PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President, Head of Investor Relations, Texas Instruments Incorporated
Dave Pahl – Director-Investor Relations, Texas Instruments, Incorporated.

Other Participants

Glen S. P. Yeung – Analyst, Citigroup Global Markets Inc. (Broker)
Christopher B. Danely – Analyst, JPMorgan Securities LLC
Vivek Arya – Analyst, Bank of America Merrill Lynch
Ross C. Seymore – Analyst, Deutsche Bank Securities, Inc.
Gabriela Borges – Analyst, Goldman Sachs & Co.
Stacy Aaron Rasgon – Analyst, Sanford C. Bernstein & Co. LLC
Gabriel Ho – Analyst, BMO Capital Markets (United States)
William Stein – Analyst, SunTrust Robinson Humphrey
Christopher Adam Jackson Rolland – Analyst, FBR Capital Markets

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments fourth quarter 2013 mid-quarter update conference call. At this time, I would like to turn the conference over to Mr. Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Head of Investor Relations

Good afternoon, and thank you for joining TI's mid-quarter financial update for the fourth quarter of 2013. David Pahl, from our Investor Relations team is also joining me today. In a moment I will provide a short summary of TI's current expectations for the quarter, updating the revenue and the EPS estimate ranges for the company.

In general, we will not provide detailed information on revenue trends by segments or end markets and we will not address details of profit margins. In our earnings release at the end of the quarter, we will provide this information.

As usual with our mid-quarter update, we will not be taking follow-up calls this evening, considering the limited information available at this point in the quarter and in consideration of everyone's time, we will limit this call to 30 minutes.

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 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 news release published today, as well as TI's most recent SEC filings, for a more complete description.

We have narrowed our expected ranges for TI's revenue and earnings around the middle of our previous ranges. We now expect TI revenue between $2.92 billion and $3.04 billion. We expect earnings per share between $0.44 and $0.48.

Operator, you can now open the lines for questions. In order to provide as many of you as possible the opportunity to ask a question, please limit yourself to a single question. I will provide you the opportunity to ask a follow-up question. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] At this time, we'll take the first question which will be from Glen Yeung with Citi. Please go ahead.

<Q – Glen Yeung – Citigroup Global Markets Inc. (Broker)>: Thanks. Hey, Ron. I'm wondering if you could talk a little bit about how you see channel inventories now, how comfortable you are with where the levels are?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Dave, why don't you talk a little bit about what we're seeing in disty in general?

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah. So, hey Glen, we expect resales from our distributors to decline about the same amount as our semiconductor revenues overall and we don't expect that will result in much change in inventory days at distributors.

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

<Q – Glen Yeung – Citigroup Global Markets Inc. (Broker)>: Yeah. I wonder, Ron, if you have any color you can provide from an end market perspective. We are seeing some, a little bit stronger – PC and a little less strong handset, I don't know if that's something you can see in your business.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, I guess what I would say is, at least from our perspective, we don't real – there's probably not a lot to talk about by end market. The biggest consideration, of course, would be for calculators where we have a significant seasonal decline this quarter following the third quarter back-to-school season. And in fact calculators will make up, just as a reminder, about half of the sequential 8 percentage point decline for TI overall that we're expecting at the middle of that range.

Given our current level of diversity though, by customers, by end markets, our performance this quarter, and probably going forward, will be less impacted by any one customer or individual end market, and more by the overall trends that we experience in the economy and electronics market as well as by our own execution and performance, of course.

So, I guess this quarter, considering the number of semiconductor companies that have issued guidance for sequential declines this quarter, I really don't think that we're seeing anything unique overall or by end market.

Glen, thank you for your questions and let's move to the next caller.

Operator: At this time, we'll take a question from Chris Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. Can you just talk a little bit about your linearity of bookings and how book-to-bill is trending so far?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. So, I don't have a specific comment on linearity, Chris, but what I would say is that orders and backlog both have declined as we would typically expect for a fourth quarter, so that's a general observation, but I don't have the month-by-month report for you. Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah. Can you just remind us what would be a typical Q1 in terms of sequential growth or decline?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, as to our specific expectation, Chris, we'll wait until we report in January to share our first quarter outlook. Regarding what would be typical or seasonal, I'm going to let you determine what you believe to be seasonal based on your own analysis of our historical data.

I guess just some general comments, we would agree that our calculator revenue has a strong seasonal pattern through the course of the year, really associated with back-to-school. We'd also agree that our semiconductor revenue growth is typically relatively stronger in the second and third quarters compared with the first and fourth.

Frankly though, outside of that, we at TI don't put much credence in the specific semiconductor sequential growth averages as being reflective of any kind of predictable seasonal pattern, really because the range around those averages is so high and that's something we've talked about for a long time now. But to avoid the appearance that I'm endorsing any particular number, I'll leave the calculations and assessment to you there, Chris.

Okay, Chris. Thanks for your questions, let's move to the next caller.

Operator: And the next question will be from Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thank you for taking my question. Ron, first, just conceptually without giving guidance, how are you thinking about the New Year and if there is a way to contrast that with how you thought about the trends when 2013 started? Is there anything – I understand the mobile business is obviously very different, but other than that, are there any puts and takes that we should keep in mind as we start modeling next year?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Vivek, I would just say not specifically. Again, I'll reiterate what I said before. We are – our largest customer is now mid-single digits as a percent of our revenue. We are diverse across end markets. I don't know that we're sitting here viewing any specific end market or particular customer puts and takes as being particularly noteworthy as we come into the year.

I think in general as we look at upcoming years, we would describe that we're probably in a somewhat modest environment, but that's not intended to be a positive or a negative statement. Just in general, we think we have been and will continue to be in a modest type of environment going forward.

Do you have a follow-on, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yes, thank you Ron. So sort of a two-parter on cash. You have a $1 billion debt payment coming up in May, I was wondering how we'd think about that in relation to buyback activity? And just a bigger question is how long can you maintain cash returns above your free cash flow generation? Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I guess, obviously we don't run a perpetual cash flow engine. So we can't run over 100% forever, although what we've said last year or actually last quarter where over the last trailing 12-month period we had returned 133% of free cash flow, the reason we were able to sustain that level above free cash flow, even with paying off $500 million of debt over that period was because we had seen an unusual amount of employee stock option exercises given the strength in the stock price over the past year.

So with those stock option exercises, basically, the grant price that the employees pay on the exercise of that stock is an additional source of free cash flow or additional source of cash rather for the company, that we would probably describe as somewhat unusual over the last year. So, but that's the consideration and depending specifically on what exercises do going forward, will depend – will drive or determine rather what that source of cash is going forward. Your – the rest of your question was about...?

<Q – Dave Pahl – Texas Instruments, Incorporated.>: The debt...

<A – Ron Slaymaker – Texas Instruments Incorporated>: Do you want to respond, Dave?

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah, I think that in general as we outlined in our capital management strategy that debt would remain a permanent part of our balance sheet as long as the interest rates made sense that they would be. So I think we'll wait until May to make that determination.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Vivek, let me also just kind of reiterate what we have said our expectation is for shareholder returns and that is basically all of free cash flow minus what is required for debt repayment, we expect to return to our shareholders. So that's our commitment going forward.

Okay, Vivek, thank you and we'll move to the next caller, please.

Operator: We'll take a question from Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, thanks for letting me ask a question. I know you said you don't really have the exposure to end markets, but given that you guided to the midpoint of your former ranges. Ron, is there any outliers either by end markets, product types, geographies, any sort of color you can give? Admittedly, again, you are at the average, we know that.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. So, Ross, as you noted, I guess I would just say that the quarter really is generally tracking consistently with our expectations and that holds both at the company level as within – as well as within various major product lines and end markets. And there is always some variation from those initial expectations, but I would just say that there really is nothing that we would consider noteworthy. So, again, the quarter really is tracking, even by major product line, consistent with those expectations that we communicated previously.

Do you have a follow-on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Yeah. Kind of a bigger picture one for your Analog business. I believe last year the – in the SIA data, the Analog business the pricing was down about 5% year-over-year, and I think this year, as of the rolling four quarters, it's down about 13%. People tend to think of analog as a place that's the least price sensitive. As you guys are the biggest player in the analog space, have you noticed any change in the competitive dynamic that would explain the ASPs heading the direction they are?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Dave, do you want to take that one?

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah, I will. Ross, in general, we don't believe that analog pricing has seen really any unusual decline. And first and foremost, I'd just point to, if you look at gross margins, both in our business as well as across the analog competitors, they're very healthy and it would seem to reflect a very stable pricing environment.

If anything lower ASPs in the data base could possibly reflect a mix change from different types of products, and just as an example, if you look at integrated products will often have higher ASPs than less-integrated catalog products that are often used in lower volume and lower volume applications. So, if a market like industrial, that uses predominantly those catalog devices, is relatively stronger than the other markets, it could blend down the overall ASPs.

Of course, just as a reminder, for those that might not know that those lower ASPs in catalog products don't translate to lower gross profits and in fact those are often some of our highest gross profit products.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Ross. Thanks for your question. We'll move to the next caller.

Operator: Jim Covello with Goldman Sachs has the next question.

<Q – Gabriela Borges – Goldman Sachs & Co.>: Good afternoon and thanks for taking my question. This is Gabriela Borges on behalf of Jim. I wanted to ask on the microcontroller business. I was hoping you could give us an update on the competitive environment and maybe which verticals or product groups you think you're best positioned in for share gains in 2014? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Dave, you want to take that?

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah. I think if you look at our revenues inside of Embedded Processing, you've heard us talk about the investments that we've made in microcontrollers. And one of the attractiveness that we like about microcontrollers is they really are used across all end markets and especially inside of industrial.

So, some of the recent growth that we're seeing is a result of the investments that we made. And just as a reminder, we made those investments first in R&D just expanding the number of design teams that we had producing microcontrollers. And then followed that up with increases in investments at – within our field sales force to have application engineers with specific expertise to support microcontrollers.

So, I would describe today our investment level is at and has been at a level that we think is necessary to drive that business. And we're continuing to expect to see growth in the future to support that level of investment.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Do you have a follow-up Gabriela?

<Q – Gabriela Borges – Goldman Sachs & Co.>: I do. Thank you. On your connectivity products into the embedded market, how has that business trended post the Wireless restructuring last year and what are the biggest applications for growth in 2014? Thanks.

<A – Dave Pahl – Texas Instruments, Incorporated.>: Gabriela, I don't have anything specific to say about this quarter, but in general, that business has done very well this year. As things want to get connected to the Internet and get smarter, that intelligence and that connectivity is playing really to the heart of what we're doing with those products.

We currently support over a dozen different wireless technologies and if you go to our website today, you'd be able to see that we've got design kits that will connect those 12 plus different wireless technologies to anything from a microcontroller that will sell for less than $0.25 all the way up to a full apps processor. So, we really believe we've got a great position inside of that market and we're seeing that inside of – revenue growth inside of that business.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah. And I would just add, Gabriela, something that I think we noted even a quarter or so ago that the demand in the applications we're seeing – when we peeled it back and looked at it, it is not at all concentrated in any particular application or customer, it's just a very wide range of customers and applications. The other thing I would say is, I know a lot of times you want to jump to oh, is it Wi-Fi or is it Bluetooth or some of those more widely known standards. A lot of this is also what we call, low-power RF technologies. So industrial standards, for example, like ZigBee that are really an important part of our strategy there and are being embraced by a wide range of customers.

Okay, Gabriela, thanks for your questions and let's move to the next caller.

Operator: Next question will be from Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi guys. Thanks for taking my questions. Ron, I had a question on gross margins. So, you've done a lot of structural things over the last few years. You closed the fabs, you've obviously had a pretty big mix shift as the legacy wireless business rolled away. Most of these things are done: the fabs are closed; your business now is – I mean, wireless is almost gone, I think about $50 million left. Is there anything left structurally that you can do on the gross margin front or is this primary now about revenue growth and utilization in order to get the margins above where they've been recently?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, Stacy, I think there are quite a few, what I'll call, knobs that we can turn on the gross margin front still. First and foremost, which may not be fully appreciated and it's often very difficult to describe, it's just execution. I mean there is a lot of what I'll call inefficiencies that cause TI gross margin that if we improve execution, we will see that benefit on the gross margin line.

Another one I would throw out is, it's only recently that we've shut down those six-inch factories, which, granted, were not very highly loaded, but we also have 300-millimeter factories that aren't fully loaded. And so, as we shift more of our production into 300-millimeter, we've talked a lot of details in the past but even compared to 8-inch, not even 6-inch but just 8-inch or 200-millimeter manufacturing at the silicon level, not inclusive of packaging and test, there is about 30% cost savings when you go to 300-millimeter. So, as we continue to ramp those factories and a higher proportion of our manufacturing is done in 300-millimeter, we will continue to see the benefit.

Another thing that I would point out would be we've talked about several times that as we look to how we can make TI stronger over the course of the next five years even, we see industrial and automotive playing a bigger role at TI, meaning we would like to have a higher proportion of our revenue coming from those end markets.

In general, that tends to be positive for gross margin as well. So I think those are a few things that I've noted. Dave, if you can think of something else that stands out. But again, by no means do we sit here pulling back and saying, we've done everything we can do. Now we'll just let the – we'll ride the utilization curve. And by the way, that utilization curve is going to be very attractive for us because as we've talked about a lot, we have – I'll just be specific. We've compared our last quarter to results from third quarter 2010 when revenue was 15% higher in that third quarter 2010 and gross margin was 30 basis points or so less.

So we're operating at lower revenue. Importantly utilization in third quarter 2010 was 800 basis points higher. So as utilization continues to expand, that will be good for our gross margin. And we've got plenty of open capacity and it's going to be very efficient capacity, as I said, because of the mix of 300 millimeter. So I'll stop there, Stacy and see if you have follow-up.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: I do. And actually I want to follow-up on that same point. So you've given us some color for how we should about incremental gross margins going forward from here. And you kind of talked about it over the cycle. I think the number you were giving was something around 75% which was sort of your average over the cycle.

If all of that that you just said is true and it's going to happen, why shouldn't we be thinking about a high – using a higher incremental gross margin going forward to figure out the margin trajectory with revenue.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, I think, Stacy, I guess as much as anything, what we tried to convey with that 75% incremental gross margin is – and I forget the exact number of years, but basically over the last, I don't know, 5 to 10 years of cycles for Texas Instruments, 75% incremental margin up-cycle and down-cycle is what we've averaged. And so, I think what we've communicated is that's probably not a bad assumption to make going forward.

Are there things that we could do to elevate it, make it even stronger? Yes, absolutely. Are there things we could do to mess up on that? You bet on that one as well. But 75% is just kind of a historical number that until we prove a different incremental margin is appropriate going forward, that's probably the best we could provide you as a guidance point.

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

Operator: We'll move on to Ambrish Srivastava with BMO.

<Q – Gabriel Ho – BMO Capital Markets (United States)>: Hi, this is Gabriel Ho, calling in for Ambrish. Thanks for taking my question. Just want to focus on Analog segment. Can you give us more color on what you see by the segment? And as we head into 2014, how should we think about maybe your Silicon Valley Analog versus your core analog?

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah, Gabriel this is Dave. I don't have any breakdown by end markets for Analog. I can say – nor any specific guidance for next year by each of the businesses. I will say that as we've pointed out before, we're – we just completed our second year of the acquisition of SVA. And we're actually very pleased with the performance and again we're about a year ahead of the schedule from a share gain standpoint. So, we're happy with that performance. That doesn't mean that all the work is done and there is a lot of people working very hard to continue that performance as we move into next year.

And in general we'd like to see all of the businesses performing consistent and performing consistently above end market, or market growth overall, so, that's what the objective is. I think what you'll continue to see from us overall is, as Ron talked about, our investments going forward will be pointed – or any increases in investments will be pointed towards the industrial and automotive markets and that's where we see the opportunity, so that's true at the company and it's obviously true with Analog as well.

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

<Q – Gabriel Ho – BMO Capital Markets (United States)>: Yes, thanks. And on the wireless revenue do you expect $50 million and also maybe essentially zero as we head to Q1?

<A – Ron Slaymaker – Texas Instruments Incorporated>: That's correct. So, I think what we said in October was that we expected legacy wireless products to be about $50 million of revenue this quarter and it should be close to that amount. So, basically we expect that legacy wireless revenue will only decline a relatively small amount this quarter compared with last quarter and then we expect that it would have a sharper decline in the first quarter at which point that revenue will be essentially gone.

Okay, thanks for your questions. We'll move to the next caller.

Operator: At this time, we'll hear from William Stein with SunTrust.

<Q – William Stein – SunTrust Robinson Humphrey>: Hi, thanks for taking my question. Someone asked earlier about normal seasonality patterns in Q1, and I appreciate that you're going to leave that to us to analyze. But I'm wondering if you're seeing anything either in the economy or in your backlog or bookings rates that would suggest a deviation from what might be typical? Anything interesting from a kind of puts and takes perspective that would lead us to think things are going to be stronger or weaker than typical in the first part of the year?

<A – Ron Slaymaker – Texas Instruments Incorporated>: So William, I think again, I'm going to reserve any comments we might make about 2014 for January and inclusive of first quarter 2014. So, we're just going to keep our comments focused on fourth quarter at this point.

Do you have a follow-on?

<Q – William Stein – SunTrust Robinson Humphrey>: Maybe given that you just gave a bit of an outlook on the legacy wireless business, I'm wondering if you can talk about what you're seeing in the comm infrastructure end market given what's going on with the rollouts of 4G LTE in China and the potential rolling off of 2G and 3G investments. Any commentary as to what you're seeing in that market?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Dave.

<A – Dave Pahl – Texas Instruments, Incorporated.>: Yeah, William. Hey, how are you doing? In general, I'd say that we're well positioned with all of the comms infrastructure OEMs. And so, where we will benefit and we are seeing a benefit from any deployments that are happening inside of China. And I would say that it seems that all the equipment providers are each planning to win all of 100% of that market.

So, we're seeing growth at some customers while other customers are now going through and readjusting inventory levels that they've got. So, in either case, in general, I'd just say that we don't expect that this market be a really particularly big driver of our overall revenues and results one way or the other in the future.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Thank you, William. And operator, we have time for one, final caller please.

Operator: Thank you. We'll move to Christopher Rolland with FBR.

<Q – Chris Rolland – FBR Capital Markets>: Hey, guys. Thanks so much for taking the call. So some of our recent checks with Asia kind of show a tale of two months, there was a bit of trepidation I guess you would say in October and then a slightly seasonal pickup in November, better than seasonal pickup in November. So, did you guys sort of see that pattern at all between those two months, even mildly?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Christopher, I don't think we other than comments I made already, I don't think we really want to try to get into kind of month-by-month linearity discussions, so I'll just have to anything we – we may be able to give you more color on that in January, but not at this point.

Do you have a follow-on, Christopher?

<Q – Chris Rolland – FBR Capital Markets>: Okay. Sure. So stepping back, bigger picture I guess, R&D intensity, at least as a percentage of revenue, has sort of decreased from high-teens down to sort of low-teens and SG&A has sort of done the opposite or at least gone from low-teens to mid-teens. So, are these trends in your model solely caused by the mix out of wireless here or there are some other things at play here? And how should we expect the mix between SG&A and R&D to sort of play out now that wireless is closed?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Christopher, I think that's a – what you observed is accurate including the cause, so I would say any adjustment in R&D that you've seen at TI over the past year is wholly attributable to what we've done on the wireless side, essentially anyway. Similarly, SG&A, wireless was not – operating expense in Wireless was very R&D intensive. And if you think about it, you're dealing with a few very large customers, SG&A is going to be lighter. You don't need to do a lot of marketing; you don't have to have a big sales force to call on a handful of known customers.

So as we have exited the Wireless business, it had a bigger impact on our R&D than it has on SG&A and I think those results, especially once we report fourth quarter, will be pretty much all in. And that mix then that you see of operating expense, is probably at a pretty stable level going forward. So it can vary somewhat between R&D and SG&A always, but and from quarter-by-quarter, but I think you'll have a pretty good view of the mix of these operating expense lines.

Okay, Christopher, thank you for your questions. And with that, we're going to shut down. Before we end the call, let me remind you that the replay is available on our website. Thank you and good evening.

Operator: Again, ladies and gentlemen, this does conclude today's conference call. Thank you all for your participation. You may now disconnect.