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CORPORATE PARTICIPANTS

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

CONFERENCE CALL PARTICIPANTS

Christopher Brett Danely *Citigroup Inc., Research Division - MD & Analyst*

Harlan L. Sur *JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment*

Joseph Lawrence Moore *Morgan Stanley, Research Division - Executive Director*

Joshua Louis Buchalter *TD Cowen, Research Division - Director*

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD & Semiconductor Analyst*

Stacy Aaron Rasgon *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Timothy Michael Arcuri *UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment*

Tore Egil Svanberg *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Toshiya Hari *Goldman Sachs Group, Inc., Research Division - MD*

Vivek Arya *BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst*

William Stein *Truist Securities, Inc., Research Division - MD*

PRESENTATION

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Good morning, and welcome to Texas Instruments' 2024 capital management call. I'm Dave Pahl, head of Investor Relations, and I'm joined by our Chief Financial Officer Rafael Lizardi.

This call is being broadcast live over the web and can be accessed through our website at ti.com/ir. In addition, today's call is being recorded and will be available via replay on our website along with the complete presentation and prepared remarks for your convenience.

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 notice regarding forward-looking statements contained in our most recent earnings release as well as the most recent SEC filings for a more complete description.

During today's presentation, we'll begin with a recap of our objective, strategy and business model that is built on our sustainable competitive advantages. Next, we'll review the scorecard for 2023 and updates for 2024. Then we'll provide a historical summary of our capital allocation and share a reminder of our approach to capital allocation as we prepare for the opportunity ahead. Next, we'll provide an update on our progress in strengthening our manufacturing and technology competitive advantage, where you'll see our CapEx plans are unchanged as we prepare to support long-term growth for our customers with geopolitically dependable capacity. Then we'll review R&D allocation priorities and our progress on building closer direct relationships with our customers. Next, we'll review our free cash flow per share performance. And lastly, we'll wrap up with a review of our cash returns.

If you haven't already, we encourage you to review our investor overview, which provides insight into our business model and competitive advantages. It's also available on our investor relations website at ti.com/ir.

Before I go through an executive summary of TI's guiding principles and our objective and strategy, let me pause and make a few important points about today's presentation.

Companies and investors are looking at a world where the semiconductor cycle is playing out at the same time that geopolitical tensions, particularly between China and the U.S., are reshaping supply chains and competitive dynamics for the next 10 to 20 years. We will continue to allocate capital to the best opportunities to prepare for the future, particularly our investments to provide geopolitically dependable, low-cost 300mm capacity at scale. History has shown the importance of staying focused on the opportunity ahead, even through weak periods of the semiconductor cycle.

It is precisely in times like this that we find it important to remind ourselves and our investors of the principles that guide us on a

day-to-day basis.

At TI, we run the company with the mindset of being a long-term owner.

We believe that the growth of free cash flow per share is the primary driver of long-term value.

Our ambitions and values are integral to how we build TI stronger. When we're successful in achieving these ambitions, our employees, our customers, communities and shareholders all win.

Our strategy is comprised of a great business model, a disciplined approach to capital allocation and a focus on efficiency.

Our business model is built around four sustainable competitive advantages: manufacturing and technology, a broad product portfolio, the reach of our market channels, and diverse and long-lived positions.

And after accretive investments in the business to grow free cash flow per share for the long term, the remaining cash will be returned over time via dividends and share repurchases.

With that as a framework, our objective is to maximize long-term growth of free cash flow per share, which we believe is the best metric to judge our performance and generates long-term value for the owners of the company.

Our strategy to achieve this objective has three elements:

First, a business model that is focused on analog and embedded products and built around four sustainable competitive advantages -- advantages that we continue to invest in and make even stronger.

Second, discipline in allocating capital to the best opportunities. This spans how we select R&D projects, develop new capabilities like TI.com, invest in our new manufacturing capacity or how we think about acquisitions and returning cash to our owners.

And third, striving to constantly increase our efficiency, which is about achieving more output for every dollar of input.

Our strategy is designed around four sustainable competitive advantages that, in combination, provide tangible benefits that are difficult to replicate.

First, at the bottom of the slide, we start with a foundation of manufacturing and technology. This provides us lower cost and greater control of our supply chain. The advantage of lower cost has always been recognized as a benefit. The last few years have increasingly highlighted the importance of owning and controlling our supply chain, including manufacturing, process technology and packaging.

Our second competitive advantage is the broad product portfolio of analog and embedded processing products. These products provide us more opportunities per customer and more value for our investments.

And third, the reach of our market channels, including our field sales force team and TI.com. This provides us access to more customers, projects, sockets per project and insight into their needs.

And lastly, we have diverse and long-lived positions, resulting in less single point dependency and longer returns on our investments.

With that, I'll turn it over to Rafael, and he'll review our approach to capital management and the scorecard. Rafael?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Thanks, Dave. We have shared our capital management scorecard with you since 2013. You can see that the scorecard includes descriptions of our long-term objectives for each metric as well as the target range. The long-term objective provides insight into how we

make decisions and run the business, as opposed to only a number or a range.

In 2023, we again met our objectives. Capital expenditures were about \$5 billion, as planned, and cash return was about \$5 billion, which is a reflection of our continued commitment to returning all free cash flow via dividends and repurchases over time.

We are pleased with the consistency of these results over time that have been enabled by our business model, discipline in allocating capital and constantly striving to increase our efficiency.

For 2024, our long-term objectives remain the same, as we will continue to allocate capital to the best opportunities to maximize the growth of free cash flow per share over the long term.

Before I move into those details, I would like to back up and provide a top-level view into how we allocate our capital overall.

In the 10-year period spanning 2014 to 2023, we have allocated about \$94 billion of capital. Given that magnitude, you can appreciate why capital allocation is a job we take quite seriously and one that has significant impact on owner returns.

Our largest category of capital allocation, about 40% of the total, has been investments in critical areas that drive organic growth, such as R&D, sales and marketing, capital expenditures and inventory. For reference, capital expenditures have been a little over \$15 billion over this 10-year period.

The next two categories of dividends and share repurchases are similar in size. For dividends, our objective is to appeal to a broader set of investors, and we focus on their sustainability and growth for obvious reasons. For repurchases, our objective is the accretive capture of future free cash flow for long-term owners.

And finally, potential acquisitions are evaluated through two primary factors that have remained unchanged: It must be a strategic match, meaning catalog analog-focused with high exposure to industrial and automotive. Additionally, it must meet certain financial objectives.

For simplicity, we have not included changes in net debt, which over this period increased about \$1.6 billion, as we have increased cash levels.

Next, I would like to discuss our approach to capital allocation as we look at the opportunity ahead, and this may be the most important point during today's presentation.

Our confidence in the opportunity ahead remains high for several reasons.

First, we have a high level of confidence in the secular growth of semiconductor content for analog and embedded products, especially in industrial and automotive, which have the potential to grow faster than the overall semiconductor market over the coming decade.

Second, we have greater exposure to industrial and automotive than we did 10 years ago, growing from 42% of revenue to around 75%, with a 10% compounded annual growth rate since 2013. Our work over the past 10 to 15 years has further strengthened our position in these markets. This includes our investments in process technology, package technology and the expansion of our product portfolio. In addition, our work to build closer direct relationships with customers allows us to better service tens of thousands of customers in the industrial and automotive markets. In summary, the decisions we have made have increased our exposure to industrial and automotive and we are well positioned for continued growth in the coming decade.

Lastly, customers across all of our markets have expressed a strong desire for geopolitically dependable capacity, as it will be increasingly critical and valuable in the next 10 years. Our elevated level of CapEx, which began in 2021 and will continue through 2026, enables us to support customer demand for supply outside of China and Taiwan at scale.

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During today's presentation, and consistent with last year, we're investing in capacity to support about \$45 billion of revenue in 2030 and to increase our internal manufacturing to greater than 90% for both wafers and assembly. While it may be easy to question the viability of this plan, history has shown the importance of staying focused on the opportunity ahead, even through weak periods of the semiconductor cycle.

Now I would like to update you on our progress in strengthening our competitive advantages.

To start, I will update you on our manufacturing and technology competitive advantage. We mentioned earlier that for each of our competitive advantages, we work to ensure that they provide tangible benefits and are difficult to replicate.

Our investments in manufacturing and technology, particularly in 300mm wafer fab capacity, help to expand our cost advantage and give us greater control of our supply chain. Today we will review the progress of our long-term capacity roadmap that will support growth over the long term. Before we do that, I would like to provide some insight into the benefits of owning and controlling our supply chain and the benefits of 300mm.

There are several benefits to owning and controlling our supply chain. First, these investments provide the capacity necessary to support growth. Second, we have more control of our supply chain, with more than 90% of our wafers and assembly test to be manufactured internally. Third, our process technology is focused on 45nm to 130nm, which is optimal for analog and embedded products and vital for industrial and automotive markets. Lastly, we have a structural cost advantage because of our increasing 300mm wafer fab footprint. All of these benefits allow us to provide geopolitically dependable capacity for our customers, with equipment and process technologies that last for decades.

This example, which we have shared for many years, is an illustration of the cost benefit of internal 300mm wafer production.

Two years ago, we introduced a long-term 300mm roadmap, and we are pleased with our progress throughout 2023. RFAB2 and LFAB1 continue to ramp production, and construction is underway on SM1 and SM2 in Sherman, Texas, as well as on LFAB2 in Lehi Utah.

Last year, we presented a detailed manufacturing roadmap that will enable TI to support about 10% revenue growth rate through 2030.

Our capacity build-out plans and our confidence in the importance of these investments remain strong. As we mentioned previously, these investments are a reflection of a combination of confidence in semiconductor content growth, particularly in industrial and automotive, our position in these markets and continued strong customer demand for our geopolitically dependable capacity.

As a reminder, we plan to spend about \$5 billion of CapEx per year from 2023 to 2026. Beyond 2026, we expect capital expenditures to be a function of both revenue and revenue growth rate expectations.

Underneath the black line, we have highlighted some of the key wafer fab and assembly/test projects. For the sake of time, I will not go through each of these, but we hope it provides some insight into the detailed planning involved in this roadmap.

Finally, at the bottom of the slide, we have highlighted several key metrics this roadmap will deliver.

The top row shows supportable revenue, meaning this plan can support approximately 10% annual growth through 2030 and beyond.

On the second line, in 2022, about 80% of wafers were sourced internally, and this will increase to more than 90% by 2030.

On the third line, you will see that 300mm will increase from 40% of our internal production to more than 80% by 2030. This gives some perspective into how our 300mm advantage will grow over time.

And finally, while most of the world discusses the importance of wafer fab capacity, assembly capacity is equally critical. We will grow assembly from 60% internal to greater than 90% by 2030.

As we consider capacity investments outlined previously, it is important to maintain a steady hand through the cycle. To help the generalist portfolio manager listening, who may not be familiar with the semiconductor cycle, we have updated this chart from last year to explain why we plan for the long term, independent of what the semiconductor cycle may be doing in any one year.

This chart shows semiconductor units shipped, excluding memory, on a trailing 12-month basis over the past 30 years, as reported by WSTS.

While there is much debate that focuses on the cycle in our industry, the more important element is that the gray line, which shows the long-term trend, grows consistently over time. Our approach is to have a disciplined, long-term plan with our capital spending, with the gray line in mind.

Now let me provide a brief update on the CHIPS and Science Act. As a reminder, there are two main provisions in the act. First, the Investment Tax Credit, or ITC, provides a 25% tax credit for U.S. semiconductor manufacturing investments. We expect a cash benefit of around \$4 billion for investments made through 2026. Additional benefits extend beyond 2026 through 2032 and will be a function of the CapEx spent at that time.

In addition, we have submitted our applications for the manufacturing grants to the CHIPS program office, and the future benefit is to be determined.

With those details, let me ask Dave to comment on our investments in R&D.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Thanks, Rafael. I'll comment on our R&D investments that we allocate to growth opportunities in order to strengthen our technology and product portfolio, while improving diversity and longevity.

On this slide, we summarize the current direction of our R&D investments and our revenue breakdown by end market.

For the revenue breakdown, we provided data for 2013, 2022 and 2023, so you can get a sense of how the portfolio has changed over the long term as well as compared to last year.

We can find great investment opportunities in all of these markets. As shown in the second column, the direction of our R&D investments is consistent with prior years.

Industrial and automotive investments continue to be up broadly, reflecting our belief that these end markets will be the fastest growing markets due to growth of semiconductor content.

Personal electronics and communications investments are steady.

Enterprise system investments are up slightly in support of the growing cloud and server infrastructure.

Other, which is shown for completeness, is primarily the calculator business, where investments is flat and at low levels.

Here, you can see the strategic progress we've made in the important markets of industrial and automotive. In 2023, those markets combined represent 74% of TI's revenue, compared to 65% in 2022 and just 42% back in 2013, and have grown at about a 10% compounded annual growth rate since 2013.

As a reminder, the industrial and automotive markets have high diversity, meaning many customers, many sectors and many end equipment types. These markets also have high longevity, where they tend to have life cycles ranging from several years to several decades.

Success in the industrial and automotive, therefore, requires a long-term commitment and willingness to invest broadly across sectors and product categories, both of which we've done and continue to do.

I'd also like to share an update on our progress in building closer direct relationships with our customers, which serves to strengthen and extend the reach of our market channels.

As a reminder, we believe that our customers increasingly desire the convenience and productivity of an online relationship along with skilled customer and commercial support. This is a broad secular trend that we see all around us in our daily lives.

Our multiyear investments in our sales and marketing team, TI.com, business processes and logistics uniquely position TI to lead this transition in the semiconductor industry.

With these investments, customers have the choice of buying direct from TI via traditional backlog or through TI.com for immediate shipment, where they enjoy the convenience of online ordering and get the best price and availability.

In 2023, we continue our progress on building closer direct customer relationships, averaging almost three-fourths of our revenue transacting direct. This compares to about a third of our business transacting directly in 2019.

TI's reach of market channel results in higher growth through access to more customers, projects, sockets per project, and better insight into customers' needs.

With that, I'll turn it back to Rafael to talk about our free cash flow growth and cash returns.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Thanks, Dave. Before discussing free cash flow growth and cash returns, it is helpful to consider how our operating cash flows are enabling our long-term investments. Specifically, operating cash flow in 2023 was \$6.4 billion, which was down from 2022 as we operated in a weaker market environment, and positioned the company for the upturn by building about \$1.2 billion of inventory.

At the same time, CapEx was at \$5.1 billion, or 29% of revenue, as we increased investment levels in 300mm wafer fabs to strengthen our competitive advantages.

As we described at the beginning, our overall objective is to maximize long-term growth of free cash flow per share. We believe this is not only the best metric to judge our performance over time, but it is also the one that we as owners ultimately care about.

In 2023, free cash flow was \$1.49 per share, as we made the decisions to invest in 300mm manufacturing capacity and inventory growth as we outlined earlier. The longer-term trend line of free cash flow per share growth has been low-double digits through 2022. We expect to continue elevated levels of CapEx through 2026 as long-term growth of free cash flow per share guides our capital allocation decisions.

As mentioned before, our long-term objective is to provide a sustainable and growing dividend to appeal to a broader set of owners.

For 20 consecutive years, we have steadily increased our dividend, including a 5% increase in Q4 2023. These increases represent 14% for five-year and 17% for 10-year compounded annual growth rates. As of January 26, 2024, the dividend yield was 3.1%.

Our objective in repurchasing shares is the accretive capture of future free cash flow for long-term investors.

While the ultimate assessment of return on investment of these purchases depends on the future cash flow stream, the track record of this approach is encouraging.

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We have reduced shares outstanding 47% since 2004. We ended 2023 with \$21 billion in open authorizations, having bought back about \$300 million worth of stock in 2023.

With respect to cash returns, in 2023, we returned \$5.34 per share. Over the last 10 years, we have returned a total of 114% of free cash flow. Returns have grown at 13% since 2004.

It may be helpful to frame our performance versus others in the S&P 500. Our free cash flow generation puts TI in the 39th percentile and is a reflection of our decisions to invest to make the company stronger for the long term. Underlying this is our cash generation. Operating cash flow as a percent of revenue would put us in the 83rd percentile. Our cash returns put us in the 93rd percentile and return on invested capital in the 87th percentile when compared to the S&P 500.

We believe our performance versus the S&P 500 is a reflection of our focus on growing free cash flow per share over the long term and the three elements of our strategy:

First, a great business model that is built on our four competitive advantages -- advantages in which we are continuing to invest and make even stronger.

Second, discipline in how we allocate our resources, focusing on the best product opportunities as well as areas that strengthen and leverage our competitive advantages.

And third, striving to constantly increase our efficiency, which is about achieving more output for every dollar of input.

We believe if we can continue to do these three things well, we should be able to grow free cash flow per share for a long time into the future.

Let me now wrap up my prepared remarks with a few summary comments.

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

We were fortunate that our founders had the foresight to know that passion alone was not enough. Building a great company required a special culture to thrive for the long term, and we continue to build this culture stronger every day. The desires of sustainable investors are aligned with our long-term ambitions and have been part of our formula for success for decades.

We will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value. 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 us and our stakeholders proud. When we're successful, our employees, customers, communities and shareholders all win.

Thank you. With that, I'll turn it back to Dave.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Timothy Arcuri with UBS.

Timothy Michael Arcuri UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment

I had a question on the long-term assumption for revenue and your share. So if you look at your trailing 12-month share in analog, it's now dropped back to about 16%. It was about 19% pre-COVID. Does the long-term assumption assume that you get that share back? I'm just kind of wondering what is assumed from a share point of view because each point of share is roughly \$1 billion-plus worth of revenue in that time frame.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Tim, maybe a couple of comments, and as we've talked about and moved through, there's been quite a bit of noise in the system. We do -- longer term, we are not assuming that the rate of change of our share over time is changing when we put together those assumptions. So we are assuming that noise comes out of the channel, of course, but that long-term rate doesn't assume that it accelerates from what we've done in the past. Do you have a follow-on?

Timothy Michael Arcuri UBS Investment Bank, Research Division - MD and Head of Semiconductors & Semiconductor Equipment

I do. I do. Yes. I guess, Rafael, I had a question also on the credits. You accrued \$1.4 billion as of last quarter. I imagine you'll probably accrue a couple of hundred million dollars more this quarter. But you said that the benefit is only going to be \$500 million this year, which is a bit lower than I think some of us thought. And you're not cutting CapEx. So can you help understand how the credits are a little lower, but the CapEx has not changed? And also, since the credit is going to be a bit lower this year, do you get that back next year? So yes, it's \$500 million this year, but it's going to be \$1.5 billion or something like that next year.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. So first, big picture, as we just talked about, we expect to get about \$4 billion of benefit from the ITC -- CHIPS Act ITC -- for the CapEx that we'll be spending, we're already spending, from 2023 through 2026, okay? So out of that \$20 billion or so of CapEx during that time, \$5 billion per year, we're going to get about \$4 billion of benefit.

The way that works is we accrue for it first, and then a year later or so, we get the cash, right? And then the asset is placed on the balance sheet at that lower base, so minus the accrual.

Now the timing of the cash, that can be a little quirky. It's all a function of when the assets are placed in service. So anything that's placed in service at the -- as of the end of the year, December 31, that is eligible to get the cash by October of the next year. So that's what you're seeing now. We expect \$500 million this year just because of the \$1.4 billion accrual, only about that \$500 million was put in service. And that means qualified, running in the factory when it comes to equipment. When it comes to buildings, you actually have to finish the building and then have a certificate of occupancy. So that's what's going on. So we are going to get the \$4 billion of cash over the next few years as we continue to accrue, and then eventually subsequent to that, get the cash about a year -- a year and change that later.

Operator

Next question is from Toshiya Hari with Goldman Sachs.

Toshiya Hari Goldman Sachs Group, Inc., Research Division - MD

I wanted to follow up on the market share question and just clarify. Dave, you mentioned -- I think you mentioned that you're not expecting an acceleration in your share growth going forward. But when I look at the numbers, the revenue supported for '26 and 2030, I guess, off the base of 2023, to get to those numbers, you're looking at a 20% CAGR through '26. If it's through 2030, it's a mid-teens CAGR. So if the rate of share expansion is not accelerating, are you assuming that the TAM, the market growth, is accelerating going forward? Is that the right way to think about it?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. What I'd ask you to do and just to pull you back to Slide 18, where we show the last 30 years of shipments inside of the semiconductor market. And for convenience, we estimated the peak of each cycle with the red dots. And you can see that movement over the long term. And what was important, as we said in the prepared remarks, was that long-term gray line. So yes, if you draw lines off the bottom of any one of those cycles, you'd have a much higher growth rate at any particular time.

So again, as we put together those plans, we're looking at that longer-term trend line. As we've talked about before, the things -- the investments that we're making, whether that's a capital expansion or even preparing for inventory, it's really made with that longer-term view in mind.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. Let me add to that. Dave alluded to noise earlier. I just want to explain that a little bit because these market share comments are -- they're a point in time when people make those arguments; you've got to think a little broader than that.

Now remember, during the last -- over the last couple of years, many of our competitors have used long-term agreements. They've also -- which we do not use. So we've been shipping directly to what the customers need. We are -- 75% of our revenue now is direct -- so we don't have that channel in between -- that distribution channel that distorts those trends. So we're shipping, again, what the customers need and only what they need.

There's also been pricing movement in -- among some of our competitors that could also be distorting the market.

So be careful just assuming, just taking one point in time and drawing conclusions on market share. I think you need to look at that over time, peak-to-peak, trough-to-trough over the entire cycle before you draw any hard conclusions on that.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Toshi, you have a follow-up?

Toshiya Hari Goldman Sachs Group, Inc., Research Division - MD

Yes, I do. That's helpful. My follow-up is on inventory. And I know the range is unchanged. It continues to be a rather large range, right? It's 130 to above 200. You're above 200 today. And I think, Rafael, on the earnings call, you talked about inventory potentially growing a little bit for the next couple of quarters. So as we think about your business over the next couple of years, is that range, I guess, can we assume a reversion to 160, 170? Or how should we think about your inventory, given your portfolio and your view on growth?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. No, good question. So step back, inventory objective is to serve our customers -- serve them well and have a potential upside for revenue. Keep in mind, that inventory is very low risk when it comes to obsolescence, given the long product life cycles, et cetera.

Now stepping back even further, remember, our strategy has evolved over time. We are now a much more catalog industrial automotive company. About three-fourths of our revenue are in those buckets. And again, those are long product life cycles, long shelf lives for the products. So that's one thing to consider.

The other one, we're now -- three-fourths of our revenue goes direct. So less of the channel, therefore, the inventory that used to be supported with the channel that was off the balance sheet essentially, now we have to support internally. So that also drives the need for more inventory on our balance sheet.

Third one, we are providing immediate availability on TI.com for those catalog parts. That's also a key differentiator, a key enabler, and it requires additional inventory as an investment to enable that.

And the final one I would tell you is that we are -- not only do we have most of our manufacturing internally, but we're taking that up, right? Over the next several years. We already did that in 2023 to a large extent. Internal wafer starts are going to go to 90% from about

80%, and assembly/test from 60%, to 90%. So all of that also adds more inventory because now the inventory is on your balance sheet; from the moment the wafer starts, you have WIP in the line. Same with AT. Whereas if you compare that to our competitors or the way we operated before, that wasn't there to that extent.

So all that to say, we're very comfortable with our inventory levels. I don't see that draining or draining significantly over the coming months or years, or quarters or years. Remember, inventory is a backward-looking metric. So you got to be careful how you look at it. But \$4 billion, \$4.5 billion of inventory given our revenue expectation over the next year or so is a good bogey to be thinking about.

Operator

Our next question is from Vivek Arya with Bank of America Securities.

Vivek Arya BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst

How much did TI ship through TI.com last year? I think that slide wasn't there in the presentation. How much higher are margins in that channel? And why hasn't that direct channel done more to help TI avoid some of this overshipment to customers that some of your peers, right, also in hindsight, had to do?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, I'll start with that. If you look at TI.com, as Rafael mentioned, it is a way for customers to get immediate shipment of product. And that, with customers coming direct and placing backlog or consignment fees on us, represented about 75% of our revenue, up from about 70% last year, so it's increasing. Now you would imagine, in periods of tight demand, TI.com will be higher. Obviously, it will be lower in periods of weaker demand like now. So it has fallen off, but the long-term strategic value of both of those channels remain very, very, very high.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

And let me just add to that. As you alluded to, it did react to the environment. That's why it is lower than it was in 2022. So we did ship less to customers immediately as things weakened. So it did behave as expected.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

And it's there to support growth on the other side. You have a follow-on, Vivek?

Vivek Arya BofA Securities, Research Division - MD in Equity Research & Senior Semiconductor Analyst

Yes. The CapEx intensity is supposed to stay elevated even after this '23 to '26 period, right, so 10% to 15% of revenue. What has fundamentally changed, right? Because in the good old days, you guys could keep CapEx well below mid-single digit, and it worked well. Now it's supposed to be 10% or 15%. And I'm curious what has fundamentally changed? And does it mean that investors should now think of the analog industry being structurally less profitable than it has been historically?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Well, what I would tell you, we are committed to the \$5 billion per year for the next four years, that \$20 billion plan to put us in a great position to support long-term growth given our confidence in the market, that we talked about. Beyond 2026, that's going to depend on revenue and revenue expectations at that point. The CapEx intensity beyond that, so...

Operator

Our next question is from William Stein with Truist Securities.

William Stein Truist Securities, Inc., Research Division - MD

Great, sort of related to that last one, not precisely, but it's related. Your free cash flow to sales is up -- that ratio is much lower currently because of the elevated CapEx. But you have this still fairly high target. Can you talk to us about the time frame in which you expect to track towards that? Is it like 2026, 2027, what should investors expect?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

I'm sorry, when you said a high target, what are you referring to?

William Stein *Truist Securities, Inc., Research Division - MD*

The free cash flow to sales target that's in the slide deck.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Okay. Yes. So we have an elevated -- we have a plan for elevated levels of CapEx through 2026, similar to the previous question. After that, that CapEx will depend on expectations on revenue and revenue growth. And the free cash flow is of course a function of operating cash minus the CapEx, right? So that will follow that.

William Stein *Truist Securities, Inc., Research Division - MD*

So the goal is 25% to 35%, right? And you're operating much lower. So is the -- I think what you're -- what I'm interpreting is that it's 2027 in which we should expect that target to -- that statistic to go back to the target range. Is that correct?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

I would say sometime after 2026. I don't want to put together a specific number. You never know what could be happening at that point, right? There's -- with a cyclical industry -- but the elevated CapEx, you should expect that through 2026. Then after that, it will be a function of revenue and revenue expectations. And so then CapEx will adjust to that.

William Stein *Truist Securities, Inc., Research Division - MD*

Okay. May I follow up?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes, I think sure. Go ahead. We'll give you a bonus.

William Stein *Truist Securities, Inc., Research Division - MD*

First is really the same question actually. So the next is really about the expansion of internal wafers as a percent of total -- you've had this message out there for a while, and you continue it. But you do have some product that's a bit more leading edge. And so the curiosity that I have is whether the implication is that you're going to do less leading edge as a percent of your revenue, and it remains outsourced? Or are you starting to in-source and manufacture at some closer to leading edge geometries?

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Yes. Maybe I'll start, if you want to add, Rafael. So the capacity that we're putting in place today is targeted to support 45 to 130nm. And those are optimal for analog and embedded. So we expect to use those nodes for decades to come. We likely will go below 45nm, probably not much below that over time. So those are the nodes that we will be in-sourcing. We'll have needs for products below that, but as we show inside of the charts, that will be a pretty small portion of our total demand.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Okay. All right. You had three questions there.

Operator

Our next question is from Ross Seymore with Deutsche Bank.

Ross Clark Seymore *Deutsche Bank AG, Research Division - MD & Semiconductor Analyst*

The first one is on the CHIPS Act side of things and a clarification on the actual question. The \$4 billion you're talking about, given the one-year lag, I know that's reflective of the investment through '26. But does the \$4 billion number not come until '27? That's the clarification. And then the bigger picture question is, how do we work through the accounting on the grants? I know you're not going to tell us what that is. But just walk us through how that flows through your financial statements relative to how you're doing the ITC, please.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Sure. So let me start with the ITC, the first question. So the \$4 billion, remember, we started accruing that in late '22. So that's roughly -- we're spending that CapEx from '22 to '26. So essentially, we're going to get the cash from '24 through '28 more or less, if you want to think about it. So it's over four years with kind of a two-year time shift, okay? I also want -- we mentioned it during the prepared remarks, but I want to make sure it's not lost -- we expect additional benefits beyond 2026 on the ITC on CapEx spent in the United States. Just the way the regulation works, the way it was written, it applies to certain projects, in our case, Sherman and Lehi from 2026 to 2032. But those benefits, we don't have that quantified because it's going to depend on how much we spend during that time. But there are -- there will be additional benefits beyond the \$4 billion.

On the second part of your questions on the grants, we just submitted that application in December, so we don't know the specifics. I imagine the accounting will be very similar in terms of the balance sheet and P&L, meaning it's just going to decrease the carrying value of the asset, and therefore you have a lower depreciation. What I don't know is the cash. The cash could be given upfront, could be given in milestones or could be given at the end. So that remains to be seen. But I believe the balance sheet and P&L accounting will be very similar to the ITC.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Okay. Ross, You have a follow-up?

Ross Clark Seymore Deutsche Bank AG, Research Division - MD & Semiconductor Analyst

Yes. This will be a simple one. Last fall, you took down the depreciation slightly. You had more efficiency gains, et cetera. I think \$1.5 billion to \$1.8 billion for this year versus \$2 billion prior, similar slight decrease for what you're talking about next year. Any update on that? Any change to those ranges on depreciation, of course, pending all the grants stuff that we don't know yet?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. No, thanks for asking that. That gives me an opportunity to clarify that. So yes, no change to that. I talked about it last week at the earnings call, but 2024, so this year, \$1.5 billion to 1.8 billion, and 2025, \$2 billion to \$2.5 billion. That is, again, the same as what I said last week and what I said 90 days ago. I wouldn't expect the grants to change that. It would probably change beyond 2025, but we'll see depending on how things play out.

Operator

Our next question is from Tore Svanberg with Stifel.

Tore Egil Svanberg Stifel, Nicolaus & Company, Incorporated, Research Division - MD

Rafael, Dave, the first question is on the growth behind, obviously, all these CapEx investments. So I think we all agree that the analog industry is great. The embedded industry is great, but we also think about the geopolitical stuff. So China has been about one-fourth of the market over the last 30 years. How should we think about that 10% growth target? And how TI expects to continue to ship into the Chinese local market?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Thanks for that question, Tore. So let me just make a couple of comments. We had some of it in our prepared remarks, but just to bring it to the top of the list. So when we look at our growth in the future and what gives us confidence in it, is the trends that we have seen, is just higher semiconductor content growth per system over the long term and especially what we've seen in industrial and automotive.

The second is our position in that market. As we showed earlier, it's now 74% of our revenues, so three quarters. That has grown at just slightly over 10% over the last decade. And I'll point out, over the last decade, we have worked to strengthen our positions in both of those markets. So our product portfolio today is broader and stronger. If you look at our reach of channels, we have closer direct relationships with customers. We have capabilities like TI.com that we didn't have a few years ago. So all of those things help to build confidence.

And then the last one is the increasingly strong customer response to what they're seeking, which is geopolitical dependable capacity. And they're specifically looking for that outside of China and Taiwan, and the important part is at scale. So when customers are looking at that, they look at the same roadmaps. Of course we share more details with them than what you see there, and they're increasingly positive about that longer term.

Specifically in China, as we talked about before, there's no question that we're in a different geopolitical environment. But we continue to have those four sustainable competitive advantages that allow us to compete in China. And when we've got great products, better specs, lower power, smaller footprint, better service, lower price, better availability, whatever that combination is, we can continue to win in China.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

And just to add to that, bottom line, we will continue to compete in China. It's an important market for us. It's roughly 20% of our revenue comes from customers that are headquartered there. And our competitive advantages in combination give us a really good ability to compete there effectively.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

You have follow up, Tore?

Tore Egil Svanberg *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So my follow-up is on the M&A strategy, and Rafael, you talked a little bit about, obviously, what some of the criteria are there. But I also know you have some specific sort of financial barriers for M&A. Could you just remind us what those are. I think they're related to your weighted average cost of capital. But any more color you can share with us there?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

No, I think you summarized it well. We evaluate any M&A opportunities through two factors. It's got to be strategic, so generally, catalog analog, focused on industrial and automotive. And second, it's got to meet financial objectives. Yes, think about that as meeting or -- meeting or exceeding our WACC -- really on a cash-on-cash basis is how we like to look at it.

Operator

Next question comes from Stacy Rasgon with Bernstein Research.

Stacy Aaron Rasgon *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

My first one, I want to challenge the low-cost 300mm capacity statement a little bit. Is it really low cost? I mean it's not the same as what you did before when you were buying the stuff at \$0.10 on the dollar. So I guess how do we think about it being low cost in this context if you're buying it all new? And what does it really mean for the cost structure going forward as the new equipment scales?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So Stacy, it is low cost. It's a structurally low cost. Think of any of these factories all-in will cost with new equipment about \$6 billion or so with building and equipment and everything, but they're going to support about \$6 billion a year once they're fully equipped for many, many years. We currently have plans to shut down one that's been around for 50 years. So you can do the math on that.

And the advantage of the new equipment; it's not just new equipment is worse than old equipment because it's more expensive. You actually get significant efficiencies with new equipment. So you can't just look at it on a cost-to-cost basis.

Another point, we've talked about ITC. That's a 25% discount on all that equipment. We'll see what we get on grants.

And finally, we have operations around the world, so I'm pretty knowledgeable on electricity rates and other factors like that around the world, and you cannot beat Texas when it comes to electricity costs. Utah is not bad either, but Texas is really the best in the world. So most of our -- the cost factors of putting factories here are in our favor, if not all of them.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Let me just add that we've got that slide in the slide deck that shows how and why it is structurally lower cost. And the chip is 40% less cost. And if you look at our revenues and profits, we began production of RFAB1 in around 2010 -- I think it was right at the end -- through 2022, we had 40% of our wafers on 300mm. And of course, as we invest, we expect that's going to grow to 80%. So that will continue to be a tailwind for us over that.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

And let me add one more comment, Stacy. We currently buy from foundries, analog and embedded wafers. We know how much they charge, and we have enough intelligence to figure out or estimate their cost structure, and our 300mm factories compete with the best of them. So we -- and they're only going to get better as we reach scale. Think of RFAB1 and 2 is two factories next to each other. Sherman is four factories, which, by the way, it's just -- what is it, 40, 50 miles up the road, so we get a lot of synergies of having that cluster of factories together and being here where we have our great talent, and we can leverage those skills.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Do you have a follow-on?

Stacy Aaron Rasgon Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

I do. So regarding the longer-term capital intentions, so I get that you talked about beyond '26 you'll depend on revenue. Is the revenue dependence what determines whether you're 10% or 15%? Or are there plausible scenarios where CapEx could go below 10%, structurally or above 15% structurally?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes, there are scenarios where it goes below, of course.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And it will just depend on actual revenue levels and the growth expectations.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes, absolutely. That's right. That's right.

Operator

Next question is from Joshua Buchalter with TD Cowen.

Joshua Louis Buchalter TD Cowen, Research Division - Director

Maybe following up on Stacy's last one. If we think about the \$5 billion per year over the next few years, I think you've talked about expectations for normalized growth rate of 10%, plus or minus. But as someone mentioned earlier, off street numbers to get to the 2030 number, you have to grow at 20%. I guess for the \$5 billion through 2026, how much would that -- those growth rates need to diverge before you would think about lowering that number? Or is that essentially set in stone for now and the vector will be more what Stacy was asking the 10% to 15% in the out years?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. So if I understand your question correctly, what I would tell you is that through 2026, count on the numbers that we have given you, which is \$5 billion of CapEx per year through 2026, okay?

That is -- and you can see on the Slide 17, what we're doing with that. We're completing RFAB2 on equipment. We are completing LFAB1 with equipment. We're building SM1 and SM2 to a large extent, and LFAB2, we're starting to -- will be in the process of building that, and we're equipping SM1. And you can see what we're doing on the A/Ts. So that \$20 billion of CapEx will pay for all of that.

Beyond that, it's going to depend on where we are on revenue growth. You can see that by '26, according to this chart, we'll be able to support \$30 billion of revenue. So depending on our expectations, we get closer to that edge, we'll decide what makes sense to have for CapEx beyond 2026.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And let me add that bringing up Sherman 1 is important so that long term, we can release products to that. It can go through qualification cycles at customers, so when we need to expand into that factory, that portion will already be done. SM2, 3 and 4, then is considered by our industry standards, essentially the same factory, and that won't be -- that won't be a hurdle in the future.

The second point that I'd add is that spend between now and 2026 is also going to enable us to bring more wafers internally as well as bring more assembly/test internally, which both have a great economic benefit to us.

Josh, do you have a follow-on?

Joshua Louis Buchalter TD Cowen, Research Division - Director

Yes. I appreciate all the color, Dave and Rafael. It's been a while since you've done a meaningful M&A transaction. I think it was 2011 when you did National. But -- you mentioned that the second of the two objectives in which you evaluate M&A is essentially financial. And does all of your capacity investments in your lower cost basis, does that go into the potential ROI calculations of how you would evaluate your willingness to do M&A? And basically, like bringing a potential fabless company or someone onto your manufacturing footprint, does that play into your decision to do a deal or not?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Marginally, it does. It would, I should say. Because we have the capacity available, it's just much easier to potentially transition an acquisition internally. But frankly, it takes a lot of qualifications and other things. It's not a -- especially in the analog space, also embedded, it's not like you can just take the company and plug it in right away. But it plays into it at a marginal level.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And let me add to that. If you look at National and the types of products they had -- a high exposure to industrial, high exposure to automotive, a large diversity of products. So when we acquired them, we didn't pick up and move all of their products to RFAB1. We continue to build the products that were already released in the existing manufacturing footprint. And release new products into RFAB1.

So really, over time, it leverages the competitive advantages, but it's not -- makes a difference on day one after the acquisition in that case. So I think a future one would be of similar type.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Correct. Like today, 13 years later, we have two factories that came with National. One in Maine, and they're running 100% there, and assembly/test in Malaysia.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

That's right. They're still in the footprint.

Operator

Next question is from Chris Danely with Citi.

Christopher Brett Danely Citigroup Inc., Research Division - MD & Analyst

So given all the benefits that are coming from the CHIPS Act, I think you said believing in 2026, does that mean that depreciation should peak in 2025? Or is it possible for depreciation to keep going up after 2025?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

It's possible. In fact, I would say, likely to go up beyond 2025. We haven't quantified that, and we're not going to quantify that. But that will be a function of CapEx net of ITC and net of potentially any grant. So as you can appreciate, there's a lot of moving pieces there. So

as we -- and of course, the CapEx is a function of revenue. So start with that, right, revenue longer term. So as we understand those over time and get a sense of those, we'll update you as best we can.

Dave Pahl *Texas Instruments Incorporated - Head of IR & VP*

Do you have a follow up Chris?

Christopher Brett Danelly *Citigroup Inc., Research Division - MD & Analyst*

Yes. So you guys said that your CapEx is set in stone for the next few years, and we all looked at the revenue growth targets. So if the revenue growth is materially lower than your '26 target and the revenue growth looks like it's going to be lower than the 2030 target, how do we get back to the target model of free cash flow margin since you guys would not -- it sounds like you won't change your CapEx at all?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. So you're correct. Through 2026, we're committed to our plan. But beyond that, CapEx will be a function of revenue and revenue growth. So CapEx can change meaningfully at that point. And operating cash will still be a function of revenue and working capital and other things, right? Keep in mind, I think this last year, operating cash took a hit from building inventory, but that's something you don't have to do every year, at least to the extent we did. So you add all those pieces, and you can model what operating cash and free cash flow can do over the coming years and then beyond 2026.

Operator

Our next question is from Harlan Sur with JPMorgan.

Harlan L. Sur *JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment*

So part of the operational plan underlying your longer-term strategy is insourcing more of the assembly and test. It is a smaller part of the manufacturing economics, but I would assume it's growing as a percent of total product cost, just given some of the complexities of these next-generation analog and embedded packages in auto and industrial. What was the percentage of internal assembly and testing calendar '23. And then as you move towards your target of 75% in '26 and 90% in 2030, similar to your wafer cost advantage, can the team quantify the improved product costs as you execute the assembly and test strategy?

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

And I'm sorry, you said the product cost or would you say that part again?

Harlan L. Sur *JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment*

Yes, product cost.

Rafael R. Lizardi *Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations*

Yes. What I would say, I think you're correct that assembly/test is becoming an increasingly important portion of manufacturing. Some of these chips are so small -- the die -- and really more and more of the cost is, as a percent of the total cost, is on the packaging and the assembly. So that is -- that is critical. It's also from an enablement of the technology, power dissipation and things of that sort, that is becoming really, really important and a key enabler of the technology. So yes, it is important. We are taking that number higher. I don't think we're quantifying how much, but I would tell you that we're ahead of schedule. If you linearize from 60% to 75%, 2022 to 2026, we're well ahead of that pace. So we're looking good on that front.

I would also say, similar to the question earlier on the wafer side, we also benchmark against the subcons. We know the price, of course, since we buy from them. So we know we are competitive, and we do just as well as they do, or better -- not just on price, of course, but on cost. So that's very important. It has to -- those factories have to stand alone in our view in terms of cost competitiveness. Not just that it's nice to have supply internally, but they need to be cost efficient.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. Maybe just to add too, because we own and control those assets and the technologies that go on them, there are things that we can do that others wouldn't be able to. And there are benefits that will accrue back into assembly/test if you think of wafer scale packaging or chip scale packaging as well as other things that we do because we own both of those processes and the technologies that form them. So again, we won't go into that because there's just a lot of details, and it's highly dependent on the package and market, but there are additional benefits that we get in owning and controlling that. Do you have a follow-on, Harlan?

Harlan L. Sur JPMorgan Chase & Co, Research Division - Executive Director and Head of U.S. Semiconductor & Semiconductor Capital Equipment

So on the potential for a better revenue growth profile over the next few years, right, there are many dynamics that have to come together, new products, process innovation, new customer engagements to capture that content gain opportunity, right, that you talked about? Realignment of the embedded business towards more catalog, that's a good example, right? Because there -- the team significantly outperformed from a growth perspective your analog business last year, right? I think another good example is TI.com, that's channel innovation. Any other major initiatives, products, process, system solutions that the team is focused on that will help to drive the content capture and maybe that potential faster revenue growth profile going forward?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes, maybe I'll start. I think that you've hit on examples of how we're strengthening our four competitive advantages, right? The manufacturing and technology, the broad product portfolio, the reach of channels. And those are stronger, no doubt, today than what they were a decade ago. And if you look, we have -- I think we've talked about 65 or so product lines at the company. We're releasing somewhere in the neighborhood of about 600 new products a year across each of those product lines. So those product line managers are very close to customers, they understand what their competitors are doing. They get information from our systems teams through TI.com of how to improve those product portfolios. And those just continue to get stronger each year.

Other things like the convenience at TI.com, none of these things is going to change market share overnight. But when you have consistent pricing, when you've got stable lead times, when you've got product that's immediately available, when we can connect digitally to customers and make the operations teams smoother and make their life better, we believe that that's going to lead to higher share over time.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Yes. The other comment I will give you is, take TI.com and now that we're at 75% of our revenue direct, that is very hard to do internally, meaning there's a lot of work that many teams have put in over several years to take that to where it is and to take that further. So -- and that goes inventory management, order management, how we build the parts, how many we build for 100,000 different parts. So it's just a key enabler of -- and a driver of one of our competitive advantages.

Operator

Our last question is from Joe Moore with Morgan Stanley.

Joseph Lawrence Moore Morgan Stanley, Research Division - Executive Director

Great. I wonder how you think about U.S. versus having fabs in places like Europe. I've sort of talked to some of your customers and some of your competitors, and they sort of say, obviously, you see the benefit of having internally owned manufacturing and not being dependent on Taiwan. But does that put you in a different position when you're talking to European customers or other parts of Asia, where the subsidization may be similar to the CHIPS Act. Have you thought about kind of broadening that out?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

What customers are really looking for is geopolitically dependable capacity, outside of China and Taiwan that can scale to support growth. And these factories that we're putting in the United States -- Texas and Utah -- give us that. And as I alluded to earlier, we have the ITC that helps with that. We'll see what happens with grants. But then we have other factors that work really, really well here in the

United States, specifically in Texas. That is the electricity is reliable, which you couldn't say that in Germany or in parts of Europe for some time. And it's also very low cost, frankly, compared to -- it's the best, really best-in-class around the world. That's a key input factor in our factories.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Do you have a follow up on, Joe?

Joseph Lawrence Moore Morgan Stanley, Research Division - Executive Director

Yes, that's helpful. As you guys think about make versus buy decisions, is part of the calculus here that foundry prices get more expensive over time because you used to have sort of newer nodes just aging naturally. And so a lot of the foundry wafers were fully depreciated. Do you think foundry prices -- foundry inputs need to go up and that's part of what makes internal manufacturing more compelling than buying it externally?

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Foundry prices are already very expensive. In just -- just look at the players in that space, how many there are, it's really pretty concentrated space. So that's already a pretty big headwind for anybody buying those wafers. And they are geographically centered in Taiwan on the foundry side and in China. So when you think of geopolitically dependable capacity that we prefer, clearly, the factories that we're building in the United States have that aspect to them.

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Yes. And I'll add, as I think you're alluding to, Joe, that to support growth in the industry, that whether it's us or whether it's a foundry, they will need to buy new equipment to support any -- \$1 of additional revenue growth. So we won't be using a 10nm fab or a 5nm fab that's repurposed. It really needs to be targeted at 45 to 130 to be optimized for our markets, and that's true for us and true for our peers.

So with that, let me turn it over to Rafael to wrap this up.

Rafael R. Lizardi Texas Instruments Incorporated - CFO and Senior VP of Finance & Operations

Okay. So to finish the call, I want to thank all of you for taking time today to go through our capital management update. Let me emphasize a few key points.

First, we remain focused on consistent execution of how we manage capital.

Second, our disciplined allocation of R&D is delivering growth from the best products, analog and embedded, in the best markets, industrial and automotive. We have great diversity across all the sectors within these markets.

Third, our 300mm manufacturing strategy is a unique advantage and will continue to benefit TI for a long time to come.

And finally, we remain committed to returning all free cash flow over time to our owners. Dave?

Dave Pahl Texas Instruments Incorporated - Head of IR & VP

Thanks, Rafael, and thank you all for joining us today. A replay of this call will be available on our website as well as the slides that we used in today's call. Have a good day.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

FEBRUARY 01, 2024 / 4:00PM GMT, Texas Instruments Inc Capital Management Update Call

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