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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Haviv Ilan *Texas Instruments Inc - President, Chief Executive Officer, Director*

CONFERENCE CALL PARTICIPANTS

Stacy Rasgon *Bernstein - Analyst*

PRESENTATION

Stacy Rasgon - *Bernstein - Analyst*

Awesome. Great. Thank you all for coming. I'm actually glad to see so many people here at 11:00 on a Friday. It's great. I'm Stacy Rasgon. I cover the U.S. semiconductor and semi cap space here at Bernstein. And it's my honor to introduce our guest today, Haviv Ilan, the President and CEO of Texas Instruments. (Operator Instructions)

So TI used to be thought of as sort of the boring semiconductor company. I think you were proud of it actually. They sort of wore that with pride, but it's -- well, it's been a little less boring, I think, lately, as they've embarked on a program of significant capacity expansion here in the U.S. that at least temporarily has sidelined some of the cash flow and return that was always part of the thesis.

But look, TI, they always think long term. And now we're kind of approaching the tail end of that investment strategy. The company believes those investment seeds that they planted will be growing into even more cash and cash flow in the years ahead, with a footprint that may leave them very well advantaged in a world that's becoming increasingly decoupled, which I'm sure we will be talking all about today.

And so to tell us all about it, it's my great pleasure to welcome Haviv. So thank you so much for being with us today.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Thanks, Stacy. Thanks for having us. It is a pleasure to see so many people in New York on a Friday in person.

Stacy Rasgon - *Bernstein - Analyst*

Absolutely. This is fantastic.

QUESTIONS AND ANSWERS

Stacy Rasgon - *Bernstein - Analyst*

Maybe just to start there, right? So you're into, what? Year four of a five-year CapEx cycle, it looks like --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Year five, but who is counting?

Stacy Rasgon - *Bernstein - Analyst*

Year five, okay.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

We counted in '21.

Stacy Rasgon - Bernstein - Analyst

Yes. Coming to the end of it. I guess maybe if you could talk about like just at a high level, maybe for the folks who may not be aware, why did you do what you did? And then how has it gone -- like what is it supposed to bring for you, and how has it gone versus your expectations, and what should we expect, like now that we're kind of maybe coming toward the end of it?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

First, thanks for the question, Stacy. And again, you're right. We have -- we are at the tail end of a six year investment cycle, started in '21 with our acquisition of the Lehi fab from Micron and since then embarked on building a new mega site in Sherman, Texas. And we are in, 4.5 years in, right. So very much 70% in, and I'm excited about where we are now.

The reason, of course, is to allow ourselves to support the future opportunity. We thought it was the right time for several reasons. I'll start with the fact that when you look at, in general, semiconductor adoption across markets, we see an acceleration. We call it secular growth of -- semiconductors are added to more end equipment, especially in industrial and automotive. So that is something that we've seen in the previous decade, but we think this decade, it's accelerating. It's very easy to see when you think about your car today versus your car three years ago and your car 10 years ago, you can see the content coming in. But if you --

Stacy Rasgon - Bernstein - Analyst

That push to industrial and auto is not new, though. That's been --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Correct. But I think the secular growth is accelerating. So we look at this decade with EVs coming in with robotics, seeing a lot of adoption, factory automation. I think this trend also accelerated by COVID. We saw all the difficulties with labor during COVID, the issues around energy. We are seeing acceleration. So we say, hey, these markets are going to be probably growing instead of maybe the market's mid-single digits. I mean, maybe these markets can grow together faster.

The second thing is we've done a lot of work to be better exposed to the market. So you're right, the last decade we said, hey, these are going to be fast growing markets, but our exposure was very low. We had a 40% exposure between these two markets.

Stacy Rasgon - Bernstein - Analyst

Was that low?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

That's low. Yes, that in 2013, actually. The first time we started to look at markets was 2013. That's the most ancient history we have. And it was 40%, and we crossed 70% during 2022. Last year, we finished at around 70%. I think it will accelerate this year. And in general, we like our position. So when you are exposed at a higher level to faster growing markets, you just want to make sure you support it.

And on top of it, you've touched upon it on your introduction, we are seeing in the last several years, but more visibly in the last month, that geopolitically dependable capacity is going to be more important. We've been talking about it for three years. Everybody kind of ignored, I believe, and kind of it came from one ear, it went up from the other one, but I think we are now seeing and are seeing it also with discussion with our customers that capacity coming from a diverse set of manufacturing footprint.

And in our case, a heavy footprint in the U.S. is unique and is going to allow us to support our customers better and maybe pick up some market share. So that's the reason for our investment. Pleased with the execution, and I'm seeing early evidence that this investment is going to come to fruition in the coming years.

Stacy Rasgon - *Bernstein - Analyst*

Got it. Do you want to remind the audience exactly what you're investing in, like how much, where, how much capacity is going to be in place, the revenue targets that it can -- I shouldn't say revenue targets, but the supportable revenue.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

The revenue opportunity we can support, yes. But again, I touched upon the Lehi. So again, the first fab was an acquisition. As I explained, the excitement seen from customers who decided to -- and we announced it, I think, back in '23, if I don't -- if I'm not mistaken, the back end of '23, and we broke ground last year on the Lehi 2 fab. That's going to be a very large investment.

Stacy Rasgon - *Bernstein - Analyst*

\$11 billion.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

It's probably going to be more like \$12 billion, and it's our first three-level fab. It's going to go all the way down to 28nm. It could even do another step. And this is going to mainly support --

Stacy Rasgon - *Bernstein - Analyst*

It's going to 28?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

It's going -- it's already -- we are already having test chips in 28 coming out of this fab, and you can do one more step. It's not going to do FinFET, but from a bulk transistor, that's where we are going to end there. And it's very -- it's a very good fit for our Embedded business. Think about MCUs, DSPs, embedded flash memory on a single die. And also our high speed, what we call high-speed analog, some high-speed mixed signal connectivity. You can think about some of the parts in analog that need some MCUs embedded inside. So it's going to serve both Analog and Embedded, but mainly an embedded-centric fab. And there's going to be a couple of fabs over there. So that's two new 300mm wafer fabs that are going to support a lot of output.

The other investment, you remember our first RFAB1; it started in 2010. As we remember, during COVID, it got full. Unfortunately, we didn't have the cleanroom in RFAB2. That fab is now up and running. It's actually utilized at close to 70%. And it's connected to RFAB1. So it's not even a new qualification for us. It's just another 300mm wafer fab. So now we have three.

And a new mega site that I've mentioned before in Sherman. That fab has broken ground in 2022. We are moving wafers today. First products are going to be qualified this year. And that's a big thing for us because when you put a new factory, you do have to qualify your parts. So even if you have them running in RFAB, because it's a new site, there is a qualification phase that we have to go through. Very, very good results. We are happy about the throughput that we're seeing from the fab, and it's going to be actually -- it can support up to four sites. We built the first two. We've equipped the first one, not the full cleanroom.

Stacy Rasgon - *Bernstein - Analyst*

You got two shells.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Two shells. One subfab already in Sherman 1 and some of the equipment to run the pilot line.

Stacy Rasgon - *Bernstein - Analyst*

And two empty lots.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Two empty lots. By the way, lots we have in Texas. So we have options. But that's very important because this is where our customers that are now more worried about supply, and especially U.S. supply, are coming over. We are entertaining customers; we had customers come in this week. And they see the capacity that we have built. They see the technology that is going to go there. They are very excited.

I'll give one example on the technology, Stacy. Analog. It's mainly an analog fab. Our next-generation BCD process, 65nm lithography. Monolithic power stages are going to power, for example, data centers, and GPUs are going to come from that. So this is a technology that is being ramped right now. And this is where we are going to utilize that fab across all of analog but also embarking a journey into new markets.

Stacy Rasgon - *Bernstein - Analyst*

Got it. So I guess once that's all in the ground, and this is -- when did you expect it all to be there? Was it 2030, or was it -- maybe it takes longer with whole thing to support by the time --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, this is where the revenue support -- and we've gone through it in the last capital management call back in August, but another one, a refresh in February.

At the end of the day, we have flexibility. So we finished -- this is why we call it a six-year investment plan because when we finish 2026, we are now sitting on already five out of the seven built with shells, and now we have cleanroom that we can build into because we've qualified it. So Lehi is already qualified, and Sherman will be qualified this year. So now we have this what we call this Phase 3 of flexible capacity spend. This is according to revenue. If revenue -- now you choose your revenue target. I know that we always talk about what revenue will do.

Stacy Rasgon - *Bernstein - Analyst*

We'll get there.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

We'll get there. What revenue will do next year, but we have options all the way to about \$40 billion in 2030 if we need to. And if we don't need to, we'll just slow down our CapEx starting in 2027. Even in 2026, we have some flexibility based on revenue then. And we are excited about that because, to me, if you want to start right now to support the second half of the decade, you're already too late. It's just not going to be ready.

So in that sense, when you think about geopolitical tensions, we are well prepared for many scenarios. One of them is an upside scenario that no one wants to talk about, but also on the downside scenario.

Stacy Rasgon - Bernstein - Analyst

Let's talk about it. So you've laid out some of those 2026 -- again, I won't call them targets -- revenue scenarios.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Correct. Framework.

Stacy Rasgon - Bernstein - Analyst

Framework. I think it was \$20 billion to \$26 billion, right? I'll be honest. I'm below the low end of that.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

I know. I've noticed.

Stacy Rasgon - Bernstein - Analyst

\$17 billion or something like that. We can have the argument. And I think the CapEx range was 2% to 5% depending on where -- it's hard to cut anything in '26 of below 2%. I mean, some of that was you want to get some of the CHIPS Act projects started so you can get some of that -- when is the tax credit, ends in -- projects start by '26 or something or --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

No, no, it's actually not related to ITC. It's related to cleanrooms and shells because you can't build half a shell, right? So when you think about Lehi 2, it's a big investment. When you build that shell, you have to go through it. And we want to complete it by 2026 to have that flexibility. That's what drives the spend over there. It's also the qualification of Sherman 1 and the pilot line. We want to get that completed. So that's what drives the cost.

From an ITC perspective, that's not -- I mean, we are going to be running -- we've started this project, so that ITC will run into the future. Now regarding the revenue, you've mentioned the framework. Yes, we are -- I'm not -- we give you one quarter at a time. You know TI for years, and we are not going to change there. But with shareholders, they want to model, in our case, free cash flow per share by the revenue scenario. So we've given four examples. You are insisting that we need a fifth one. I don't think we do need.

Stacy Rasgon - *Bernstein - Analyst*

I'm not insisting anything.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

But in -- just let's look at what happens right now. We are coming off probably the largest downcycle ever. Rich will argue that it competes with the 2000 time frame. But the economy was in a different state then, and we are seeing a very nice recovery coming in. And we are just -- Stacy, let me run one number with you, and you can do the math later on your -- what '26 will do. But think about the first half, at the midpoint of Q2. At the midpoint of Q2, you're talking about 13% first half growth. I think it accelerates every quarter.

Stacy Rasgon - *Bernstein - Analyst*

Year-over-year.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

So we -- when we finish -- you do the math. Are you going to have a good chance to get to that number that maybe you forecast for '26 already in '25? You have a good chance. So let's let it play out.

We have the responsibility, and this is where we fell behind in the previous cycle, to be ready. Because it's very easy to say, it's never going to come, so it's easy, you don't need to invest. The hard decision is to make the investment so if it comes, you can support it. And this is what I am very proud of, our steady hand on a strategic perspective, but also in our execution. The team has executed well. Some of these fabs are built into the biggest shortage of supply, not only on semis, on steel and high power stations and water treatment equipment. And you get some semi cap coming in today. Think about two years ago. And we executed on time. RFAB2 is on time, LFAB1 is on time. Sherman 1 is actually pulled in probably a quarter. So we are very excited about our position. And let's let the second half of '25 play out, and then we can talk about '26.

Stacy Rasgon - *Bernstein - Analyst*

So let's talk about that sort of cyclical recovery. So you're right, we were -- I don't know if it was eight quarters or 10 quarters of year --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

10.

Stacy Rasgon - *Bernstein - Analyst*

Particularly in industrial. Are you seeing recovery everywhere right now, or is it primarily industrial?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

The short answer is everywhere in industrial. The other markets have already done it, meaning PE is running very hard from a year-over-year perspective. I think more than 50%, if I remember well. And comms and enterprise similarly. They just came after PE, or consumer. I'll talk about auto in a minute, but industrial is a big chunk of our revenue, and it's showing a very broad recovery -- every sector, every geography, every channel, including TI.com. So very good recovery. Started in Q4, actually. We were very -- we say, hey, it came probably five points higher than our expectation. So let's wait another quarter. It happened very nicely in Q1. And then if you think about our forecast of the 7% sequential growth in Q2, this quarter right now, and we are now two months in. I can just reiterate that it's -- industrial continues. We are not we are not very surprised. Industrial was

the fast grower sequentially in Q1, and I think it's going to continue to do that. So very confident about the industrial. It's about time. We are way, way below trend line.

The second thing on automotive, that cycle almost like was squelched. There is -- it was a single-digit year-over-year decline at the peak of it. And it's already grown in Q1. It's --

Stacy Rasgon - *Bernstein - Analyst*

Is it all China though, or is it more than China?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

No, it's not only China. I mean, China, of course, is very helpful because there is a lot of EV adoption in China. So you have more content per vehicle. But I think other than Japan and Europe that came in late to the cycle, I think it's looking good. So I think the shallow correction, I would say, in automotive is maybe behind us.

Stacy Rasgon - *Bernstein - Analyst*

Got it. It felt like you were starting to take utilizations down in Q4 though, even as you were seeing the recovery. Do I have that wrong, or is that what we --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

No, I think, Rafael mentioned it in the -- when we had the January call, I think he mentioned it, but then I think in April last month, he said, hey, we had an upside quarter, right? And we also look at the orders into Q2. This is all before tariffs and everything, right? This is like life is good. So we said, okay, we better keep that, these fabs running at a little bit higher utilization. And that's what we've done. We have to prepare. We can't be in the mode that happened in the previous cycle that -- once you fall behind, it's very tough to catch up.

Stacy Rasgon - *Bernstein - Analyst*

And I totally get that. And I think you guys are in a good position in the sense that your parts, as you've said very many times, don't really go obsolete. So you're holding like lots of inventory, more than you used to hold in the past, much more than most of your peers. And to the extent that your peers are holding this much inventory, it's involuntary on their part. With you guys, it's deliberate.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

It is deliberate. And just by the way, we talked about it a minute ago, but think about our business. It used to be 40% industrial and automotive. Now it's 70%, 75%. So at the end of the day, this is where the low risk is. There is this diversity and longevity phenomenon there that you just took no risk. I mean, there is cost of capital of course, but it's an easier decision. When you're in PE, we call it we don't like our bananas to turn brown, okay? Because PE moves very fast. If you build it -- if you build it too quickly, you can scrap it.

So the other thing that, by the way, when you move stuff more internally, you just have more work-in-progress inventory versus -- think about us building in Lehi versus TSMC or something. So that also adds to a little bit higher level of inventory. But we are well prepared, yes.

Stacy Rasgon - *Bernstein - Analyst*

Got it. And I guess some people would suggest that you guys have a better view of actual demand because you don't really run a backlog model, right? You have -- I don't know, it's probably pretty close to 100% of availability of 100% of your products right now. Lead times are probably zero, right? If I go on TI.com right now, could I --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, TI.com is zero. And by the way, this is why we see more -- we talked about turns, but when you really need it now, you go to TI.com.

But lead times are low, and they are very competitive, probably the best in the industry. And you're right, we can count -- look, semiconductors now are used by so many customers. Some of them, they just don't know how to plan it, and they also don't want to take the risk, especially now when cost of capital and cost of inventory is higher with interest rates.

So we decided we are going to replenish our inventory based on the real consumption. So of course, we'll give you support according to our lead times, but we want to be prepared for any cycle. And we modeled the previous cycle, and this time we don't want to hit a capacity wall or an inventory wall like we did last time, and that's part of the strategy.

Stacy Rasgon - *Bernstein - Analyst*

Is it fair to say that if you can fulfill an order, you ship it, or is that --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. But again, if you forgot to order, I would fulfill it - I'll fulfill it from TI.com. If you are respecting our lead time, which are the most competitive in the industry, we'll ship it to you. And I think you asked me last time even, is the order coming from pull-in or just -- I don't know. So we just fulfill it.

Stacy Rasgon - *Bernstein - Analyst*

Do you care?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

I don't care. Of course I do look at the situation of -- I'm an engineer, so I like to think about signal-to-noise ratio. I think the signal is a cyclical recovery. There is noise, okay? And typically, when you think about a system and you inject noise into the system, you just accelerate the cyclical trend here. So I think if customers are really driving inventory to zero levels, I think they are thinking about maybe behaving differently right now.

Plus, we talked about industrial, they've depleted their inventory. And the beautiful thing about industrial, when you move to your next generation machine, end equipment, sensor, whatever, there is just more content. So you see this double acceleration of - I've stopped depleting -- I stopped depleting my inventory; I also have my new system that has more content, and by the way, we also hopefully want more share over there.

Stacy Rasgon - *Bernstein - Analyst*

Yes. Got it. So let's talk about tariffs and geopolitics and decoupling. So I guess just to level set, like, yes.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

We can spend hours on that right; I'm just checking time.

Stacy Rasgon - Bernstein - Analyst

But just to level set, I mean, what are you seeing on tariffs, I guess, both direct and indirect? And my guess is, right now not much that you can measure.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Right now, as we know, there was a little bit of chaos in April. And this is why when I talked on the call, Q1, including in China and the U.S., we haven't seen any tariff-related -- and you asked me how do you know. We don't know, but that's our assessment just because everything would behave very normally and --

Stacy Rasgon - Bernstein - Analyst

You're not seeing anything unusual.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Nothing unusual.

Stacy Rasgon - Bernstein - Analyst

ADI called out --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Yes, but ADI is delayed by a month.

Stacy Rasgon - Bernstein - Analyst

Yes. And with them, it was only in auto, and they said, we know what the normal trends are, and this for a couple of weeks was unusual. So they called it out.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Yes. Again, the auto tariffs came in, in Q1. But look, our parts are mainly -- we have -- our automotive customers in the U.S. are using our U.S.-based parts, and it's all consignment-based. So I don't think there was any anxiety there, at least from our perspective.

April was a little interesting. But at the end of the day, if you think about tariffs, and everybody talked about the China tariffs and now semiconductor tariffs are exempt on both sides of the globe, right, for now. If they want to -- look, I want openness and everything to be as normal, but as it used to be maybe. But I think it's not going to.

If you just look at -- forget about the noisy weekly news. Just look at the trend from the last five to eight years. This has not been one administration, or -- this has been a trend, okay? If you kind of average it, it's a trend of, I think, decoupling at least on the semi side. And even if you, if you listen to the Secretary of Treasury two, three weeks back, I think he mentioned that we don't want decoupling from China, but in some areas, and I think semis alongside pharmaceuticals and aluminum and steel were mentioned.

So we have to be prepared for that. And we built our capacity in the U.S. not for that reason, but it's -- we are in a good position, okay? That's really where we are. And I think our customers, and especially those who spend more time in Washington other than less, understand that very well.

Stacy Rasgon - *Bernstein - Analyst*

How much time are you spending in Washington these days?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

More than I thought two years ago when I took the job, but to be fair, this is not related to one administration or the other. We -- I've seen a very -- continuity on the objective to have U.S. be controlling its destiny in terms of semis, different maybe ways to get there, but it's been very coherent. I think this is like the one bipartisan area where there is a totally agreement on. Look at COVID. I don't think for a bad reason. I mean you do want to control your destiny, and semis are now everywhere. They are in energy. They are in medical. They are in aerospace and defense. They are in data centers. They are in EVs and robotics. So it is a fabric of our economy, and I think you want it to come from dependable sources.

Stacy Rasgon - *Bernstein - Analyst*

Yes. So how much of your business actually goes into China these days?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

So more or less aligned with their share of GDP, it's 20%, I think. It was 19% last year and 20% in Q1.

Stacy Rasgon - *Bernstein - Analyst*

The headquartered.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

The headquartered. But that's really where, to me, what matters is where -- what's the end consumption of the semis that we ship into China. And for the headquartered companies, it's a good proxy for what's being consumed in China. We still do have some export business, but it's not very large. And we think we are at a good scale, meaning we are not overpenetrated, we are not underpenetrated.

And we want to play. Look, the China market is important. It's 20% of world GDP -- less than 20%, but higher than 15%. And it's very strong on the automotive EV side. There is a good robotics opportunity. So TI wants to play the game in China. It's a very similar game that we play worldwide. It's industrial and automotive. It's selling a broad portfolio. It's many, many customers, and we are continuing to compete at a very high level.

Stacy Rasgon - *Bernstein - Analyst*

Got it. I guess, like from that standpoint, though, is having a primarily U.S.-focused footprint in this kind of a world, does that become -- you talked about it as an advantage. Could it be a detriment as well?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

First, I mean, we just talked about it. China consumption is around 20% of all semis. And I'm talking about what stays in China. And in that sense, we have more than enough on our non-U.S. manufacturing. We have a manufacturing site in China. It's an end-to-end and -- in Chengdu, we have a full turnkey almost. That's the only place in the world that can do full turnkey from substrates all the way to finish goods.

Stacy Rasgon - Bernstein - Analyst

Is it used primarily to serve like China demand or --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Mainly China, but it can support everything else. We also have two fabs in Japan, a fab in Germany and also have our foundry partners. Think about our Embedded business. Embedded can be built in in Lehi now, but also, of course, in Singapore and Taiwan with our partner. So we have enough tonnage to support China. That's not the issue. Of course, I prefer to build it in a 300mm wafer fab other than 200, but our 200s are underutilized, and we have enough capacity.

Now, everybody likes to talk about China as a risk. No one talks about the upside. There's another side. How did it all start? It all started because there is a termination of U.S. government, previous and current, to bring semi manufacturing, mainly fabs -- that's what the focus is -- to the U.S. Who is currently investing in the U.S. in our area? Of course, there is investing in Arizona and other places for advanced nodes, but we -- I think we are the only game. So in that sense --

Stacy Rasgon - Bernstein - Analyst

Some of the others that were doing a little bit less -- a lot less -- but some are dialing it back too, right?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Those who did something, look at their operating cash and investments in the last two, three years. It all went down. I mean we are 10x versus the competition. So at the end of the day, it is recognized. We said it many times, but now people care. So there is a lot of -- to me, as I said, I want the world to be open, but if it decouples, I see more opportunity than risk, let's say that.

Stacy Rasgon - Bernstein - Analyst

Okay. What does the competitive environment in China look like? And everybody always -- because I always say it's not even just in analog. It's in analog, and it's in AI, and it's in semi-cap. Just given this -- my view is that the Chinese guys, they're not as good, but they will probably take more share than they would ordinarily deserve to take, because they have no choice.

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Yes, be careful on not as good. I feel a little bit like a broken record for the third time talking about --

Stacy Rasgon - Bernstein - Analyst

Across all these different areas --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

No. I mean they have some disadvantages. We'll talk about it in a minute, but look at how they build EVs. Look at how they build wireless base stations. This is a capable country and a capable engineering workforce, okay? So let's start with that. Now every time the China competitors choose to make a product, they are able to do it. Maybe it takes more iterations, but they iterate quickly. And it's across the board. I like to talk about the portfolio of analog and embedded as general purpose and more application-specific. The general purpose are more like a building block of the analog and embedded market. This is when you start a new application, you start there. And then you have application-specific that are more integrated, solving a specific problem, maybe in automotive, maybe in solar energy or whatever. So they play in both domains, and they play well in both domains.

What's hard is the breadth. The breadth is an issue, because in our market to satisfy a board or to solve a solution, you have to have so many parts. That's why we have 80,000 of them.

Stacy Rasgon - Bernstein - Analyst

Do you still talk about look left, look right?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

You told me that last year, and we do, okay? So sell the board, and understand every socket. And by the way, if there is a socket there that we cannot address, let's invest, okay? So -- but some of these sockets are running at 100K a year across many, many customers. So it's just hard to go attack all of it, and it takes really decades to build a portfolio. It does take decades.

So this is where we have a competitive advantage, not only that we are cost competitive because we are vertically integrated with both fabs and ATs. We also have a very broad portfolio, and we have positions at customers that they value. On top of it, think about the markets we play in, in China. It's about 80% industrial and automotive. We are - customers care about longevity, they care about support. What happens when there is a failure in a car OEM; can you do my failure analysis? That's heavy lifting for many of the local competition. And this is where TI has an advantage. So we are competing. But to your question, the competition intensified, it's just stronger every year.

And I'm glad that we decided to pick up the challenge back in 2017, 2018, rather than wait for now. Because if you wait for now, it's kind of too late. It's hard to catch up. So I think we are running at the same speed. And it's also -- this is why I like to call it our conditioning room. If you can compete there, if you can run the Shenzhen and the Shanghai treadmill, you can run also the Detroit and Stuttgart treadmill. That's the way I look at it.

Stacy Rasgon - Bernstein - Analyst

How much of your workforce, like field engineers, R&D, is actually in China right now?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

So about 20% of our workforce.

Stacy Rasgon - Bernstein - Analyst

Kind of aligned.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, kind of aligned. And what we have done over the last years is, in terms of R&D, in terms of manufacturing, we don't want to be oversubscribed. So R&D, I've less talked about it, but we want R&D to come mainly not out of China. It's also very competitive. It's hard to keep a team there.

And the second point is on the manufacturing side. We are good on the front end, but back end a little bit oversubscribed because OSATs, which are external manufacturing for the assembly and test, are mainly China. So we need to own our destiny there. We are working on -- by the end of this year, we'll be at the right level. So 20% out of China, 80% outside of China. That's where we want to land on the ATs.

Stacy Rasgon - *Bernstein - Analyst*

We didn't talk about your back end assembly, but you're building a ton in the Philippines? Is it --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Philippines, Malaysia, we have in North America and Mexico. And ATs right now, they have the heavy labor, but that's also going to change one day. If you think about -- and it's part of what we discussed about robotics, we are training robots in our ATs right now. And one day, can you run a lights-out AT facility? You can. I think it's going to come. It's not around the corner, but when that comes, you can actually bring it to areas like the United States, right? So it's one of the things that I'm very excited about, that automation and digitization are going to come into our life, including in semi manufacturing, including ATs. Who would believe, right? So that's an exciting future for TI.

Stacy Rasgon - *Bernstein - Analyst*

I have to do some work there, I think. Just one more China question for you. I just - I just think with everything that's going on, have you seen any change in the competitive arena in China? Especially just given everything that's going on right now, has there been more of a push from the Chinese customers to use more local supply versus - because I'll be honest, I always sort of joke, it's like you got some companies that do business in China, but like I say like Texas Instruments has Texas right in the name. I just wonder if that causes an issue.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

So first, our brand in China is very strong. Customers really appreciate it, and we do appreciate them. Some of them are leaders in what they do in the world, global leaders, not only in China. And we learned a lot. I think they also rely on us. In that sense, customers appreciate our portfolio, they appreciate our support. We have a very strong sales team in China, very urgent, and we are doing well. The customers are very proud, and I actually talked with them after even tariff days. And they say, look, we need you. The government knows we need you, and we count on you. And when I spent time there in Q1, again, pre-tariff, but all I heard is, thank you for your support. Thank you for your portfolio. Thank you for your capacity, because China, like everything else, everything comes quicker. So from a cycle perspective, we were talking about how TI solves issues on supply from our competition rather than any tariff discussion. That was very refreshing. But I'm not surprised.

Stacy Rasgon - *Bernstein - Analyst*

(technical difficulty) from the U.S.?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

We today have all the back end, of course, out of the U.S. The front end, it depends. It depends on the part. What we are doing right now is to prepare in the case of the tariffs coming back, also in China, I have to requalify some of our parts that are in the U.S. into Japan, into Singapore, into

China. So we are doing it. Amichai -- Embedded is already ready because they are coming out of Singapore and Taiwan and they're going into the U.S. So they are already ready. On the analog side, I do have to make some requalification because the rules have changed. It used to be based on the COO, or country of origin, used to be on the back end. Now it's the front end. So I have to now take some of our parts that are running in the U.S. and requalify in Japan. But we have time. So this is something that we are doing. We are also loading our fabs.

The color of wafers, meaning where it came from, was not important before. Now it is. So we are also offering to our customers, flow. So what flow do you want? You want the U.S. flow? Okay, that's that acronym or that prefix. You want another flow --

Stacy Rasgon - *Bernstein - Analyst*

Can you preferentially charge for that?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

We think we should. I mean it's not going to be the 125% adder, but if you -- because if you don't run plain vanilla, meaning I decide where the wafer comes from, it's a little bit more burden on our side. I have to carry a little bit more inventory. I have to now remember where the wafers come from. It's an investment in IT. So we are doing it right now, and we are already offering to customers in China and also in the U.S. by the way. It's not only in China.

Stacy Rasgon - *Bernstein - Analyst*

And maybe that's a good segue into like gross margins. And we all know gross margins have come down. We understand why. I mean it's just the heavy CapEx burden. There is a depreciation burden. There was lower utilization just because of the nature. So I don't actually want to talk about like downside. I actually want to get you to talk about the upside on gross margins. I'm going to be nice here. And there's a number of drivers. I mean, clearly, if utilizations are getting better, fine. But you also talked about closing older fabs and starting to bring some of that volume into more cost-effective 300mm and, I guess, where -- I can't even remember where gross margin is sitting right now, like mid- to high-50s, something like that?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Mike, do you remember that number?

Stacy Rasgon - *Bernstein - Analyst*

I can't remember what the guide was --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

High 50s, right?

Stacy Rasgon - *Bernstein - Analyst*

High 50s? But maybe you could talk even -- I'm not asking you to give us a gross margin target. But like qualitatively, can you talk through some of the positive drivers on gross margins, now that we are sort of approaching the end of the investment phase?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Thank you. I like the way you asked it today. The -- and again, we run the company on free cash flow per share target. That's the way we measure it.

Stacy Rasgon - Bernstein - Analyst

I always joke it's -- it's not even a joke. You guys -- you don't run the company for gross margin, it's never been a target, right?

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

No. Correct. But I know it's -- but I respect it because it's important. To me, it just -- there is a little bit of delay. We like free cash flow per share because you see more immediate what's going on, and with accounting and everything, margins follow, right?

But high level, I would say, Stacy, from a tailwind perspective, I see three coming in right now. One is the shutdown of our last two 6-inch fabs. And there is one in Dallas, one in Sherman, same lines, in Texas, yes. And by the way, the Sherman fab has already parts that were moved from Houston fab. It was 4-inch. So it's kind of crazy, but we have now probably 90% done, okay? So we've moved these parts either to our 200mm wafer fabs or redesigned them into 300s. And that's a very - you can almost think when you move a part that used to run on 6-inch into a 300, the cost of chip goes to, quote-unquote, zero. That's nothing. So the gross cost of running a fab goes away when you shut down the fab. It's going to be shut down -- the last wafer start is I think in Q4 this year, and we are going to wind that cost in 2026. So that's one tailwind.

The second one is Lehi. That's a substantial one when we move the wafers because -- think about the gross cost, or think about depreciation. We've put the equipment, we have the people, because we took it from Micron.

Stacy Rasgon - Bernstein - Analyst

Is this Lehi 1 or --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

Lehi 1. And Lehi 1 right now, as we ramp it, and right now, it's below 50%, but we're going to leave the year at about 50% utilization in Lehi 1. So --

Stacy Rasgon - Bernstein - Analyst

Just from the transition or --

Haviv Ilan - Texas Instruments Inc - President, Chief Executive Officer, Director

From transition.

And there is growth in the Embedded this year. So when you think about that, that is another tailwind. That is part of what we call Phase 1, meaning transitioning of 6-inch into 300, transitioning of foundry into Lehi. The second element is really, Stacy, the mix is going to change. I mean, industrial is coming back. That's always a higher margin. That's going to be a tailwind to gross margins. But if you look longer term, and we've modeled the company towards 2030 and multiple revenue scenarios. When you go to a steady state of capital intensity related to your growth --

Stacy Rasgon - *Bernstein - Analyst*

What was that steady state in capital intensity?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

1.2x of growth. So if you grow at 7% long term, it's going to be 10%. If you grow at 10%, it's going to be like 12, right? So 1.2x the growth. So that's a long-term capital intensity. And that is -- when you run that model, you will find margins are very attractive. And I'm talking about the way they used to run, but it was not sustainable. We ran there when we were underinvested in capacity. It's going to go there very structurally.

Stacy Rasgon - *Bernstein - Analyst*

Yes. I mean I still remember when you did the first 300mm, which must have been '09, I guess, right? And I actually remember where I was, like I was actually -- I was having lunch with my family in the Japanese restaurant on the Upper West side here in New York, and I saw this come across my Blackberry. And my first thought was, these guys are insane, right? And then my second thought was, these guys are geniuses. And I actually still remember the call that you did. And everyone was asking about utilization, like, oh my god, you're going to be -- and your response was effectively like, you guys are -- you don't understand, like do you have any idea what the return on these assets are going to be, right? And I remember back then, you had aspirational targets to get to 55% gross margin someday. And I think you topped out at 70%. So you're right. I don't know if it was -- I wouldn't call it underinvested. To me, you prebought 10 years' worth of capacity at 10 cents on the dollar, right?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

No, I'm saying it was not sustainable, right? We ran it at too low of CapEx, yes. But again, I think we can do it more structurally moving forward because these new fabs are -- the return on investment is very attractive, but you have to wait, okay? That's the -- because they are very, very efficient. The scale of 300 is so amazing, so we love the efficiency of the fabs. And I think it's going to be different this time because RFAB2 is ramping. As I said, 70% built and fully utilized. The reason it's 70% is not because it's empty; it's because that's what it can build there. This is why we are pulling in SM1. So we see a lot of momentum, okay? And on Lehi, it's just a longer process to qualify 45nm, and it will finish this year. So I think you'll see it coming in, Stacy, and we are very proud.

And if I may, on a personal note, in the last two years, I've seen how hard it is to invest in the U.S., and I think that's part of the reason we see a lot of people stopping. All this hybrid manufacturing means I used to be making it, I'm not going to make it in the future, right? So it's a -- hybrid is a transition into fabless.

TI is going to be controlling its destiny and investing, but it's very hard. How many -- how much praise you get when you invest during a downcycle? Of course, you seem to be crazy, or they think you're crazy, but I think we are just thinking about it differently and see also the opportunity, and I think it's going to come. I think we're seeing evidence that it's coming now. So I'm excited about that.

Stacy Rasgon - *Bernstein - Analyst*

How does the CHIPS Act play into all of these decisions?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

It's not. To me, the --

Stacy Rasgon - *Bernstein - Analyst*

If there'd never been any CHIPS Act, would you have done the exact same thing that you're doing now?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

I mean the way -- the reason we've accelerated our efforts was not because of the CHIPS Act. It's because we saw a larger opportunity, and I'm very glad we have done it. But it does help, I think, just to level the playing field. And forget about all, I don't -- I'm not a big fan of the grant stuff. But the ITC part of that is very important because you just level the field versus people who are building it in Japan, in Europe. It's not -- China is getting fully subsidized, okay? So it's almost -- they do crazy stuff, but I'm not expecting us to do that. But I think ITC is a good method, and let's see what they're going to do with the new bill. I think the ITC is a good way to have kind of a down payment for an investment. And hopefully, it will continue.

Stacy Rasgon - *Bernstein - Analyst*

Do you have any thoughts on that? I just -- my view was that Trump hates the CHIPS Act and I --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

I don't know. First, the word is not liked, but I think they do see ITC as a good thing because it's fair. If you invest, we'll help you. But grants, grants are -- and also to me the process was not good, and we were asked to do all kinds of stuff that isn't related to semiconductor manufacturing like unions and -- I like where we are going. Let's say that.

Stacy Rasgon - *Bernstein - Analyst*

Okay. And I agree with you. I mean, the tax credit at least was bigger. It's 25%.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. That's where the money is. And to me, ITC is where we want to -- and this is when I talk with the new administration, I see openness to ITC. I don't like subsidies as well. I think it's a discretionary decision of someone, and they pull in all kind of other stuff to it. So there is a lot of bad connotation to it, rightfully so.

Stacy Rasgon - *Bernstein - Analyst*

Got it. I want to talk about the businesses a little bit, particularly Embedded. So some of the comments you made, particularly around Lehi, kind of resonated with me. Embedded has been a business for you that's -- it's had its issues over the last several years. And you guys have kind of admitted, yes, there were some things going on, and you needed to turn around. It looks like it's kind of bottomed and maybe it's sort of resuming growth.

And -- but your comments on Lehi suggest to me that you at least see potential for considerably more growth and prospects from that business than maybe we've had over the last five to 10 years. And I guess, what's driving that? What gives you confidence? What have you actually -- I guess what would -- said like, what was the issue in Embedded? Like what did you do to turn it around?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Well, that's a long topic.

Stacy Rasgon - *Bernstein - Analyst*

In the six minutes that we left, I guess.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Again, Embedded, you're right, Stacy, it underperformed. And I'm not talking in the last two years. It's a '17 to 2024, very, very tough --

Stacy Rasgon - *Bernstein - Analyst*

My math suggests you guys -- your market share got cut in half in that business.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

It's kind of the seven bad years. Some of that market share is by design, okay? Us walking away --

Stacy Rasgon - *Bernstein - Analyst*

Common infrastructure stuff --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, base stations, it was hundreds of millions and also infotainment, overall, above \$1 billion that we walked away from. So that's structural, decision, strategy. But the other part was issues on execution, Stacy. And execution, meaning we went under -- the strategy was not a good fit for the competitive advantages of the company. We like to build internally. We like to have a breadth of portfolio, we like longevity and diversity. It usually goes with these low -- kind of smaller sockets. Instead of \$50 per chip, can we sell those singles and doubles, \$1 or \$2 and sometimes \$0.50 MCUs, so we can play that game. And I think that's what we've done in the last five years.

Now why we have confidence is now we have enough evidence that not only we stabilized the business, we are prepared to take share. And the reason we are -- we want Embedded to be a strong contributor to free cash flow per share, to your comment, maybe even better than Analog, because the compare is easy, okay? So when you when you are -- when you lost so much market share over the last seven years, it's time for you to play offense, and that's what we're going to do.

So we have a new portfolio that is coming to fruition. We have new wins of funnel, and I hate to talk about design-in funnels, but it's so substantially different in Embedded versus the Analog. When I do the comparison over the last five years, it grew tremendously, that the expectation from Amichai and the team is that you grow fast. In the last peak to peak, and I showed the slide, from '18 to 2022, Embedded revenue -- forget about the market share -- declined. That's not going to happen from '22 to the next cycle. Embedded was flat year over year in Q1. It grew sequentially nicely. We're going to do it again in Q2, and the target and the objective of the team is to accelerate from here.

So -- and I'm talking to you the way I talk to the team. It's the same message. It's time to grow. We've invested. We want to see the results in 2025. So please check us every quarter. Every quarter at a time, remind me that if we are behind because I will use it with the team. But I have strong confidence that we are going to make that happen in '25.

Stacy Rasgon - *Bernstein - Analyst*

On the Analog side, though, I mean, to drill down onto the market share point there, I mean you lost a decent amount of share over the last several years, maybe since COVID started. But Analog, I mean, you went from 20% market share to 15%. What happened there?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. That's when -- it's four points, it's not five. But first, Stacy, let's be fair. Our Analog share was running at 18% for many, many years. It popped to 20% at the beginning of COVID. Okay? It's popped because we had supply. We had supply. We had inventory. Remember, back in '20, we ran the fab open --

Stacy Rasgon - *Bernstein - Analyst*

You were the only one to run --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. So yes, it dropped, and I'll talk about it in a minute, but I don't think -- I want to count the money at the end. And I'm not conceding on the analog. I think our position is strong. I think the cycle is not done. Look at our share -- the quarterly share, even on a quarterly basis in Q1. Wait for Q2.

Stacy Rasgon - *Bernstein - Analyst*

You always tell us not to --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. But look at over the long term. The cycle is not done, Stacy. In the cycle, we are seeing a first-in, first-out evidence from TI versus the competition. I think this continues into Q2 and beyond. So a long story short, I think the Analog business is in a very strong position. Now the issue we had, and that's our frustration, and this is why you are seeing us in a very different mode during this downcycle, we had the positions. We had the design-ins. We were on boards. As the young COO, I had to call the customers and tell them, this was your last wafer start. This is your last wafer start. So we had to allocate our wafers into markets that we thought are more important. So that's a tough situation to be in.

Stacy Rasgon - *Bernstein - Analyst*

That I never understood because, again, you were running the fabs, you were making stuff. Did you --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

The issue that we have, and I don't want to go too deep here, but we ran out of cleanroom. So RFAB2 took a stumble. Remember Rich took a short sabbatical. Remember that? So there was a loss of -- company stumbled before Rich came back. When Rich came back, we drove RFAB2 in the highest speed but a little bit too late. And this is part of the lessons learned. So we will admit first when we've done a mistake. But the good thing, we have the parts, we have the position with customers. And even those same customers I called to say that was your last wafer start, we are back in, not at 100% share, but we are winning back sockets. They were all in China. They were all PE customers. So that's where we had to fight the cycles. Don't go and protect your automotive and industrial market customers, unlike what we've done in 2010, 2009 after the GFC. Support them with your wafers and come back, fall on your sword, which we've done, and try to win back share. So we are -- this is part of the reason you see us growing in PE. It's across the geographies, including in China. But we have work to do. So to me, I prefer that problem, that you were not prepared

last time because you didn't have enough supply. You are now, and we are going to play a different game in this next upcycle. So we are very prepared for that, Stacy.

Stacy Rasgon - *Bernstein - Analyst*

Got it. We got about one minute left. Got a room full of investors here. Again, as I always do, I will give you your soapbox --

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

I thought we would be alone here on a Friday. So thank you for coming.

Stacy Rasgon - *Bernstein - Analyst*

This is all you. They're interested. Why should they buy Texas Instruments stock?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Look, I've been in TI for more than 25 years. And for the last 10 to 15 years, we worked so hard to reposition the machine, I call it -- the strategy, Analog and Embedded. We talked about divesting some businesses, stepping out of businesses. You know, 15 years ago, we had a big business still at Nokia.

Stacy Rasgon - *Bernstein - Analyst*

I remember very well.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

And BlackBerry, remember them? Yes. So we have done a lot of work to position ourselves in the right markets. So we are well positioned into industrial and automotive. We have a great technology that can go into more markets like data center and beyond. So I'm very excited about our position. And we don't have any more headaches, okay? We've built the capacity. We have the machine. We've injected higher level of competitiveness each time, okay? So TI is prepared to play offense. You will see it coming in every quarter, starting this year. And I recommend joining us. It's going to be a wonderful journey for the company in the next 10 to 15 years.

Stacy Rasgon - *Bernstein - Analyst*

Got it. I think we'll close it out there. Thank you so much.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Thank you, Stacy. Always a pleasure. Thanks.

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