

# Capital management strategy

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# Agenda for this call

- Capital management strategy and scorecard
- Historical view of our capital allocation
- R&D allocation priorities and results
- 300mm Analog update
- Free cash flow\* growth and outlook
- Cash returns
  - Share repurchases
  - Dividends

\* Free cash flow (FCF) = Cash flow from operations minus Capital expenditures

# Key takeaways from our discussion today

- We remain focused on consistent execution of our capital management strategy.
- Our business model is designed around four sustainable competitive advantages. We invest with a long-term view to strengthen and leverage these competitive advantages.
- Our disciplined allocation of resources to R&D and our initiatives are delivering growth in the best products (analog and embedded) and the best markets (industrial and automotive).
- Our 300mm Analog manufacturing strategy is a unique advantage and will provide benefits for a long time.
- We remain committed to returning free cash flow to owners.

# Capital management: **objective and strategy**

## Objective:

Maximize long-term growth of  
free cash flow per share



## Strategy:

1. **Great business model:** built around four sustainable competitive advantages
2. **Discipline:** allocate capital to the best opportunities
3. **Efficiency:** constantly strive for more output per \$ of input

# Grow, generate *and* return

- TI is in a unique class of companies able to **grow, generate *and* return cash** to shareholders for a long time to come.
- Focused on the **best products** and **best markets** within the semiconductor industry:
  - Best products: analog and embedded – large, fragmented, used in everything electronic
  - Best markets: industrial and automotive – fastest growing due to increasing content
- Our business model is designed around **four competitive advantages**:
  - Manufacturing and technology
  - Broadest portfolio of analog and embedded products
  - Reach of market channels
  - Diverse and long-lived positions (high terminal value)

# Capital management 2018 scorecard

Metric	Long-term objective	Target	Result
Free cash flow generation	Maximize long-term growth of FCF/share.	25 – 35% of revenue (TTM)	38%
Capital expenditures	Invest to support new technology development and revenue growth. Extend our low-cost manufacturing advantage, including 300mm. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~4% of revenue	7%
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on percent of direct revenue, market conditions and consignment levels.	115 – 145 days	152 days
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for strategic build up or draw down of cash.	10% revenue (TTM) + dividends (NTM)	✓
Pensions	Be fully funded on a tax-efficient basis. Have annual FCF reflect what is available to owners by minimizing one-shot calls for cash, unless there is a P&L or cash advantage.	Fully funded	✓
Debt	Increase rates of return with some leverage on balance sheet when economics make sense. Avoid concentrated maturities and ensure strategic flexibility.	When economics make sense	✓
Cash return	Return all free cash flow cash via repurchases and dividends. Recognize there may be times for strategic build up or draw down of cash.	All free cash flow	✓
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 60% of current year FCF	✓
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)	✓

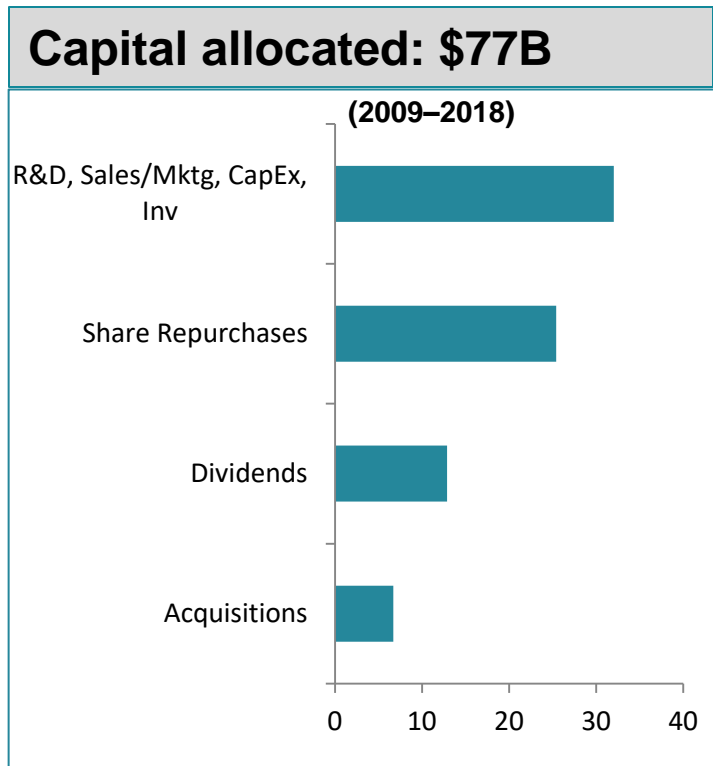
# Capital management **scorecard updates** for 2019

Metric	Long-term objective	Target
Free cash flow generation	Maximize long-term growth of FCF/share.	25 – 35% of revenue (TTM)
Capital expenditures	Invest to support new technology development, revenue growth and to extend our low-cost manufacturing advantage, including 300mm. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~6% of revenue
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on percent of direct revenue, market conditions and consignment levels.	115 – 145 days
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for strategic build up or draw down of cash.	10% revenue (TTM) + dividends (NTM)
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Cash return	Return all free cash flow cash via repurchases and dividends. Recognize there may be times for strategic build up or draw down of cash.	All free cash flow
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 60% of current year FCF
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)

# Ten-year view of our **capital allocation**



# Where and why we've allocated our capital



## Purpose

Organic growth of business

Accretive capture of future free cash flow for long-term investors

Appeal to broader set of investors

Inorganic growth

**R&D investments are targeted at the best opportunities**

# Disciplined allocation of R&D strengthens portfolio

Market segment	R&D investments	% of TI revenue					
		2013	2014	2015	2016	2017	2018
Industrial	Up broadly	30%	31%	31%	33%	35%	36%
Automotive	Up broadly	12%	13%	15%	18%	19%	20%
Personal electronics	Down, but more selective	32%	29%	30%	26%	25%	23%
Communications equipment	Analog up slightly, Embedded down	15%	17%	13%	13%	12%	11%
Enterprise systems	Flat, at low levels	6%	6%	6%	6%	6%	7%
Other	Flat, at low levels	5%	4%	5%	4%	3%	3%

.....and **is driving growth** in best markets

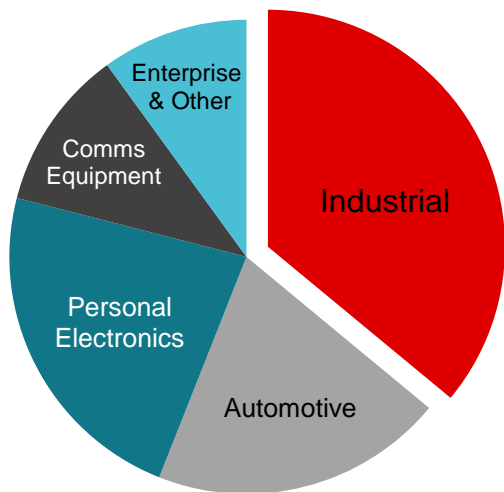
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Communications equipment	Analog up slightly, Embedded down	15%	17%	13%	13%	12%	11%
Enterprise systems	Flat, at low levels	6%	6%	6%	6%	6%	7%
Other	Flat, at low levels	5%	4%	5%	4%	3%	3%

**42%**

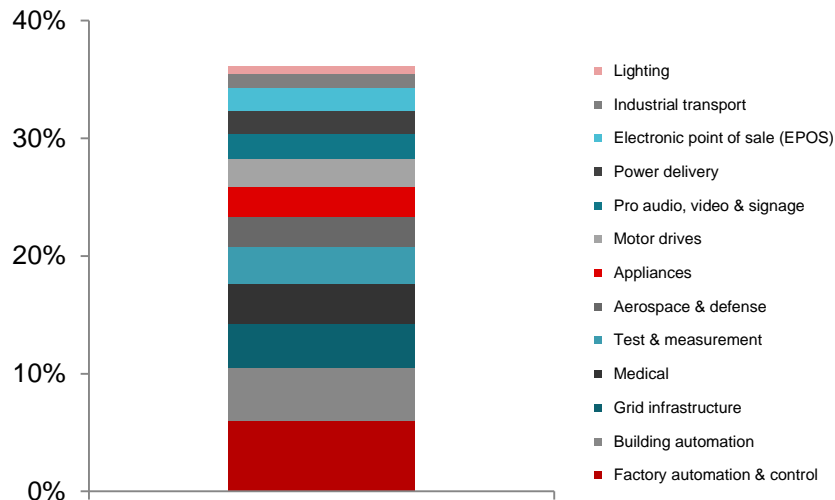
**56%**

# Industrial: our **largest and most diverse** market

## TI end markets



## TI industrial market (13 sectors)



**300mm Analog manufacturing  
is an advantage**

# Chip cost is ~40% less on 300mm

Illustration of the GPM impact from 300mm

		Built on 200mm wafer	Built on 300mm wafer
Sales price of example part		\$1.00	\$1.00
Cost of goods:	Chip cost	\$.20	\$.12
	Assembly, test, other	\$.20	\$.20
	Total	\$.40	\$.32
Gross margin %		60%	68%

# Continue to ramp **300mm Analog**

**RFAB**



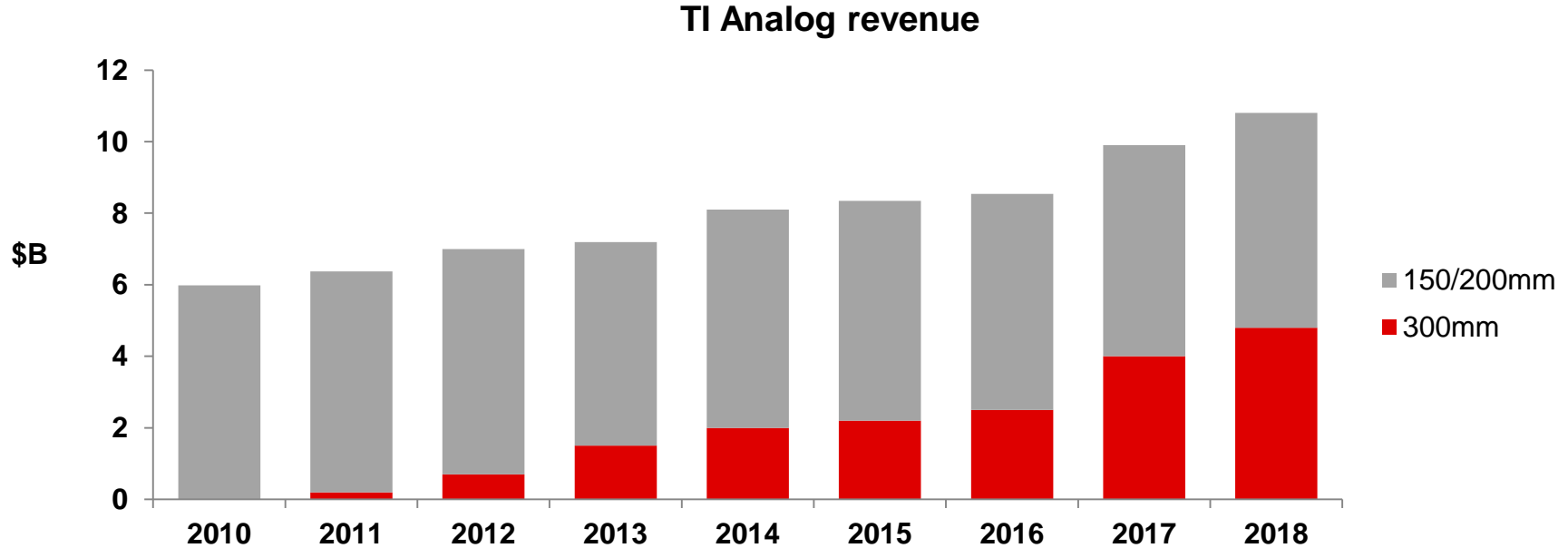
**DMOS6**



<b>RFAB + DMOS6</b>	<b>2017</b>	<b>2018</b>
Utilization % (combined)	~50%	~60%
300mm Analog revenue	~\$4B	~\$4.8B



# Impact of 300mm Analog **grows**



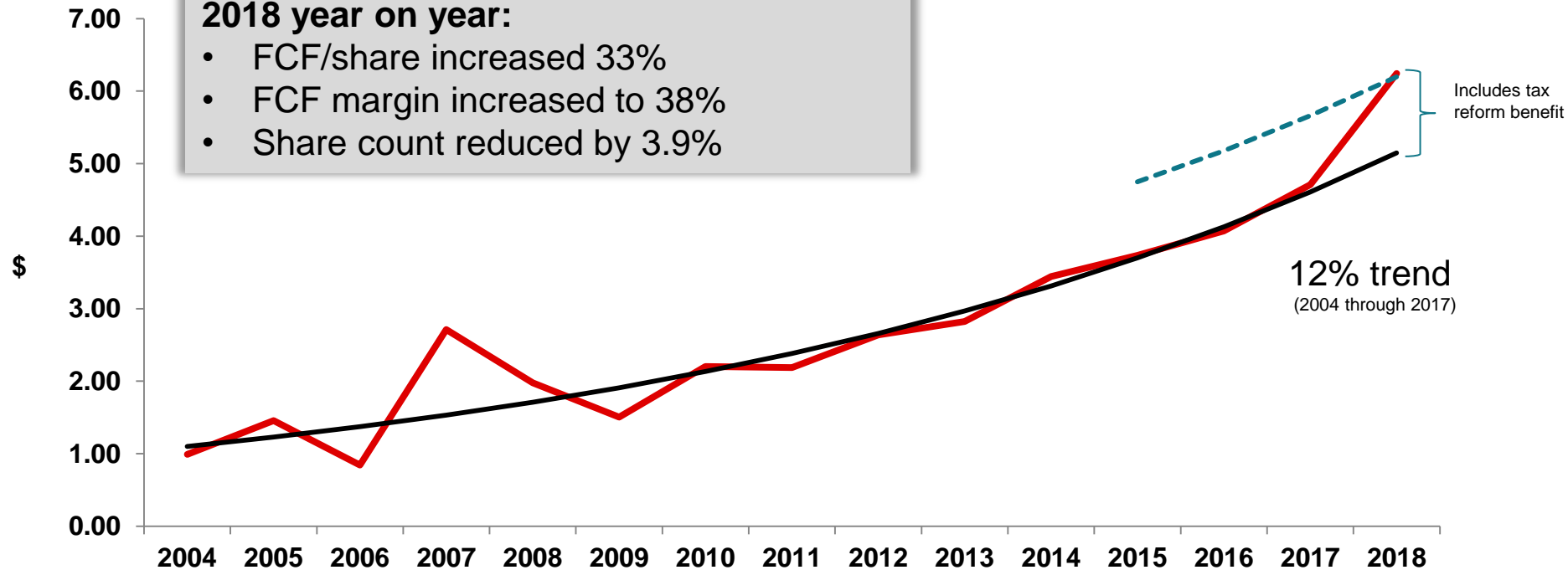
- 300mm Analog ~45% of total Analog revenue
- Incremental Analog growth mostly on 300mm

# Free cash flow **growth** and **outlook**

# Double-digit growth continues in FCF/share

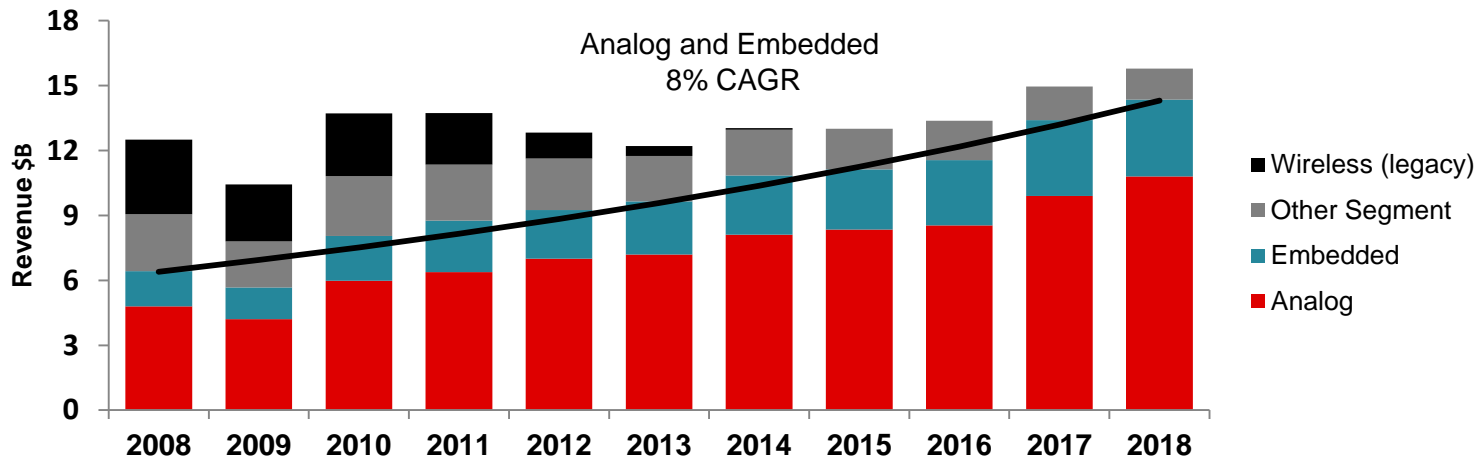
## 2018 year on year:

- FCF/share increased 33%
- FCF margin increased to 38%
- Share count reduced by 3.9%



# Analog and Embedded have **proven growth record**

## Transformation of TI's portfolio

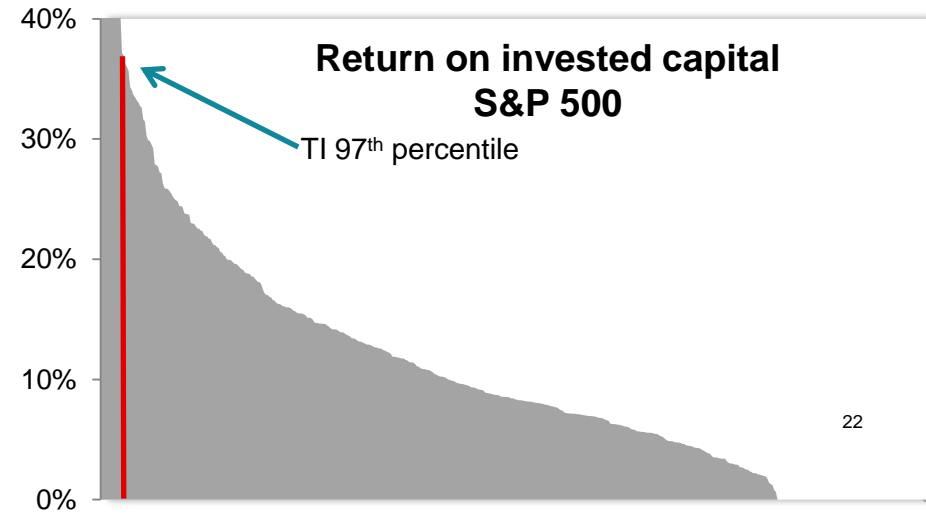
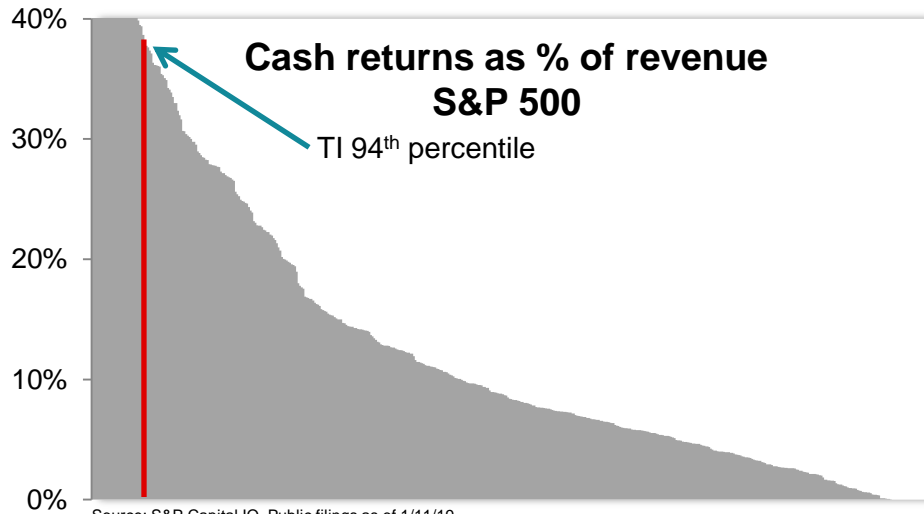
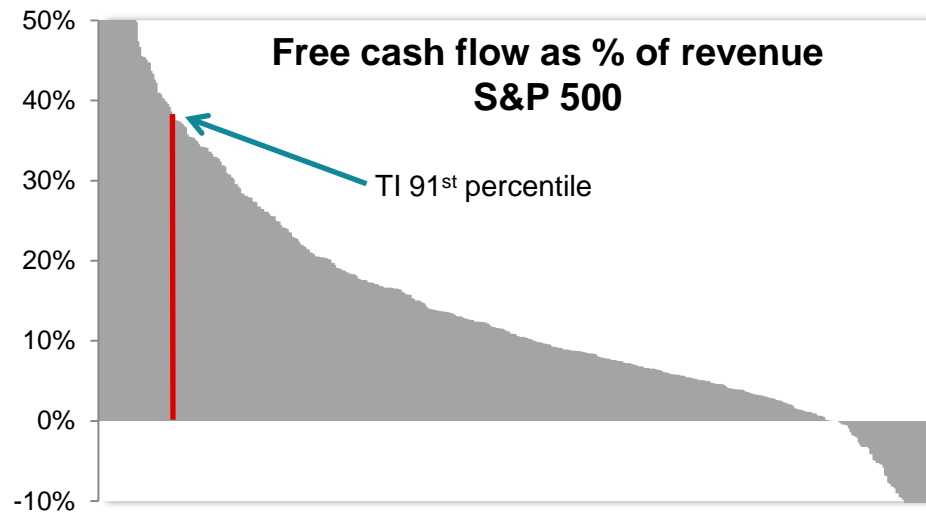


### Analog and Embedded:

- 5 & 10-year growth of 8% CAGR
- Gaining on average ~30 – 40bps of market share annually
- Now >90% of revenue, driving top-line growth

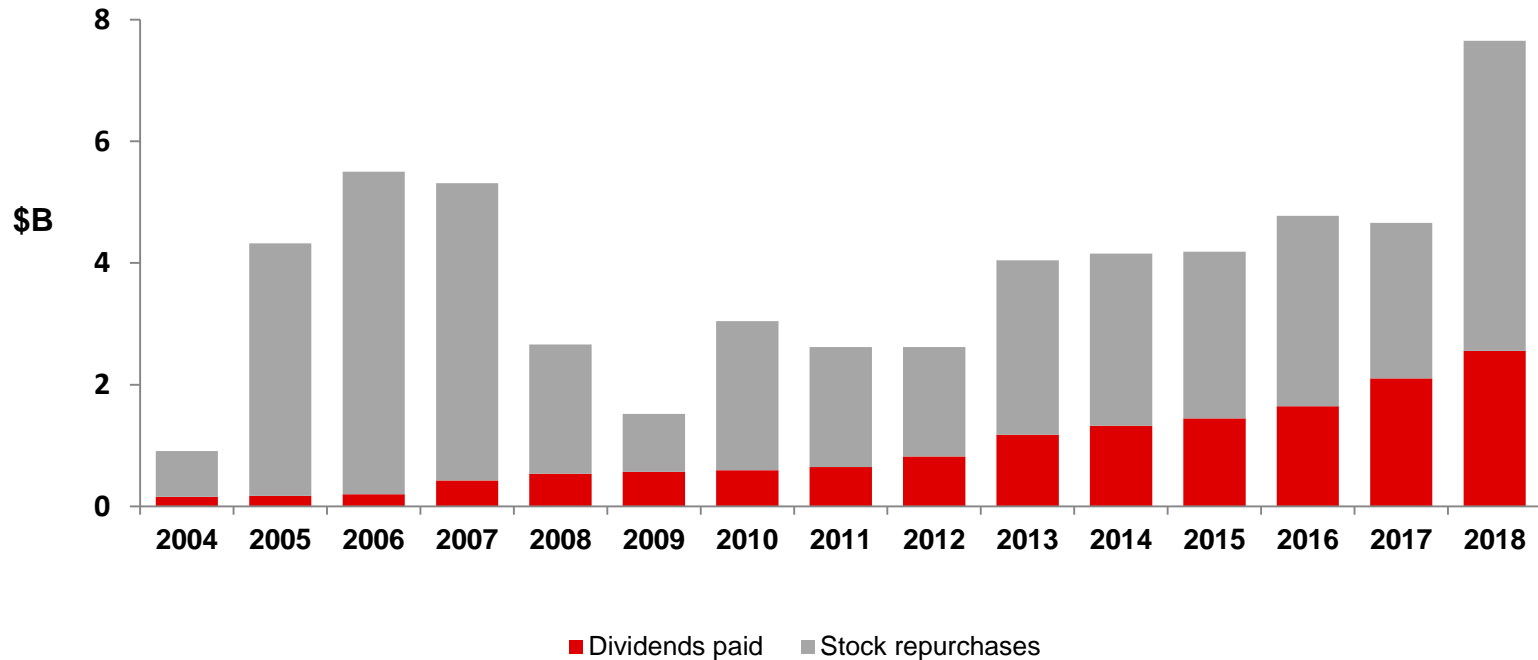
# Cash returns

# Cash generation and returns



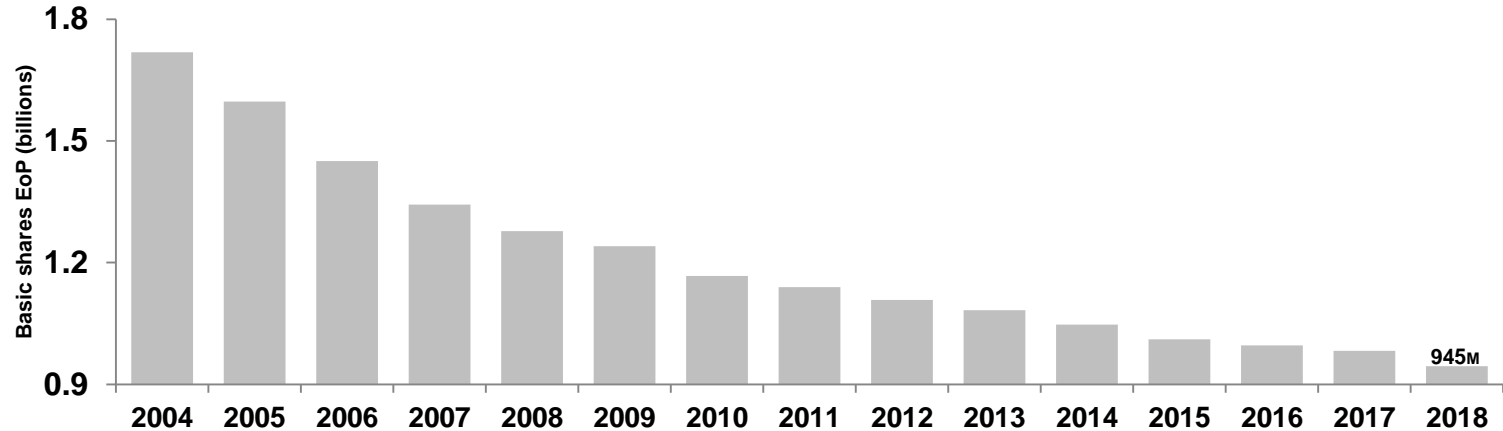
# Cash returned to owners **continues to grow**

Total cash returned



# Accretive capture of future free cash flow for long-term investors

## 45% reduction in shares outstanding

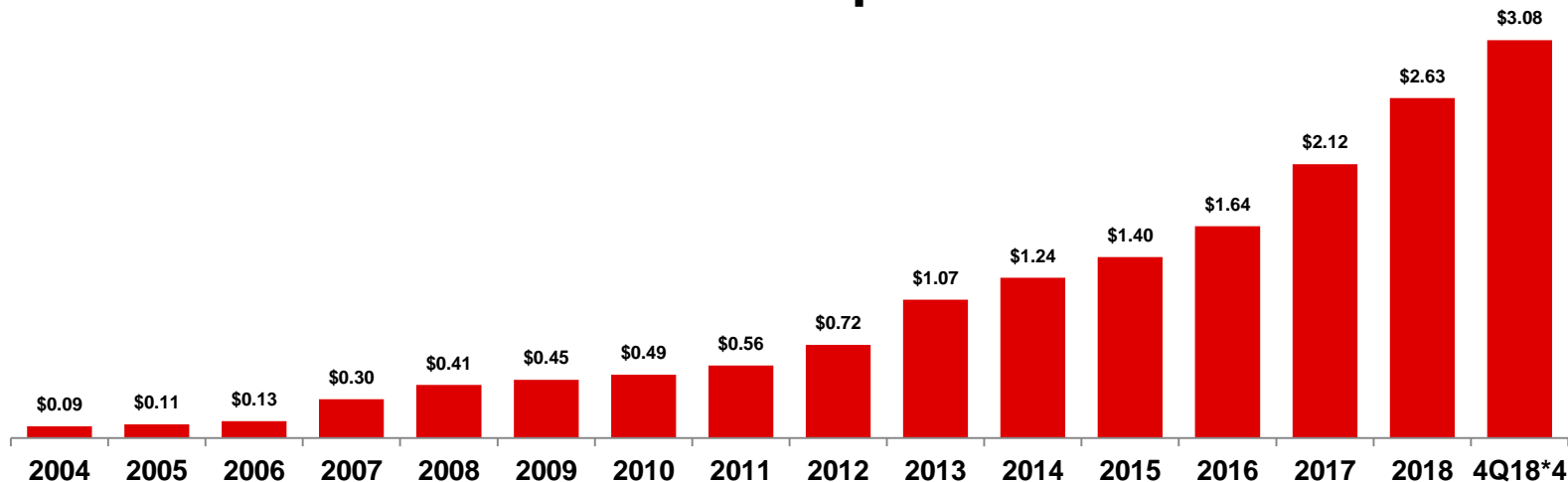


- Repurchase steadily when discounted cash flow value exceeds stock price
- Disciplined with stock-based compensation
- Shares outstanding reduced by 3.9% in 2018, 45% reduction since 2004
- \$16.1B of authorization remaining as of end of 4Q18



# Sustainability and growth of dividends

## TXN dividend per share



- Increased dividend 15 consecutive years, including 24% increase in 4Q18
- ~20% CAGR (5 & 10 year)
- 2018 dividend payments used 42% of 2018 free cash flow
- Yield is 3.1% (as of 1/12/2019)

# Summary

- TI is in a unique class of companies able to **grow, generate *and* return cash** to shareholders for a long time to come
- Our business model is designed around **four competitive advantages**
  - Manufacturing and technology
  - Broadest portfolio of analog and embedded products
  - Reach of market channels
  - Diverse and long-lived positions (high terminal value)
- Looking forward: continued **growth of free cash flow per share** drives returns
  - Top-line growth driven by the best products (analog and embedded) and the best markets (industrial and automotive)
  - 300mm Analog manufacturing strategy will provide benefits for a long time
  - Continued returns through share repurchases and dividends

# Risk factors and non-GAAP measures

This presentation is a statement of management's intentions and describes a strategy that TI intends to pursue as management, in its judgment, deems appropriate. The application of this strategy during any given period may vary depending on market conditions and other factors that management deems relevant. This presentation includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. See Item 1A of TI's most recent Form 10-K for a detailed discussion of risk factors that may cause results to differ materially from the forward-looking statements. TI undertakes no obligation to update forward-looking statements to reflect subsequent events or circumstances.

**This presentation contains non-GAAP financial measures, specifically free cash flow (FCF) and ratios based on it. See [www.ti.com/ir](http://www.ti.com/ir) for reconciliation to GAAP. FCF/share is not an alternative to earnings per share as an indicator of TI's performance, and investors should not consider presentation of FCF/share as implying that stockholders have a contractual or other right to the cash.**



**TEXAS  
INSTRUMENTS**