PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President, Head of Investor Relations, Texas Instruments Incorporated
Kevin P. March – Senior Vice President and Chief Financial Officer, Texas Instruments Incorporated

Other Participants

John W. Pitzer – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Doug Freedman – Analyst, RBC Capital Markets LLC
Chris B. Danely – Analyst, JPMorgan Securities LLC
Blayne Curtis – Analyst, Barclays Capital, Inc.
Stephen Chin – Analyst, UBS Securities LLC
Tim M. Arcuri – Analyst, Cowen & Co. LLC
James V. Covello – Analyst, Goldman Sachs & Co.
Ambrish Srivastava – Analyst, BMO Capital Markets (United States)
Tore E. Svanberg – Analyst, Stifel, Nicolaus & Co., Inc.
Vivek Arya – Analyst, Bank of America Merrill Lynch
Ross C. Seymore – Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments fourth quarter and 2013 year-end earnings conference call.

At this time I'd like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Head of Investor Relations

Good afternoon, and thank you for joining our fourth quarter and year-end earnings conference call. As usual, Kevin March, TI's CFO, is with me today. For any of you who missed the release, you can find it and relevant non-GAAP reconciliations on our website at ti.com/IR.

This call is being broadcast live over the web and can be accessed through TI's website. 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 Safe Harbor statement contained in the earnings release published today as well as TI's most recent SEC filings for a more complete description.

The fourth quarter was a good one and wrapped up good year. We're entering the first quarter of 2014 feeling better than we did entering the first quarter of 2013. Before I review the quarter, let me provide some information that is important to your calendars. Starting this quarter, we will not be providing a mid-quarter update to our outlook.

Our business is now sufficiently diverse across markets and customers that we believe a mid-quarter update is no longer necessary. The diversity in our business means that TI's results should mostly reflect broader industry trends as opposed to TI specific considerations such as adjustments in demand from a large customer. In fact, in our last eight updates we have narrowed to the middle of the range six times on a revenue basis.

We do plan to hold a call on March 13 to update you on our capital management strategy. This will be a follow-on to the call we did a year ago on this topic. In this call, Kevin March will provide insight into our strategy and also answer some of the most frequent questions that we are asked about the strategy. More details will be forthcoming.

Revenue in the fourth quarter was in the upper half of our range of expectations. Once again, cash generation and returns remain strong. Free cash flow was $3 billion or 24% of revenue for the trailing 12 month period or in this case the full year of 2013. Over that same period, we returned over $4 billion of cash to investors through a combination of dividends and stock repurchases. This return was 136% of free cash flow for the year. Again, our strategy is to return all of our free cash flow to our shareholders except what is needed to repay debt.

EPS was at the midpoint of our range. However, it also included $0.03 of charges for a restructuring action that was not previously included in our guidance. So overall, a good quarter.

The restructuring that is underway is a result of our ongoing assessment of our investments and the market opportunities that we are addressing with those investments. First, we are reducing costs in certain Embedded Processing product lines that either have matured or do not offer the return opportunities we are looking for. These changes will accelerate the profit margin improvement in the embedded business while still maintaining its pace of growth. I'll note that we are not exiting any markets or discontinuing any existing products but are aligning resources consistent with our updated views of the market opportunities.

We are also lowering costs in Japan by reducing resources in that country to levels that are appropriate to the opportunity. Combined, these actions are expected to result in annualized savings of about $130 million by the end of 2014. As a result of these actions, we will eliminate about 1,100 jobs. Total charges are estimated to be about $80 million with $49 million included in the fourth quarter results and the remaining charges of about $30 million to be included in the first quarter. These charges are recognized in the Other segment.

In the fourth quarter results, TI revenue grew 2% from a year ago. Excluding legacy wireless, revenue grew 10% with double-digit growth in both Analog and Embedded Processing. Sequentially, revenue declined 7% with half of the decline due to seasonally lower calculator revenue. Analog revenue grew 12% from a year ago and declined 3% sequentially. From a year ago, all four major product lines were up with Power Management leading the growth. Sequentially, all major product lines were down with High Performance Analog declining the most. Embedded Processing revenue grew 11% from year ago and declined 10% sequentially. From a year ago, the growth was due to strength in microcontrollers. Connectivity revenue grew a single-digit percentage rate and processors were about even. Sequentially, all areas were down with the biggest decline in processors.

In our Other segment, revenue declined $209 million or 27% from a year ago. The decline was due to legacy wireless dropping $216 million. Sequentially, other revenue was down $90 million due to the seasonal decline in calculators. Legacy wireless revenue was $54 million in the fourth quarter and we expect it to be essentially gone in the first quarter.

Turning to distribution, resales declined 3% sequentially, trending about the same as our semiconductor product revenue. Distributors' inventory levels were about even with the prior quarter.

Let me make a couple of observations about the year overall. For 2013, Analog and Embedded Processing revenue grew a combined 4% with Analog up 3% and Embedded up 9%. These two key areas were 79% of TI revenue for the year, up from 72% in 2012. Operating margin for Analog was 25.8% and it exceeded 30% during the second half. Operating margin for Embedded Processing was 7.6%, a level that should increase as we continue to grow and as we execute our restructuring plan to better align resources with the opportunities that we are pursuing.

Finally, we are refining the descriptions of our end market mix to more closely match our perspective of our markets and investments. Traditionally, we and many other companies, have described the markets as communications, computing, industrial, consumer, automotive and education. The real world didn't always align so cleanly, and some of the categorizations became blurred.

For example, consumer smartphones were included with infrastructure equipment in the communications market, and consumer tablets were included with servers in the computing market. In both of these examples high-volume consumer products were grouped together with enterprise equipment that have very different life cycles and market characteristics. We believe our revised segmentation is more descriptive and reflective of the markets we sell into, and therefore, more helpful for our understanding of our business.

Starting now we will provide an annual snapshot of our product mix along the following market descriptions. Industrial, which was 24% of revenue in 2013; Automotive which was 13% of revenue; Personal Electronics, which was 37% of revenue, and includes subsets, which we call sectors, such as notebooks, tablets, mobile phones, and consumer products; Communications Equipment, which was 16% of revenue; Enterprise Systems, which include sectors such as servers and projectors, was 6% of revenue; and Calculators, which was 4% of revenue.

We have mapped our product revenue into these markets, as well as the sectors, and even end equipment levels below that. We find this especially beneficial for the Industrial market, where the market definition has historically not been very clear and where we have a strong strategic focus. We now have a reasonably precise profile of where our revenue is shipping that is more accurate than we've had in the past.

We've included on our website this 2013 product revenue breakout by market, along with the 2011 and 2012 historical breakouts. We've also identified the sectors below the markets to provide you a clearer understanding of how we're mapping the revenue. We will not be disclosing our revenue breakout below the market level. We plan to update this for you annually.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone.

Gross profit in the quarter was $1.64 billion, or 54.2% of revenue. Gross profit declined 8% sequentially, about the same as the 7% decline in revenue. Gross margin held up very well, slipping only 60 basis points from last quarter's record high. From a year ago, gross profit was up 13%, well above the 2% increase in revenue. The result was a 570 basis point expansion in gross margin. There are a couple of major reasons for gross profit expanding significantly faster than revenue.

First, the quality of our portfolio has improved as a higher proportion of our revenue is from Analog and Embedded Processing products. Second, our factory utilization has improved as we have increased loadings in our most advanced factories, and we have shut down older, less efficient manufacturing assets, such as our Houston and Hiji six-inch factories.

Moving to operating expenses, combined R&D and SG&A expense of $807 million was down $26 million sequentially, and down $48 million from a year ago. The sequential decline is mostly due to seasonality as employees typically take more vacation and holiday time in the fourth quarter. The decline from a year ago was due to the wind-down of our legacy wireless products. Acquisition charges were $84 million, almost all of which is the ongoing amortization of intangibles, a non-cash expense. Restructuring and other charges were $62 million. This included a $49 million charge for the restructure action that Ron discussed. This was not included in our prior guidance and negatively impacted earnings by $0.03 per share.

Operating profit was $687 million, or 22.7% of revenue. Our tax rate in the quarter was 25%, a point above the 24% that we had guided. The effective tax rate remains 24%, but we had several small discrete items that pulled the rate up in the quarter.

Net income in the fourth quarter was $511 million, or $0.46 per share.

Let me now comment on our capital management, starting with our cash generation. Cash flow from operations was $1.20 billion in the quarter. We increased our inventory by $5 million, compared with the prior quarter. Inventories days increased by six days to 112 days, consistent with our model of 105 to 115 days.

Capital expenditures were $107 million in the quarter. I should note this includes our purchase of a 358,000 square-foot assembly and test facility in Chengdu, China, that is adjacent to our existing wafer fab. We expect to have this facility equipped and in production by the fourth quarter of this year.

On a trailing 12 months basis, cash flow from operations was $3.38 billion. Trailing 12 months capital expenditures were $412 million or 3% of revenue. As a result, free cash flow was $2.97 billion or 24% of revenue. This is within our expected range of 20% to 25% of revenue. I'll note that depreciation expense for the full year was $879 million. Depreciation exceeded our capital expenditures by $467 million or 3.8% of revenue. Over the next few years, as we continue to hold capital spending to low levels, depreciation will decline to the rate of capital spending and our gross margin will directly benefit.

And as we've said, strong cash flow, particularly free cash flow, means that we can continue to provide significant cash returns to our shareholders. In the fourth quarter, TI paid $326 million in dividends and repurchased $734 million of our stock for a total return of $1.06 billion. Our capital management strategy is to return all of our free cash flow to shareholders except for what we need to repay debt. In the full year 2013, free cash flow was $2.97 billion and we reduced our debt level by $500 million.

We returned a total of $4.04 billion to shareholders or 136% of free cash flow. This return was 54% higher than 2012. We returned more than our full free cash flow in the year because proceeds from exercises of employee stock options totaling $1.31 billion in the year have also been an additional source of cash for the company, all of which was used to repurchase stock. There was an abnormally high level of exercises in the year due to the stock price performance. Although the exercises were somewhat of a headwind for the share count reduction, we more than offset this with stock repurchases. In the end, we reduced our shares outstanding by 25 million shares or 2.3% in 2013, similar to the last couple of years. In total, we have reduced our share count by 37% since the beginning of 2005 with our repurchases.

Fundamental to our cash return strategy are our cash management and tax practices. We ended the fourth quarter with $3.83 billion of cash and short-term investments with 82% of that amount owned by TI's U.S. entities. Because our cash is largely onshore it is readily available for a variety of uses, including paying dividends and repurchasing our stock.

TI's orders declined 10% sequentially and our book-to-bill ratio was 0.94%.

Turning to our outlook, we expect TI revenue in the range of $2.83 billion to $3.07 billion in the first quarter. At the middle of this range revenue would decline 3% sequentially with most of the decline coming from the final step-down in legacy wireless revenue which is now essentially gone and should not be a factor in sequential trends after the first quarter. Therefore, if you exclude the legacy wireless revenue from the fourth quarter of 2013, revenue at the middle of this range will be almost even sequentially. If you exclude it from the first quarter of 2013, growth would be 10%.

We expect first quarter earnings per share to be in the range of $0.36 to $0.44, which includes a $0.02 EPS impact from the $30 million of restructuring charges discussed earlier. We expect our effective tax rate in 2014 to increase to 27% and this is the rate you should use in your models for the first quarter. This is about three percentage points higher than our 2013 effective tax rate, negatively impacting earnings per share by $0.02 in the first quarter.

This rate is higher due to the expiration of the R&D tax credit at the end of 2013 and our forecast for higher profits in the year. Historically the R&D tax credit has expired and was later reinstated retroactively to its expiration date.

In summary, we're encouraged that a lot of hard work at TI over the past few years is producing results. Today, we're a company firmly rooted in Analog and Embedded Processing, areas that have strong potential for growth and good profits that require low capital investments and therefore can generate a lot of cash.

Although much of the heavy lifting associated with the structural improvement of TI is now behind us, our work is not done. The restructuring action we discussed today is a result of an ongoing process at TI of review and continuous improvement. This process helps ensure that we focus our investments on opportunities that have the best potential for sustainable growth and returns.

With that, I will turn it back to Ron.

Ron Slaymaker, Vice President, Head of Investor Relations

Thanks, Kevin. Operator, you can now open the lines up for questions. In order to provide as many of you as possible an opportunity to ask your questions, please limit yourself to a single question. After our response, we will provide you an opportunity for an additional follow up.

Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question from John Pitzer of Credit Suisse.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, good afternoon, Ron and Kevin. Congratulations on the good results. I guess, Ron, can you help me understand, when you talk about these realignment actions, how big of a revenue pie did these costs kind of cover and what was sort of the growth hurdle or the gross margin hurdle that you guys used to try to determine this sort of realignment of costs?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, I don't know that I can get into all of that detail, John, but clearly the Embedded Processing overall runs – I think last year it was just about 20% of our revenue. The Processor piece of that I think we've probably communicated, I can update it even for 2013, was 50% of our revenue last year. And again, that's where I would say most of the actions in Embedded Processing are taking place. And again, it's primarily in Processors. I would say secondarily, we're taking some action inside of microcontrollers as well. But Processors was about half the revenue. And of course, not all of Processors is being affected but certain product lines within that.

And then separately, the action in Japan, last year Japan was about 9% of our total revenue. And again, this is just more or less an action to – on the one hand we'll be consolidating some of the business activity that was previously in Japan just to other regions of the world where we can do it more efficiently. But then also, will be affecting some of the sales and marketing activities in Japan, kind of to align those resources with that opportunity that we see in Japan going forward. So do you have a follow-on, John?

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, guys. Just relative to the new segmentation with Personal Electronics being 37%, I'm just kind of curious, should that be an area where we see future realignment? Or do you feel given your cost structure, you can still go after the growth in that market at that sort of acceptable returns? How to I think about that 37% over time as a percent of the mix?

<A – Kevin March – Texas Instruments Incorporated>: John, I would say to you that the – if you take a look at that on the website, you'll see that it was down a little bit year-over-year. And really what's going on there is the wind down of the legacy wireless, that's really the handset and the tablet spaces coming down.

We will continue to be engaged in Personal Electronics, make no mistake about it. The biggest difference is that we'll be driving a lot more aggressively with our catalog products as opposed to custom products, and on the historical basis the catalog products tend to have a much longer life to them and a much better margin profile to them than custom products do. So while there won't be any overt change to our approach to Personal Electronics, it'll just wind down on its own because of the wind-down in legacy wireless as the biggest driver of that.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Thank you, John. Let's move to the next caller, please.

Operator: And we will go next to Doug Freedman of RBC Capital Markets.

<Q – Doug Freedman – RBC Capital Markets LLC>: Hi, guys. Thanks for taking my question. Can you take a look or give us some insight into how far all of your acquisitions have been integrated? What you're talking about now on your restructuring front, it sounds like really end-market related. Are there more efficiencies to be gained through further synergies that you might identify?

<A – Kevin March – Texas Instruments Incorporated>: Doug, we haven't made an acquisition in a couple of years of any meaningful size, and we pretty much wound up the – if you will, the synergistic opportunities of that consolidation about a year ago now. So there's not really much in the way of synergy as it relates to acquisitions going forward.

What we're doing on this restructuring is just part of an ongoing exercise that we've actually done for a long time. They're usually of a smaller level, and in this case a little bit larger, but that's really looking at where we're spending our research dollars and looking at the market opportunity that those products from that research spend would go into. In this case we've got some of the markets have matured or are about to mature, which means we don't need to have as many teams designing new parts for it.

Or in other cases, we may have invested in certain markets where we had anticipated better growth and return opportunities but those initial expectations have since been changed for a variety of reasons, so there's really no acquisition synergies that I can think of to suggest to you. This is just really an ongoing process of dealing with the reality of market changes over time.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Do you have a follow on, Doug?

<Q – Doug Freedman – RBC Capital Markets LLC>: Yes. As my follow up, there's been some concern in the industry as far as unit growth and the ability to grow revenues sort of above global GDP levels. We saw some interesting data out of the SIA recently showing some pretty steep declines in analog ASPs. Can you comment if you're seeing any change in the way either you or your competitors are approaching the business?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I don't know about competitors. I can say that at TI we have not reset our expectations downward as you might be suggesting there from a growth standpoint. You know I think over the last few years global GDP has been certainly below a normalized run rate and that certainly has affected our industry as well. But our view is that the markets that we serve, being analog and Embedded Processing will likely grow on a unit basis, and frankly from a revenue basis, about 2x global GDP. We believe that for some time. And again we're looking at longer-term trends, not what happened over the last three years or even five years. And again, our view on that is unchanged.

Okay, Doug. Thanks for your questions. Let's move to our next caller, please.

Operator: We will go next to Christopher Danely of JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. Just a question on the restructuring. How much of the cost savings will go into COGS versus OpEx? What do you think is going to be the big revenue headwind by the end of the year in terms of taking these products out?

<A – Kevin March – Texas Instruments Incorporated>: Chris, on the cost savings, again we anticipate by the end of the year we'll be at about $130 million annualized cost savings as we exit the year, about 65% of that will probably be in R&D, about 20% in SG&A, and about 15% in cost of revenue.

As it relates to revenue, there should be no impact on revenue. We're not eliminating products, we're not discontinuing products. These are products that have very long lives. What we're really dealing with here is that the rate of change in those markets have matured now in most cases and it no longer makes sense to continue to invest or invest as heavily as we have because there's just not the growth window there.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Chris, in many of these markets that we view are maturing frankly you could double, you could triple the investment and not affect the revenue level, not affect the growth rate just because the nature of what the market trend overall is doing. So again, let me just reiterate, we said it in prepared remarks and Kevin just said it, there are no products being discontinued and we're not exiting any markets with this action.

Do you have a follow on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah, can you guys just maybe give us kind of a status update on your end markets and what you expect to grow maybe the most versus the least for this year?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I can do part of that which is the historical view. I don't think we want to try to extrapolate into a forecast for 2014. But let me let me just start with fourth quarter 2013 and again, this information really is coming out of the database that I described we put together for our new market framing. But again, fourth quarter most end markets were down sequentially. The biggest driver of our revenue decline though was the seasonal decline in calculators, and I think as we said before, that was half of the sequential dollar decline in fourth quarter. Outside of that, Personal Electronics declined the most followed by Enterprise Systems and Industrial, and all three of those areas declined at single-digit percentage rates. Automotive and Communications equipment were each about even sequentially.

Just a little more color on some of those areas, Industrial, we saw strength in appliances and industrial displays but that strength was offset – more than offset actually – by broad-based declines elsewhere. In Enterprise Systems, really we saw weakness or declines there due to servers and in Personal Electronics, we saw declines in TVs, gaming and printers and we saw strength sequentially in tablets.

Moving to the full year 2013, Industrial for TI, this is based for our revenue was up 7%. That was driven by factory automation, building automation, appliances, medical and motor drive. Automotive was up 14% for TI in the year, driven by infotainment systems as well as advanced driver assist systems and safety. Personal Electronics revenue was down 18% due to mobile phones and tablets as we wound down our legacy wireless business followed by much smaller declines in other areas of Personal Electronics. Communications Infrastructure for the year was up 4% driven by both wireless infrastructure and enterprise switching. Enterprise Systems for the year was down 8% driven by servers and projectors and Calculators declined 3% for the year.

Okay, Chris, thanks for your questions and we'll move to the next caller.

Operator: We will go next to Blayne Curtis of Barclays.

<Q – Blayne Curtis – Barclays Capital, Inc.>: Good afternoon. Thanks for the question. I apologize if you answered this already. The decline in Embedded you had expected a decline in processors, was that greater than you were expecting? And where do you see your trajectory this year for that business?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Oh, Blayne, let me first of all get some data in front of me. We saw and – are you talking about the sequential trend in the fourth quarter there?

<Q – Blayne Curtis – Barclays Capital, Inc.>: Sequential decline in the December quarter, it was down double digits?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yes. And so, to be honest, I don't have the data here on our forecast. I can say that was – I again reiterate, it was down double digits as was connectivity, microcontrollers was down also but to a much lesser degree but I don't have the forecast data on processors to be able to say what it did versus our expectations.

Do you have a follow-on, Blayne?

<Q – Blayne Curtis – Barclays Capital, Inc.>: Yes. I think someone asked this already, but just looking at the March quarter sequentially, do you see any of your segments growing and if so which ones and would you point out any segments outside of calculators that are down a significant amount?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Again, calculators will be typically flattish in the fourth to first transition. That is their typical seasonal pattern, anyway. The only area that we really said we expect an additional decline is in legacy wireless where it will go from $54 million in the fourth quarter to be essentially gone in the first quarter. I think we described that already. Outside of those two areas we don't really have comments in terms of end market trends that we expect to evidence in first quarter.

Okay, Blayne, thanks for your questions. Let's move to the next caller.

Operator: We will go next to Stephen Chin of UBS.

<Q – Stephen Chin – UBS Securities LLC>: Thanks for taking my questions. First question is on the automotive segment, based off of the strong 14% growth that you just mentioned for last year, I was wondering if you had any color from downstream customers on inventory levels in supply chain and especially given the – I think, some of the comments from AutoNation last week about relatively high automotive inventories in the U.S. Any comment about momentum there in the first half of this year?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Steve, I probably don't have anything more that we would have from a, that would be a unique perspective that TI provides. When you somebody talking like AutoNation talking about inventory of automobiles, you have that data. We don't have any unique perspective. That's several layers below where we're selling into that supply chain.

I will speak more broadly that we believe inventory seems to be pretty well managed currently, if not lean. You heard my comments on distribution. Distribution inventories remain below five-and-a-half weeks, which again, are lean. But anything in terms of a particular supply chain like automotive, we really don't have that granularity. But again, our general sense is inventory is not at all an issue more broadly into the markets that we're serving.

Do you have a follow-on, Stephen?

<Q – Stephen Chin – UBS Securities LLC>: Yes. My follow-up is on gross margins and sort of relative to where your inventory levels are currently. If I'm not mistaken in prior quarters you were able to build a little bit of strategic inventory in some of your longer life – shelf life products and just given where the inventory levels are currently, would it be safe to say that you would not continue to build any more strategic inventory? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Stephen, on the inventory, we just closed the quarter at 112 days of inventory, which is consistent with the model that we have for ourselves of carrying between 105 and 115 days. And specifically, if you look at our balance sheet you will notice that during the fourth quarter we drained our work in process and our finished goods increased somewhat. That's just reloading the factories to meet the lowered outlook that we had in the fourth quarter. We do expect in the first quarter to begin to reload the factories as we go forward.

Inside that 112 days is the strategic inventory that you were talking about, which is parts that have long shelf lives, and we've been building that up for a couple of years now and we'll continue to manage that at about those current levels.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Stephen, thanks for your questions. We'll move to the next caller.

Operator: And we will go next to Timothy Arcuri of Cowen & Company.

<Q – Tim Arcuri – Cowen & Co. LLC>: Thanks a lot. Ron, can you talk given the savings on the OpEx, can you talk a little bit about how OpEx is going to work its way through the year? Is there sort of anything out of the ordinary other than just how the $130 million gets – ratably impacts the P&L through the year? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Tim, let me go ahead and comment on that for Ron. The first thing to remember about OpEx is that it will seasonally go up in first quarter. If you look over the last three or four years and just compute an average you can see that on average probably up about 4% fourth quarter to first quarter. You can expect an increase again in this first quarter as we start up 2014.

As we flow through the year, the cost savings that we talked about as a result of the restructuring actions will begin to show up in the second half of the year. And by the time we leave the year we'll have, we'll be at about $130 million annualized savings rate at that breakout that I mentioned earlier across R&D, SG&A and cost of revenue.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Tim. Do you have a follow on?

<Q – Tim Arcuri – Cowen & Co. LLC>: I do. Yeah, and so if I look at Analog share, you've been talking about SVA gaining share this year and if you just take seasonal December for the SIA it looks like your share in Analog basically was flat in 2013 verses 2012. So is there something that maybe might start to kick in, in 2014 that is going to cause Analog to gain share year-over-year? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, we'll see how 2014 rolls out. I guess for starters, based on the WSTS data that's been released through November, we believe we actually gained a small amount of share in Analog. And by the way, I should note, if we just look over last few years, I guess I have data since 2009 in front of me, on average we've gained Analog share at probably 30 to 40 basis points on average per year. We've gained in every one of those years and the range has been pretty broad.

There are some years where we've maybe, I'll say 10 basis points of gain and other years during that time period where we've gained over 100 basis points. So I would say it's not necessarily a smooth curve in terms of market share gains but at least it's consistent from the standpoint of we believe we've gained share every year and it's our expectation, and our intention to continue doing that, including 2014.

By the way, everything I think I just said there, I could also apply to Embedded Processing, although I would also say that Embedded Processing probably in 2013 our share stepped up a little more strongly in Embedded Processing than it did in Analog last year. But again, market share is important to us, everything I've also described about our market share gains was on an organic basis so it's not comprehending acquisitions and the impact of National or anything like that but again, we've been gaining share consistently and we expect to continue that.

I guess that was your follow on, Tim. Let's move to the next caller please.

Operator: And we will go next to Jim Covello with Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great, guys. Thanks so much for taking the question. Recognizing it's a relatively small part of the business, are you managing the 8% year-over-year declines in servers as if that's a secular issue driven by server virtualization that some of the other companies have also highlighted weakness in that area or do you think that was more of a cyclical issue in the server market and you expect to bounce back in that area? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Jim, I'll comment on that. I can't say specifically that we're managing servers by itself. We are looking at the entire compute space, notably hard disk drives for example and noting what's been going on in total demand for hard disk drives and managing accordingly to what looks to be a secular decline, as you pointed out, Jim, in that space. And so we've been adjusting our investment levels in that technology development and our staffing levels and so on to meet what we believe is a smaller market going forward than what we've seen in recent years.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, do you have a follow-on...?

<Q – Jim Covello – Goldman Sachs & Co.>: That's helpful. Yes, thanks. In terms of the M&A outlook, I know you just mentioned that you haven't done a deal in a couple years and obviously you guys have been so good about doing these deals over the years and then you've got to integrate it and potentially over time you've looked at others. If you do not do a deal in the next couple of years, do you think it would be because you really don't find one that's for sale that makes sense or do you just really not think that incremental deals make sense regardless of whether they're available from here? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Jim, I'd say it's more the first, not the latter. That is when we take a look at potential acquisitions, we look real hard at the numbers and we've got to be able to make sense of the numbers and namely we've got to be able to get a return on that investment that exceeds our weighted average cost of capital in a reasonable timeframe, which we've defined as three to four years. So if we can't get past the numbers, then we just simply step aside and wait for an opportunity to come at a later date. So it's really a numbers driven analysis as we look at M&A.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Thank you, Jim. Let's go to the next caller, please.

Operator: We will go next to Ambrish Srivastava of Bank of Montreal.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Hi. Thank you. Guys, a question on the divergence, and I know that every quarter both the businesses will not track up around the same levels. Embedded was down a lot more on a Q-over-Q basis versus Analog. What was driving that?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ambrish, I think it's very similar to what you said. I don't know that it's just the markets that Embedded sells into. In this case we noted that the processor area was down more than other areas. Obviously you're going to have different customers, you're going to have different markets, but they're both very diverse businesses. But they're not uniformly consistent in terms of the customers and the markets that they're selling into. Beyond that we don't really have a specific color for you. Do you have a follow on, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Yes, I did, Ron. Going back to the comments you made earlier on at the top of the call, you mentioned you're feeling a little more, and I don't want to paraphrase the word, but the message was you're feeling better about 2014 than you did heading into 2013. Is that just to do with the new rationalized product portfolio or is that a comment based on what you're seeing from the end markets? Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think it's both to be honest. I will make some comments and Kevin probably has some things as to how he's feeling as well. But I'd say first of all, the strength and position of where we are today in Analog and Embedded is a big factor. Having those two product lines now making up 82% of our revenue going out of the year in the fourth quarter, frankly, is a great feeling and positions us – you know as well as any, Ambrish, how long the wind down of that wireless revenue was, having that wind down behind us such that the top line growth for the company can reflect a lot of the good things that we are doing, a lot of the potential that Analog and Embedded have embedded in them is just great.

I think also, more specifically, the overall environment in terms of the markets that we're selling those products into and frankly just areas of strategic focus such as we've said industrial is really important to us, automotive is really important to us, the strength of those markets, and frankly, our position in those markets, not that our position is so strong that it is saturated. We like the fact that we have lots of headroom for growth and market share gains, but we also like the design position we have there.

And then maybe just a little more tactically, coming out of fourth quarter our book to bill was stronger exiting the year than it was a year ago, and we also have good backlog coverage coming into first quarter, as well. So those are the kinds of things that I know we look at.

Kevin, do you have anything else you would add?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Ambrish, I'd probably just say on a macro level, looking at the total economy, the U.S. economy clearly seems to be stepping up its growth. Europe appears to have stopped declining, and it appears that China has stabilized. Those are three big economic regions of the world. So you've got to feel better about that at this stage, starting 2014 than we did 12 months ago, starting 2013, with the uncertainty we were all staring at in those three economies.

And then again, a bit more tactically to what Ron was talking about. You know, if you look back a year ago, the sum of Analog and Embedded Processing was 74% of TI. Today it's 82%. A year ago, Analog and Embedded Processing were down quarter-over-quarter 9% on revenue in fourth quarter, and flat year-over-year.

You fast forward to this year, and not only is Analog and Embedded Processing bigger in percent, but it's also bigger in dollar terms. It was only down 5% quarter-over-quarter, and it's up 12% year-over-year. So we've got real momentum going as we move into 2014.

So you take the macro look, you take a TI-specific as the portfolio's finishing its restructuring, and you've got to feel pretty good about how we're going to start 2014, and what the year may hold for us.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Ambrish. Thank you for those questions. We'll move to the next caller.

Operator: We will take our next question from Tore Svanberg of Stifel, Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. I first had a capital management question. So last year was pretty unusual, $4 billion and $1.3 billion, I think you said, came from stock option exercises. I know obviously you don't have a crystal ball on this but can you just give us a rough sense as we look into 2014 what we can expect as far as free cash generation, and especially maybe handicapping the stock options exercises?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Tore, I do wish I had a crystal ball to help out with that particular question. But like you, I'm lacking in that right now. I would say that we would expect that the exercises are going to be lower next year than they were this past year. But I would also just put aside any concern about that, because frankly, we just used the cash proceeds from those exercises to buy back shares. So it doesn't really impact what we've been able to do to share count for our stockholders.

I believe in early March we're going to have, as Ron mentioned, we're going to have a capital management strategy update, and that will be a really good time to ask some of these questions. I'll take you a little deeper into some of what we're thinking on where we're going with capital management at that time.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: That was very helpful. Also, do you have any CapEx and R&D estimates for the year? I know in the past sometimes you have at least given the R&D guidance for the year. Just wondering if you can do that again this year?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, I'd say going forward you're not going to be getting that from us any more, Tore. The CapEx guidance that we'll give you simply is the band that we talk about around our revenue, meaning that our target is 4% to 7% of revenue on any one year, and we expect that given the size of our manufacturing footprint today, we don't expect to be pushing above the lower end of that range, in other words, probably more around the 4% of that range of revenue until we hit about $18 billion of revenue. So from a CapEx guidance, that's how I'd suggest you'll hear the modeling from us going forward, not a specific number.

And on R&D, frankly, we're reaching the point now where it's pretty stable, and it should probably just kind of grow with pay and benefit increases over time, and with the top line revenue growth over time, so based upon that, we're not going to be providing R&D guidance going forward. You'll be able to just take a look at our results, and it will be pretty straightforward for you to model that going forward.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think, Tore, the other one I would comment on is, we've also historically given annual guidance for depreciation. But again, given that depreciation is so GAAP these days from CapEx, and frankly, it's a multi-year lagging indicator versus our CapEx trends. So it just doesn't seem to us to be an especially useful number from a guidance standpoint, and clearly you guys can go off and make some assumptions on what that may be just given what our capital spending trends have been.

Okay, Tore. Thank you for those questions and we'll move to the next caller.

Operator: We'll take our next question from Vivek Arya of Bank of America.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thank you taking my question, actually both my questions are about different end markets. First on the wireless infrastructure market, if you could give us a sense for whether some of the restructuring you're doing on the processor side, does that impact the ability to benefit from all these 4G LTE deployments or am I just reading too much into that and there isn't any connection and in that case what are the trends you are seeing in that market?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Vivek, I would say first of all we don't believe anything we are doing here is going to impact our ability to benefit from LTE deployment and again, a lot of those – and that does not mean that the base station area is not an area where we are seeing some resource reductions, it is. But in general, LTE, we are already very well positioned across those various customers. Our system-on-a-chip products have been out in the market for some time. So we have a great position as LTE continues to deploy.

As to the comment, let me just talk maybe more broadly and I will start at the Embedded Processing level and then drill down into some of your comms infrastructure question. Let me say again, you heard us give the numbers, but Embedded Processing has really delivered strong growth this year. That came out of areas like catalog microcontrollers, specifically product lines like MSP430, the C2000. It came out of areas like connectivity, processors for automotive markets, processors for industrial markets.

Those areas that have been driving and producing growth, we will continue to invest as aggressively as we have in the past. The reductions that we are making are, as I said before, primarily processors and then secondarily in some of the product areas in MCU. So within processors, I would identify areas like IP cameras and certain areas of communication infrastructure where, frankly, the future growth just doesn't merit our current levels of investment.

Now to specifically your question about LTE and base stations more broadly, I guess I don't want to go into a lot of specifics there except to say again, comms infrastructure is an area that will receive fewer resources and it's based on our view that parts of the macro base station market are maturing.

On the flip side, small cell is an emerging opportunity for us and we will continue to invest accordingly there. But even in the maturing areas of base stations, as I started off here, we believe our revenue will continue for a very long time given the breadth of our position and the long lives of the equipment that we're already engaged with there. So hopefully that provides you some color as to what we're doing on comms infrastructure.

Do you have a follow-on, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yeah, Ron, actually, I have thought about asking about the PC market but instead what I will ask you is, in the market it's always about what have you done for me lately and last year the TI story was about the benefits you got from exiting wireless and the really strong capital returns and now I think for this year what you're hitting is sort of the same, so what is really the next catalyst that can help you either outgrow the market or provide much superior returns than what we are seeing from the peer groups or what is the value proposition for outsized invest, for overrating TI this year?

<A – Kevin March – Texas Instruments Incorporated>: Well, Vivek, I think there's a number of opportunities in front of us that we've got going on here. You have seen some pretty strong growth rates that we just talked about in the areas we've been focusing our attention on for a number years now, Analog and Embedded Processing. We talked about the fact that we're returning 100% of our free cash flow, less what we use for debt, but we also have plenty of room to grow with very little need to spend that much more to grow and I'm talking specifically about our manufacturing footprint. If you take a look at the very cost-effective factories that we put into play over the last couple of years and the low level of CapEx it takes now for us to get those factors going, the incremental margin and cash flow opportunity from those factories is extremely attractive.

In addition to that, we've just got the overall growing space in industrial and automotive which tend to be not only quite long-lived revenue profiles but also quite attractive margin profiles and again those products run across those inexpensive factories and just help generate ample amounts of cash. So I think from an investor standpoint, there are quite a few things to continue to look forward to, which is really our ability to continue to grow at the kind of rates that we're doing now inside Analog and Embedded Processing and leveraging the very inexpensive factories we've put in place to generate a lot of cash.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, Vivek, let me make a couple of other comments. I think a lot of our long-term oriented investors clearly looked through the wireless transition, frankly, even over the last few years into what TI was becoming and that was the value proposition for them. A company focused on very diverse markets of Analog and Embedded Processing, that didn't require a lot of capital, that generated a lot of cash and then as you pointed out, they liked management commitments to return that cash to them.

I would kind of take a different view from what you described with some of the other investors because investors, a lot of investors I've talked to last year, the year before, the year before, the response was: we like what you're doing in wireless. Give me a call when you're out of it and that no longer represents a headwind for your growth.

So for investors that have been sitting on the sideline because of the concern that wireless represented such a significant headwind to growth, I think the value proposition for them is clear. It's no longer there and the growth that we've been producing in Analog and Embedded is no longer going to be an obstacle for top line growth and for a lot of those investors that frankly our growth hasn't screened very well in the past, that's not going to be an issue going forward, so just my two cents worth on that topic.

Okay. Let's move to the next caller, operator. And I believe this will – well, we'll see. Likely it will be our last caller.

Operator: Very good. And we will go next to Ross Seymore of Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hey, Ron. Thanks for squeezing me in. Two quick ones. What would you say your new targets are if they've changed at all for the growth rate in Embedded as well as your operating margin goal in Embedded given the restructuring actions?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I would just say, first of all, in terms of growth rate target, absolutely no change. And again, I think Embedded did a good job on growth last year. Frankly, we would've liked to have seen that growth come through at a higher level of profitability overall for the business. But, growth has not been an issue and to the extent that we've tried to describe for you our investments in the areas that are growing in Embedded will continue unabated. So our expectations for growth in Embedded are absolutely unchanged and I think you'll continue to see good results there.

In terms of profitability and margin objectives, I guess what I would say, Ross, is, I know we've provided some numbers in the past but, in fact, I'll say what we've said in the past because I'm sure you have them in your notes there. I think in the September 2012 investor meeting our manager there described that his embedded, his gross margin targets were 55% to 60%, operating margin target was about 30%. What I would say is in general a well-run company focused on the Embedded Processing market opportunity we think has potential for a financial profile consistent with those types of numbers.

That being said, I don't think – what we are going to do with this segment is very similar to what we've done for Analog and not the communicating specific gross margin and operating margin targets and progress going forward. But again, clearly our objectives are much higher than where that business ran last year and ran in fourth quarter. Do you have a follow-on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: I do. I can't let Kevin get away with the whole conference call without somebody asking about the gross margin. Kevin, any help on the puts and takes for the first quarter as we look at the gross margin? It seems to imply at the midpoints of everything that it's down a little bit but just want to double check on that. Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Ross. You're right, I won't give you specific guidance but I'll give you some high-level things to think about. Clearly as we came through the fourth quarter, we were taking our factory starts down through the quarter. As we go into first quarter, we're taking our factory starts up. That's on the expectation of a normally stronger second quarter for us.

The result of that is going to be that while starts will be higher in the first quarter than they were in the fourth quarter, the average utilization won't really change that much. And so just based upon that and the timing of moving the wafers through the factories and through the assembly test sites, we will probably see a little bit of gross margin headwind as we bring those factories back up, but not a large amount.

Ron Slaymaker, Vice President, Head of Investor Relations

Okay. And with that, my clock shows it is 5:30 so we are going to wrap up at this point. I'd like to thank you for joining us. A replay of this call is available on our website, and good evening.

Operator: And this does conclude today's conference call. Thank you again for your participation, and have a wonderful day.