

# 2021 Annual Report Chairman's Letter

Texas Instruments Incorporated

March 15, 2022

Rich Templeton, chairman, president and CEO

## Our long-standing passion and ambitions

For decades, Texas Instruments has operated with a passion to create a better world by making electronics more affordable through semiconductors. With each generation, technology has become more reliable, more affordable and lower in power, with semiconductors used by a growing number of customers and markets.

Our passion continues to be alive today, as we help customers develop electronics and new applications, particularly in industrial and automotive markets. Our founders had the foresight to know that passion alone was not enough and that building a great company required a special culture to thrive for the long term. For many years, we've run our business with three overarching ambitions in mind. First, we will act like owners who will own the company for decades. Second, we will adapt and succeed in a world that's ever changing. And third, we will be a company that we're personally proud to be a part of and would want as our neighbor. When we're successful in achieving these ambitions, our employees, customers, communities and shareholders all win.

## Our commitment to being a good corporate citizen

We take great pride in our commitment to being a good corporate citizen, which impacts our communities and the world in two ways. First, our ambitions guide how we run our business and are foundational to ensuring that we operate in a sustainable, socially thoughtful and environmentally responsible manner. Central to these ambitions is a belief that in order for all stakeholders to benefit, the company must grow stronger over the long term. Second, semiconductors will play a critical role in creating a better world and helping to reduce the impact on the environment. With our ambitions guiding our decision-making for the long term and our products helping to create a better world, we are confident that our collective efforts will be impactful and long-lasting.

## Our objective and strategy

As engineers, we're fortunate to work on exciting technology which helps our customers innovate to create a better world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share. Our strategy to maximize free cash per share growth has three elements: first, a great business model that's focused on analog and embedded processing products and built around four sustainable competitive advantages; second, discipline in allocating capital to the best opportunities; lastly, a focus on efficiency, which means more output for every dollar spent.

## Strengthening our competitive advantages

Our business model is built around four sustainable competitive advantages that, in combination, provide tangible benefits and are difficult to replicate. These competitive advantages are manufacturing and technology, a broad portfolio of analog and embedded products, reach of our market channels, and diverse and long-lived positions. We continued to make progress in 2021, investing to strengthen and leverage these advantages for the long term.

We believe owning our own manufacturing, process and packaging technology provides us with lower costs and greater control of our supply chain, which will be of growing strategic importance. In addition to our existing 300-millimeter wafer fabrication plants (or "fabs"), which include DMOS6 (Dallas, Texas) and RFAB1 (Richardson, Texas), in 2021 we continued to expand our internal manufacturing capacity roadmap for the long term.

- We continued construction of our next 300-millimeter fab, RFAB2 (Richardson, Texas), which will start production in the second half of 2022.

- We purchased a 300-millimeter fab in Lehi, Utah, which is expected to begin production in early 2023.
- We announced plans to begin construction in 2022 on our next 300-millimeter fabs in Sherman, Texas. This site has the potential for up to four fabs to support customers' demand in the coming decades.

Together, these investments are designed to strengthen our manufacturing and technology competitive advantage.

Additionally, we continued to make progress on strengthening and extending our reach of market channels by building closer direct relationships with our customers. This activity builds on prior multiyear investments in our sales and applications team, TI.com, business processes and logistics – all with the goal of building closer direct relationships with our customers. In 2021, we averaged about two-thirds of our business transacting directly and left the year close to 70%, up from about one-third of our business in 2019. In addition, we're focused on making it easier for our customers to buy online. We expanded the reach of our TI.com e-commerce channel by offering a localized online experience in many countries, with attractive convenience features such as local currency, payment methods, invoicing and importer of record. Our investments to extend our reach of market channels is providing us better insight and knowledge of customers' needs and design trends. Ultimately, this is translating into market share gains by providing us access to more customers and more of their design projects, allowing us the opportunity to sell more TI products.

## **2021 performance**

In 2021, despite the ongoing global challenges related to the pandemic and resulting supply chain disruptions, TI maintained a focus on keeping our employees safe, keeping our factories running, adding incremental capacity to help meet customer demand and giving back to our communities when needs continued to be great. We strengthened our competitive advantages, grew revenue 27% and maintained a strong balance sheet. Additionally, consistent with our commitment to return free cash flow to owners, we increased our dividend 13% again in 2021.

I continue to be proud of how Tiers adapted and performed in 2021. We have learned through the decades that challenging years are when our ambitions are most critical in guiding our decisions and when Tiers rise to the challenge.

## **Looking ahead**

It is a privilege to get to pursue our passion of creating a better world by making electronics more affordable through semiconductors.

We will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value. To achieve this, we will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies.

You can count on us to stay true to our ambitions: to think like owners for the long term, adapt and succeed in a world that's ever changing and behave in a way that makes our stakeholders proud. When we're successful, our employees, customers, communities and shareholders all win.