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PRESENTATION

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Good morning. Why don't we go ahead and get started. I'd like to introduce -- welcome everyone to this morning's session with Texas Instruments. It's my distinct pleasure to introduce Rich Templeton, the Chairman, President and CEO of Texas Instruments. We've got about 30 minutes in this forum, we do a fireside chat. If you have any questions, please e-mail them to me, and I will try to work them in to my prepared questions. But with that, I want to welcome, Rich, and thank him.

QUESTIONS AND ANSWERS

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Rich, I told you this before, use fireside chats with you are terrifying to me.

One, because it's you. And two, because of the consistency of your business, it's really difficult to come up with new and original questions that haven't already been asked. But I always like to start off these fireside chats by giving you the opportunity to kind of set the table, kind of review for us again, kind of the core strategy of the company. And what do you think the key investment proposition is or value proposition is for your owners that are listening in right now?

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

Well, John, thanks. And we do take great pride in trying to keep things boring. Because I think there's great benefit and returns if you can be consistent on that front.

But in many ways, I think the assumption or where we've been driving a company really rotates around just a couple of things. First is, we just look at where the world wants to go in terms of more electronics, making products better. And that's lower power, easier to use, more efficient and the various things. And in order to do that, you've got to put electronics and therefore, semiconductors inside of them.

And we just look at embedded and analog semiconductors as the best products to be in across the market. We've got the added opinion that we've been pretty consistent with this, that the automotive and the industrial markets, while we love all our markets, and they're all great businesses for us. They're going to have average up growth over the next 10 years. And then finally, I think it just rotates around this belief that free cash flow per share is really the best proxy to drive value over the long term. And as a result, we really try to be very disciplined about the competitive advantages of the business model that we have, helping to drive that free cash flow per share. And we just try to stay very focused when we invest money in those areas, either strengthen them or to leverage them accordingly. So if that sounds vaguely familiar to what you've heard from us for the past 10 years, then that's probably a pretty good thing.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

And consistency is good. Rich, one of the things I've always admired about you and your organization, is the fact that you look at numbers, you're very data-driven. You look at historical trends.

And you kind of call things as you see them. You don't try to shape -- color shape that with one direction or the other. I'd just be kind of curious, given that you are sort of a student of the industry. How do you think about where we are in the cycle? And I know that, that's not something that you focus too heavily on to run the business. But I'd be curious about kind of your perspective of where the semiconductor is, both cyclically, but perhaps more importantly, structurally?

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

Yes. So John, I guess just a couple of things, and you can follow up on some of the structural questions. But and I think you've been on this thesis as the world moved into COVID-19 back in, you can say, January or to the March time frame, depending on where you are in the world.

As you somewhat implied with your question, we took a close look at the last big economic disruption, and we said the wise choice to navigate 2020 was to stay aggressive with the operating plan because you've just got to be in a position to produce things even though customers won't be able to forecast very well. And I think that choice ended up really helping us. I think you've had the added theory, and I believe it is a very fair one that a lot of people underestimated that 2019 was already a down year compared to '17 and '18. So as a result, there wasn't much flex for the semiconductor industry to absorb in 2020. And I think you've seen it pretty much play out that way over time.

Now to the question of longer term, I think that there's some interesting insights that you can potentially arrive at. And I'm sure you have an opinion on these. But I think you're seeing, for example, the impact of -- when you have control of your manufacturing internally, and you've got a robust business continuity plan, you can just do a better job for your customers. And we just think that, that is going to be a growing advantage over not just the next year but the next 10 years. So these things that you hear us talking about of investing to expand manufacturing and technology as an advantage or building out and taking advantage of the reach of our sales channels.

These are all structural advantages that I think are going to play in our favor over the long term.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Richard, I actually argue that they've been benefiting you here in the near-term as well.

Our checks clearly show that you're the 1 guy out there that continues to have good availability of parts, and it's probably helped some of your near-term business, but I couldn't agree with you more about the longer term. I want to stay on kind of the cyclical recovery thesis because you had very strong growth in your September quarter. I think it was -- but it was the first time, I think, in multiple quarters, that you actually saw year-over-year growth.

And to your point that you highlighted, '19 was a down year for both analog and embedded for the SIA data. It looks like despite what's a better than feared year this year, analog and embedded are still going to be flat to slightly down year-over-year for the full year calendar year '20. I would argue that down on down bodes pretty well for next year. But how are you seeing it?

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

I'm always careful on WSTS only because we've got to get the year done, and I also like to triangulate to the companies themselves. But I think it's pretty consistent when you look at the bottoms-up company performance for the numbers you just described.

I think what 2020 probably reflects -- and John, you're close to this. It's really that where the COVID mix has driven consumption.

And so we've seen a stronger growth in the computing market, be it work from home, learn from home. Those things have obviously benefited. The automotive market lost, one could argue 2.5 or 3 months with plant shutdowns in North America and Europe. So that's going to tend to average that down a little bit.

So I think those are examples of contributors of why the total market could be up versus analog and embedded. But I do agree that I think the indications of where analog and embedded can continue to grow are going to be -- should be reasonably positive.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Rich, one of the company-specific questions I get often about you guys is just what seems to have been -- or is the divergence in sort of trajectory between your core analog business and your core embedded business with embedded kind of underperforming here. I'm wondering if you could help us walk through what you think are the dynamics that are driving that.

And more importantly, kind of the outlook for embedded kind of closing that relative growth gap with your analog business?

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

Yes. John, I think you're kind to use the word kind of as an adjective in front of embedded because I think we've been very clear, we're not pleased with the performance that we've seen during 2018 and '19.

It's why we've made changes. It's why we've really taken a sharper look, and we've done some things internally on that front.

And I think that Dave and Rafael even talked during the October call, and we're very careful with stuff like this. But basically, when you look at the data that you saw with embedded in the third quarter, signs of stabilization. And the only reason we're careful with describing it that way is we really want to get this to where embedded is back growing and contributing at the level it did for a very long period of time up until 2017. The business is capable of doing that. We've had to make some changes. That's ours. We are going to get that fixed then, but it's going to take a little bit of time before we can start to get the consistency of growth back out of that. So that's where our efforts are, and we're pretty focused on that.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, Rich, can you help me understand the design cycles in the embedded business versus analog? I mean, I think one of the great strengths of your overall business is that you play in end markets that have design cycles that can be 3-plus years. And once you get that socket, you sort of got recurring revenue for 7 to 10 years. Is embedded a relatively shorter duration market than analog, so that new design wins can flow into the business model more quickly? Or is it about the same?

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

It is, the easiest and simplest assumption, John, is that it's about the same. It can obviously vary a little bit depending on if you've got exposure to an automotive market versus industrial or which areas that you have industrial, but to the source of your question or to the intent of your question, assume it's the same.

And that's also why we're just careful with step 1 as signs of stabilization, then we've got to continue that. But you really have to give it a couple of years to make sure that you've got the sustainable growth back and running again just because of the time constants that you referenced.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

The other dynamic that I think has added a little bit of noise to what's already been a very noisy year in your business. It's just some of the decisions you've made around your distribution strategy.

I'm wondering if you could just level set us on kind of the strategy. But more importantly, the impact you think that some of your decisions might have had on growth over the last couple of quarters and what that might mean for growth in coming quarters?

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

Yes. So John, I'd break it into a couple of things. First, go to the higher level strategic objective because I really do think that this is going to be one of these topics that when we're talking 2, 3, 4 and 5 years from now, there's a pretty good chance we're going to look back and say, that was really a pivotal change that we put in place and that it's really becoming an enormous advantage for us driving growth for the long term.

And it's because we just simply believe that if you look at a secular trend, customers have a growing desire for the convenience and the productivity that comes from content and commerce, being able to take place online. And yes, complemented with technical and commercial skilled people. But that's just the direction that the world wants to go. It's how design engineers want to work. It's how customers want to work.

And so when we sit back and look at where the world wants to go and we've been on this path, as you know, for a while, that calls for having close direct relationships with customers, not having people or distributors in between you and those customers. And it is going to be -- it's going to have a profound impact because you just see more, you know more. And as a result, you have better access to be able to win more business because it's not filtered or not flowing through other organizations.

And so we've been moving in that direction for a long period of time, taking out design win registrations and things like that. And 2020 is really the final year as we're narrowing down the distributor count and shifting quite a bit of business to direct.

And yes, as you noted. I think we've been draining distributor-owned inventory for 8 straight quarters. So that obviously creates a "revenue headwind." But it doesn't change your real share at the point of consumption, and you'll certainly get that back when that draining of inventory stops because it's depleted, which we're coming up on. And we really believe those are the classic make the right decisions for the long term even though it may have a bit of a headwind in the short term. But our team is already excited, the data -- what they're starting to see and learn and what we're able to do with customers is really pretty exciting for us.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, Richard, as you pointed out, I think the big advantage you have is scale. And one of the ways that's materialized is what you've done with the Internet and your website, you're sort of the Amazon of the analog space. I'm wondering if you could just give us an update on the strategy? And how important that is becoming for procurement of future business?

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

John, it is, back to your point of scale. It's not just the website, but it's also the investments we've made in application engineers and technical salespeople. It's investments that we've made on internal processes.

So that we can work on a seamless basis where the web and direct touch with customers is one and the same. We've had huge upside even in 2020.

We had made investments and done work back in 2016, building a what was called mass market selling or virtual selling that was targeted, how we got deeper into the marketplace.

But we would do it in a virtual way on the web. And then all of a sudden, this thing called COVID-19 hit in March. And we had the entire sales force already trained on virtual selling. So it was a seamless switch in terms of how they were going to operate on that front.

So those investments are all part of that. And the benefit that we have is we literally have tens of millions of visits to ti.com, more than even our closest competitors in analog.

Because we simply have a larger portfolio of products. And as a result, if you're a design engineer, you're going to have bookmark, and you're going to go to the websites that give the highest probability that we're going to have a part that solves your needs when you begin a design. And that is just a great advantage to have as really a combination of first mover, investing in this way, but also the advantage of -- it's a hard thing for somebody to replicate the breadth of what we have.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

An additional source of noise to the business over the last couple of years has been sort of U.S.-China trade tension, specifically around Huawei. I'm just kind of curious, Rich, if you can give us your perspective, and how you're thinking about navigating through the regulatory trade environment over the next couple of years. But more importantly, when you think about China's desire for domestic independence on the semiconductor side? And what that might mean for your competitive position in China against domestic Chinese in both the embedded and the analog business?

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

Yes. So just a couple of things quickly on that, John. First off is the ambitions of China to build a domiciled semiconductor industry and independent of the world. As you know, you can go back 30 years of 5-year plans and find that ambition called out. And so this is not a new ambition. It's not a new effort. It's certainly got more money behind it now, and it certainly has the amplification, as you noted, of the U.S.-China trade tensions that we've seen in the past couple of years. So the effort isn't new.

And the second thing is that, again, as you know quite well, a lot of that investment tends to get aimed at the big -- call them, big shiny objects or big identifiable segments of the marketplace.

So a lot of investment in memory or trying to get into advanced logic for processors or app processors or modems or things along those lines. So markets like analog are understood. They're just a lot harder to mobilize on because it's about developing tens of thousands of products, and it's about having global channels to be able to sell those products on a global basis to be able to make the economics work.

So I just think you've got to comprehend all that when you think about what that risk looks like. We still have this fundamental belief that China is more opportunity than threat. If you've got better product offerings, better product capabilities, availability, pricing, convenience. Those are going to win business in China because the customers are going to be ultimately pragmatic on trying to develop and ship the best product. Obviously, on the regulatory things, if we have those come up like with Huawei, it's just simple. You abide by the regulations and you don't ship if that occurs, and you just deal with those things.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Now that makes a lot of sense. I want to take you back, Rich, to 2011. Back then, we had a target on the SOCs of 500, and people thought we were crazy.

It was also the year that people thought you were crazy that you bid up national, I think about 80% and bought them for what was, I believe, $6.5 billion.

That looks like change you now find in your couch relative to some of the M&A that's been going on in the space of late. I'd like to get kind of your perspective of how you see the M&A environment for semi. And is M&A still something that you think is a good tool for you to use? Or do you still see that purchasing your own stock is a better return on your investment?

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

Yes. So national, inside of that, John, and you've lived through it and watched it with us. And it was really actions we took in 2009, '10 and '11.

National being the 2011 decision, as you mentioned. But we also saw 2009 and '10, a great time to buy assets and that we bought used equipment from Qimonda or a couple of wafer fabs that we were able to get at extraordinary prices at that time.

As you noted on national, besides the absolute value, that sounds pretty low, I forget the exact number, but I think free cash flow that national generated was like 6% of purchase price even with the premium. And I just still think that those principles have to hold. So fast forward, 9 years ahead on that. I think M&A has a clear role that it can play. But as with all capital allocation decision, you got to begin with a comment of it depends.

And you just -- you've got to be disciplined on where that money goes and what type of returns you can get on it. Now we do have a luxury as several of your questions this morning have highlighted, which is we've got ourselves prepared and on the right side of the critical mass line or the right side of the scale line in terms of manufacturing, in terms of product breadth, in terms of reach of the channel. So it's not like that we have to go, do things from an M&A point of view because we don't have a choice in order to achieve scale, which I think is a wonderful place for us to be in. So as a result, yes, we'll just continue to be -- we'll continue to be disciplined.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, staying on the capital deployment side of things, I got questions around 2 other uses of your capital, which is R&D and CapEx. I think, first, on the R&D side.

I think one of the benefits you have in your business model is that as you steer more towards industrial and auto, those are longer duration assets that you can really leverage R&D dollars over a longer period of time, which should eventually lead to an overall R&D burden as a percent of revenue that still has a downward trajectory.

I know that's not how you think about making R&D investments, but help me understand better that dynamic and how we on Wall Street should be thinking about the R&D expenditures.

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

Yes. I think, John, the way I would talk on R&D is that it typically gets shorthanded and focused on as a percent of revenue.

And I get that because it's how the quick math on a P&L model would work. But our belief in general is that we have an opportunity to continue to grow that R&D.

Your comments are 100% correct, which is the beauty about -- even my opening comments about where we want to invest.

One of the competitive advantages we talk about is diversity and longevity. When we make investments, be it in a part, be it in a process technology, be it in a piece of manufacturing equipment or a design win. And if they can live for 20, 30 or 40 years, it's obvious what the return on investments are going to look like. So we think there's opportunity in a very steady, consistent way to continue to grow R&D, keep developing great products and great technologies. And in any one year, that percent may go up or down depending on what the revenue is doing in that year, but just like I advised on the April earnings call when COVID was going to potentially take revenue down, we were going to have a very steady hand on R&D

investments because those are 5 and 10 year calls, not something to get distracted on in the near term. So we will keep growing that. I don't want to imply that the percent of R&D is going to come down over time.

I think we operate at a very efficient level, as you know, compared to the industry right now. And I don't think we've got to go squeeze that further, developing great parts, generate great return, and that's where we'll focus.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

And then, Rich, on the CapEx front, as you pointed out earlier, you did a great job, buying capacity cheaply back in the sort of '08, '09 time period. I'm kind of curious if you can give us an update on sort of the build-out of the second shale within our fab and kind of how we should think about you balancing CapEx dollars today versus future revenue growth?

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

Yes. John, again, I think, if I remember, I think I mentioned the same comment in April, both R&D as well as CapEx, and that is that we're going to keep a steady hand looking 5 and 10 years out R&D, and we're going to do the same with CapEx. And in the case of CapEx, we're going to have a particular focus on what 2022 and through 2025 needs to look like. And so the investments that we're making in our third 300-millimeter facility, our fab 2, as you noted that's really about revenue 2 and 3 years from now and then that kind of 4-year period from 2022 forward. And so construction is underway. Good progress is being made.

We had commented, I think it was the capital management call last February that a 6% type revenue assumption is a reasonable assumption to look at over the longer term. I would not try to be overly precise with what that number would be in any year.

Because revenue could be up or down, it could move that around. That 6%, as you know, is up from, I think we ran 4% for a 7, 8 or 9-year period, just because we had a higher percent of used equipment. And we've made the assumption with that 6% that there'll be a higher percent of new equipment inside of there. We just think that's a wiser -- wiser prediction to make at this particular point. So that's the road map that we'll execute to. As I commented earlier, I think, in a world where, in fact probably gravity has more people outsourcing wafers or outsourcing assembly manufacturing.

We actually believe this is going to be a growing advantage over the next 10 years, both in terms of the cost advantage it gives us, but also the control of supply chain that it gives us.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Well, Rich, a lot of this conversation has centered on rightfully your scale advantage. You and I have talked about this in the past. When you look at the analog market overall, it's one of those markets in semis that doesn't seem to -- on the surface, need to ask you. You're the largest guy in the space at sort of a 20% market share, but I always joke that the other guy, that other guy that's other that has more share than you. I've asked this question from time to time, and I'll ask it again. Are you seeing a drive by customers to want to deal with fewer suppliers who can do more in the analog space? And do you ultimately believe that should lead to faster than historic share gains for you? And I'm especially interested in that dynamic within the auto industry.

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

Yes. John, I think my careful answer, and I want to be kind of precise with this is if you try to go to a question is one-stop shopping, a benefit that a design engineer selecting analog components looks for. I don't believe that, that is the case. Meaning that whoever, a mass is a bunch of stuff wins more business. If you look at where we spend our time and the things that we do, you've got to make it easy and convenient, okay, that design engineers can find what they're looking for, be able to evaluate it, easily test it and then get it into production. And if you do that well, you can make scale an advantage. I hope that makes sense in describing it that way.

Because of a smaller fabless analog competitor does a good part and gets to the customers, they're going to design it in. It's just the beauty of the business on that front.

So if you think about the "points of scale" that we take advantage of, I don't believe our analog competitors are going to build 300-millimeter manufacturing because they just don't have the revenue size, let alone the experience to go do that. They don't have the revenue size to have the package varieties that they would have to have.

So as a result, they outsource their assembly. They don't have the revenue size, so they can't have the applications, sales teams or the investments in ti.com, online commerce or make the investments in processes to make that all work together internally. So you've got -- it is scale that enables it, but you've got to turn it into something that's highly valued by the customer to make it really work.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Rich, we're coming up to the end of time in the session, but I wanted to end with 1 final question. I know that you've always prided yourself on the bench strength inside the organization. I think earlier this year, you sort of reinstated the COO role. I'm wondering if you could spend just a few minutes just talking about succession and how we on Wall Street should be thinking about that?

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

Yes. John, it's one of these things when in 2018, when I came back from my short sabbatical, I know you and many others asked what the time frame was, and I said it's really pretty simple.

And that is it will be, however long that it takes to have a great leader that can give us another 10 or 15-year shift and love the technology, love the people, love the work that I get to do, but that's really where we're heading.

And the other thing -- and again, you've had the chance to meet a lot of people at TI over the years.

The other thing that, one is the fun part about what I get to do, but more importantly, for confidence to investors is just look at the caliber of leaders that we have if you keep meeting that next level down over the past 10 and 15 years.

And so when we had the opportunity to promote Haviv to the COO role, he is just a terrific leader, okay, in terms of his technical capability, his urgency, his competitiveness, his thoughtfulness.

All the things that you'd want in a great leader. And equally important, and you've not -- and investors haven't had a chance to get down to Dallas recently, but the team that he's got reporting into him and the team that's underneath that, they keep getting better year after year as well just because we've had people growing up inside of the system, and they keep getting better at it.

So I couldn't be more pleased with what the lineup looks like and what the -- I think the inevitable support that we've got in terms of a great team that knows where we're trying to go, really lives the strategy, lives the values that really represent TI. And so I think we're in a very strong position on that front.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Perfect. Rich, with that, I really appreciate the conversation this morning. As always, very insightful. I want to thank you and everyone who joined us virtually. I also want to pass along our wishes to you, your immediate family and as importantly, the larger TI family continues to stay safe and healthy in what's been a very challenging 2020.

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

John, thank you. And saying back to your entire team and everybody else out there. Hopefully, the miracles of vaccine in the pharma industry are going to get us back to some semblance of normal, and we all look forward to that.

John William Pitzer - *Crédit Suisse AG, Research Division - MD, Global Technology Strategist and Global Technology Sector Head*

Great. Thank you.

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

Okay, John. Have a good day.
