the slides that we used in this call. Additionally, for those of you who have not joined our capital management calls in the past, we will have a comprehensive summary presentation on our website, which also covered topics discussed in our previous years' calls. Good day.

Operator

And that will conclude today's conference call. Thank you everyone for your participation. You may now disconnect.

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