Capital Management Strategy

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Agenda

- Summarize TI’s capital management strategy and 2014 results
- Outline plans for expanded 300mm Analog capacity
- Review free cash flow growth and outlook

Capital management strategy and 2014 results

Grow, generate *and* return

- TI is in a unique class of companies: able to grow, generate *and* return cash to shareholders for a long time to come
- Our business model is designed around competitive advantages:
  - Broadest portfolio of Analog and Embedded products
  - Anchored in low-cost manufacturing and differentiated technology
  - Broad sales channels
  - All of which results in diverse and long-lived positions (high terminal value)
- Our capital management strategy reflects our beliefs that:
  - Free cash flow* growth, particularly per share, is most important performance measure to maximizing shareholder value in the long term
  - Free cash flow will only be valued if it is returned to shareholders or productively invested in the business
  - Good execution and disciplined capital allocation are the most important responsibilities for business leaders

*Free cash flow (FCF) = cash flow from operations minus capital expenditures

Capital management strategy

Great business model
- Analog & Embedded

Cash availability
- Effective tax strategy

Strong balance sheet
- Funded pensions
- Debt

Investments for competitive advantage
- Technology capability
- Manufacturing capacity
- Channel advantages
- Working capital
- Acquisitions

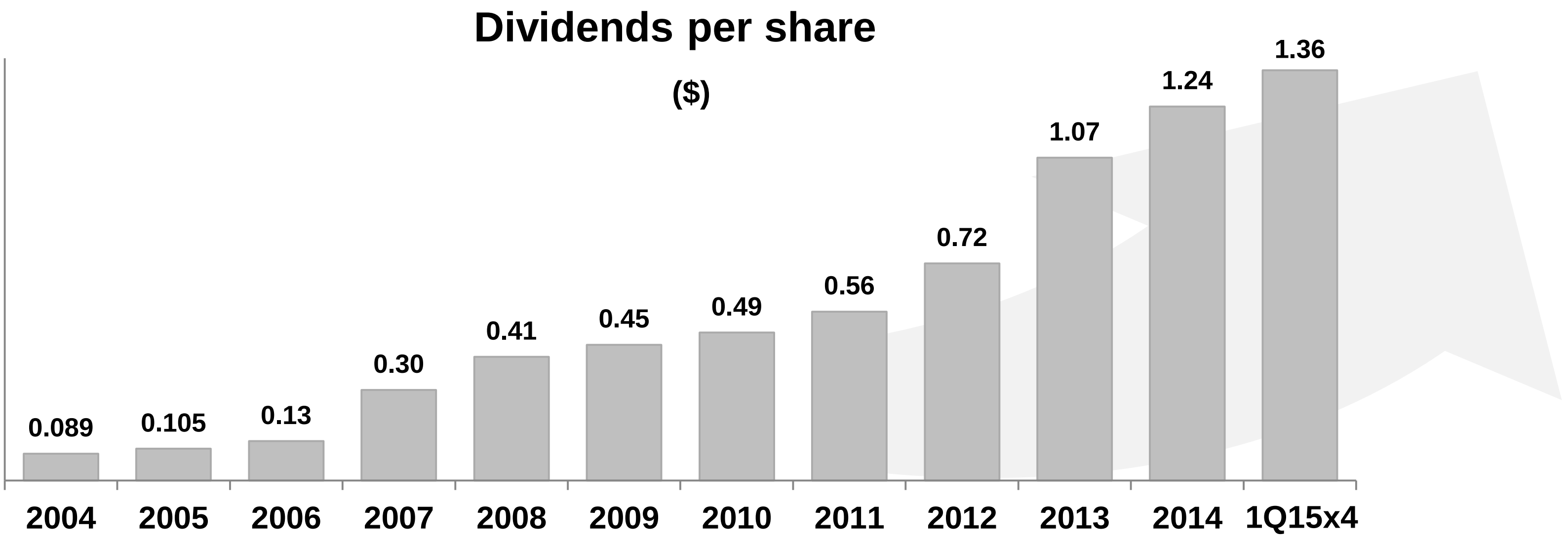
Cash returns
- Dividends
- Repurchases
- Debt repayment

Uses of cash

Capital management scorecard

Metric	Target	Result	
Free cash flow generation	20-30% of revenue (TTM)	27%	✓
Cash plus short-term investments	10% TTM revenue + NTM dividends + NTM debt	95%	✓
Cash owned by U.S. entities	>80%	82%	✓
Pensions	Fully fund on tax-efficient basis	97%	✓
Debt	When economics make sense	$4.6B @ average 2.15%	✓
Capital expenditures	~4% of revenue	3%	✓
Inventory	105 – 115 days	117	✓
Cash return	FCF + proceeds from exercises – net debt retirement (TTM)	115%	✓
Dividends	~50% trailing 4 years average FCF	52%	✓
Repurchases	Cash return target – dividends (TTM)	123%	✓

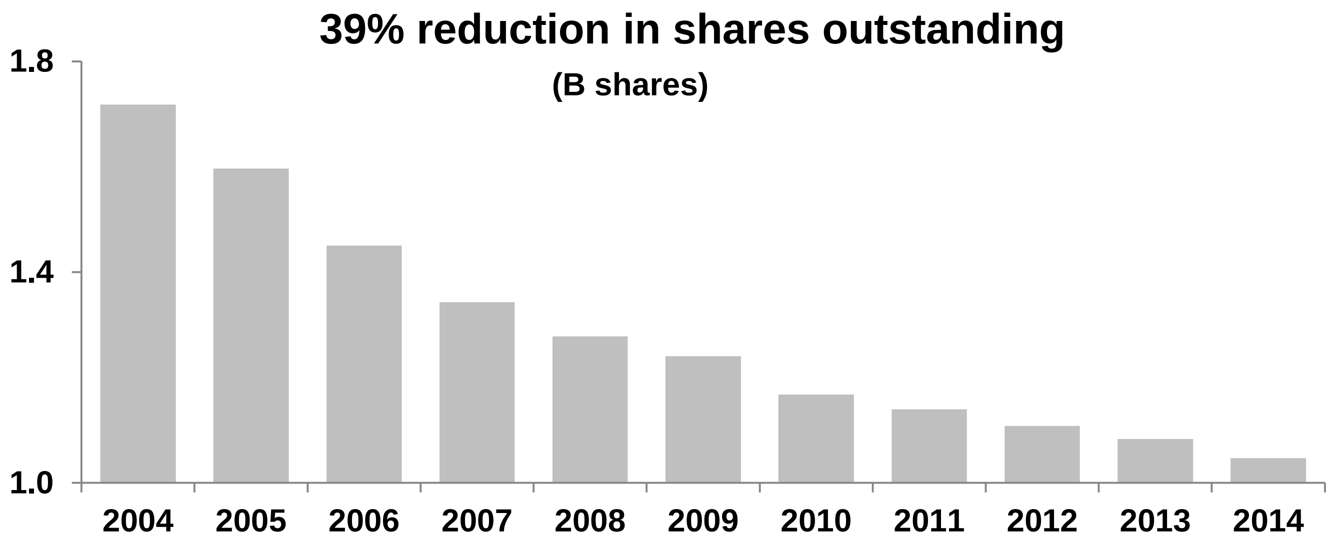
Returning cash through dividends



- Increased dividend for 11 consecutive years; 23% average annual growth over last 5 years
- Dividend budget is targeted to be ~50% of trailing 4 years' average free cash flow
- 2014 dividend payment used 38% of 2014 free cash flow
- Yield is 2.5%*

* As of 1/30/15

Returning cash through share repurchases



- Repurchase steadily when discounted cash flow value exceeds stock price
- 2014 shares outstanding reduced by 3.3% over the last year
- Total remaining authorization is $3.2B as of end 2014

300mm Analog plan

Expanding our 300mm Analog capacity

The $8B plan

- RFAB: complete equipment build-out to support **$5B** annual revenue. Majority of equipment already purchased. It became our largest factory in 2014 supporting $2B in Analog revenue, which is 40% of its full capacity.

- DMOS6: convert **$3B** of annual 300mm capacity to Analog. This capacity was previously used for wireless products. Qualification is already under way with initial production scheduled for the end of 2015. DMOS6 will continue to support Embedded.

- When complete and **$8B** in 300mm Analog revenue is achieved, over half of our Analog business will be supported by internal 300mm wafer production.

- Capital spending for DMOS6 conversion to Analog is minimal. Total plan fits within the ~4% CapEx guidance.

The $8B 300mm plan for Analog

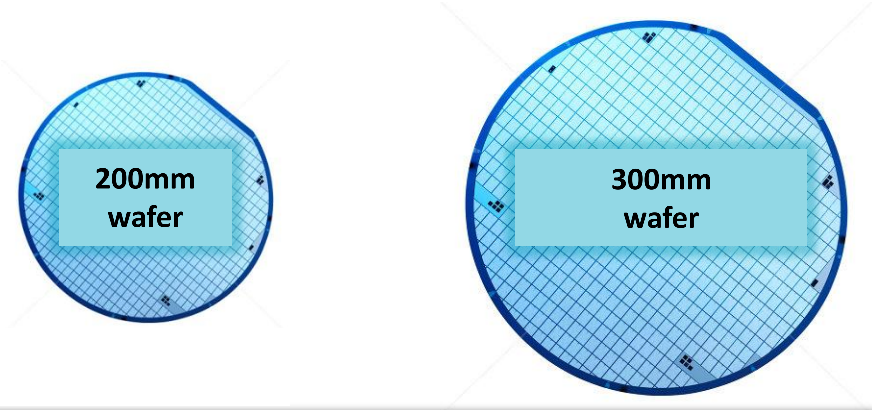
RFAB

- Opened in 2009
- 220K square feet of clean room space
- 300mm Analog
- Currently utilizing 40% of full capacity, $2B revenue in 2014
- Will support **$5B** annual Analog revenue

DMOS6

- Opened in 2001
- 190K square feet of clean room space
- 300mm; supported wireless products
- Currently utilizing 25% for Embedded, Analog qualification is under way
- Will support **$3B** annual Analog revenue

Why 300mm wafers really matter



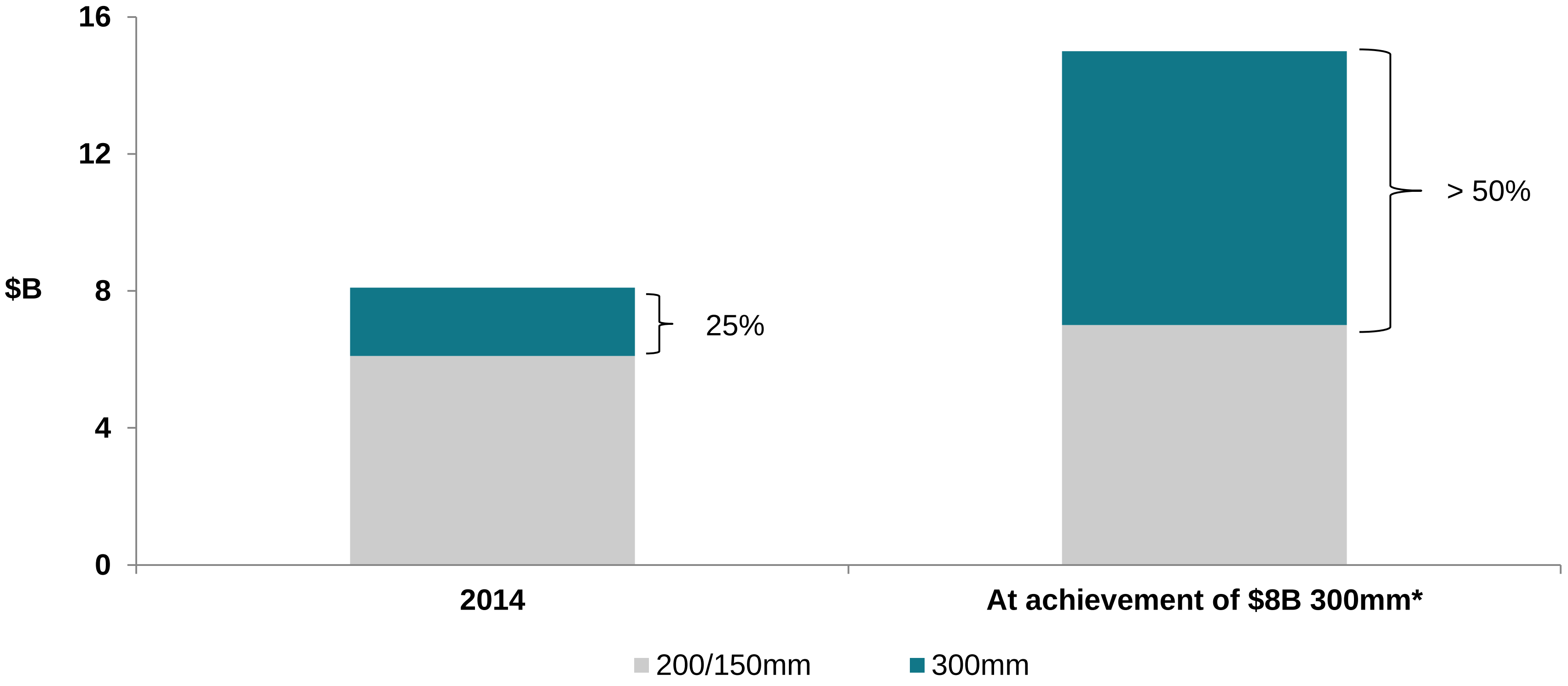
	300mm vs. 200mm
Area	2.25x
Chips per wafer	~2.3x
Cost of wafer	~1.4x
Cost per chip	1.4/2.3 = 0.61

Chip cost is ~40% less on 300mm wafers than on 200mm

Illustration of GPM impact from 300mm

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

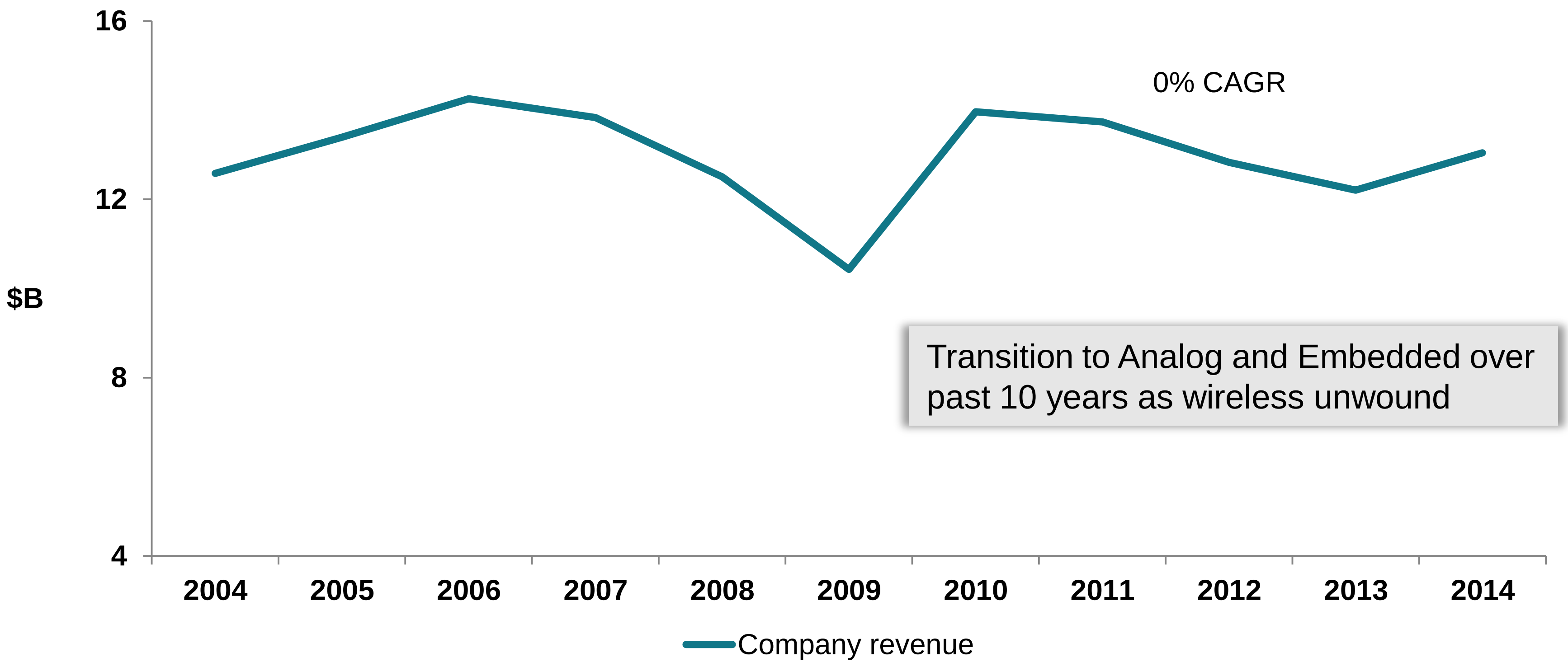
Vast majority of incremental Analog revenue will be produced on 300mm



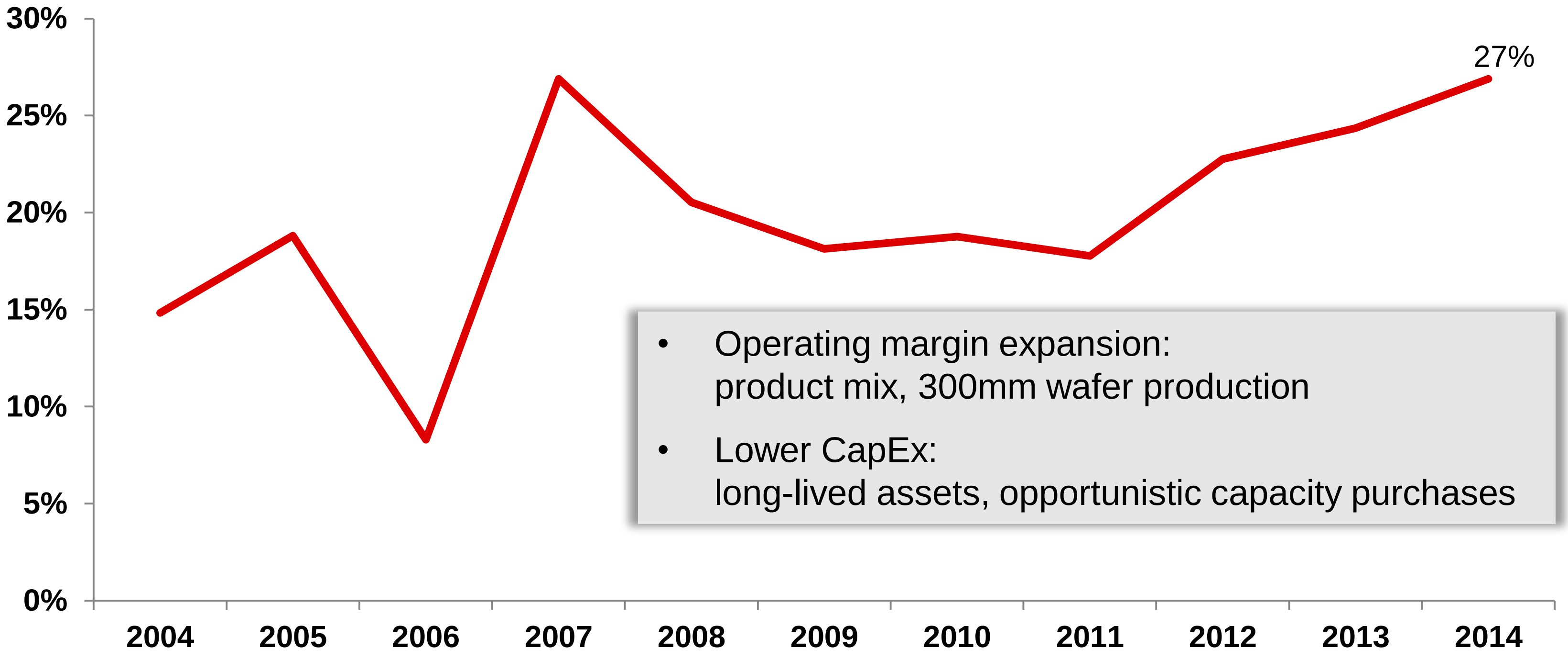
* Company estimates

Free cash flow growth and outlook

Looking back: no help from top line…

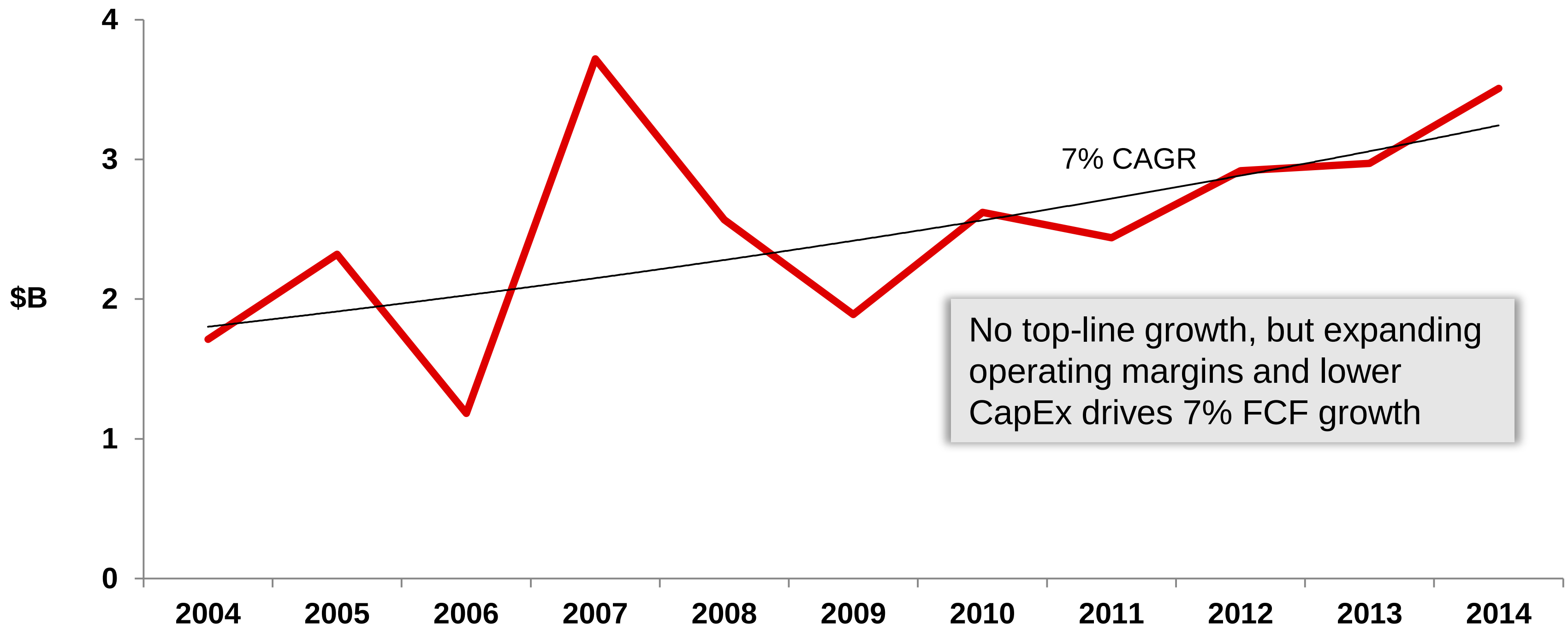


…but, free cash flow margin expanded…



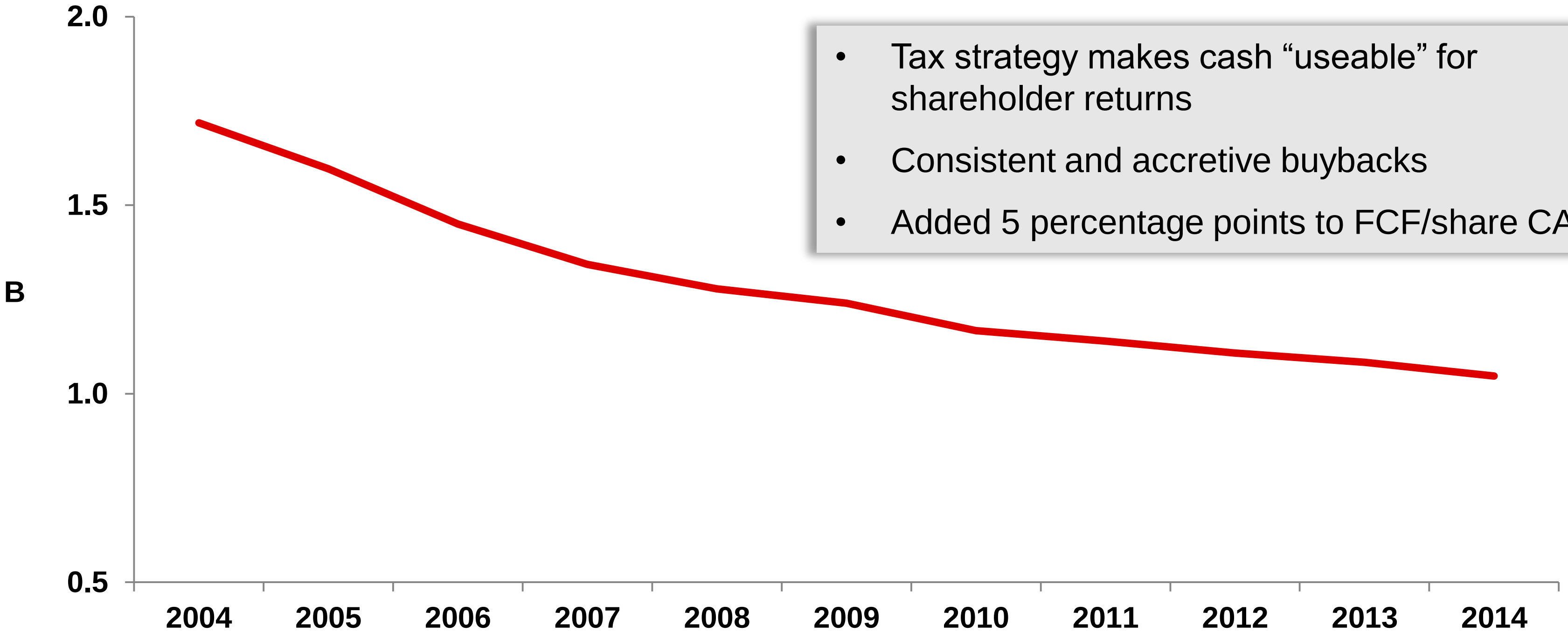
- Operating margin expansion:
  product mix, 300mm wafer production
- Lower CapEx:
  long-lived assets, opportunistic capacity purchases

…free cash flow grew…



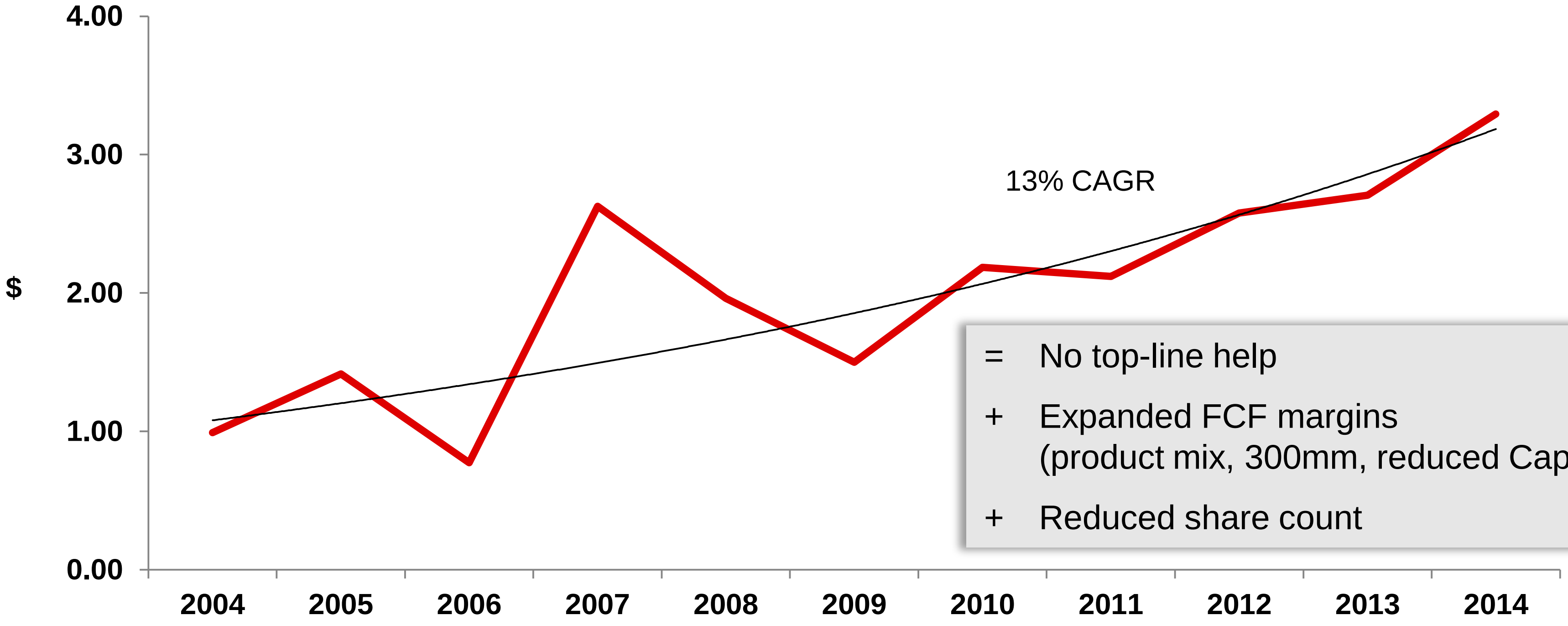
No top-line growth, but expanding operating margins and lower CapEx drives 7% FCF growth

…and share count was reduced 39%…



- Tax strategy makes cash “useable” for shareholder returns
- Consistent and accretive buybacks
- Added 5 percentage points to FCF/share CAGR

…the net result: 13% FCF/share growth

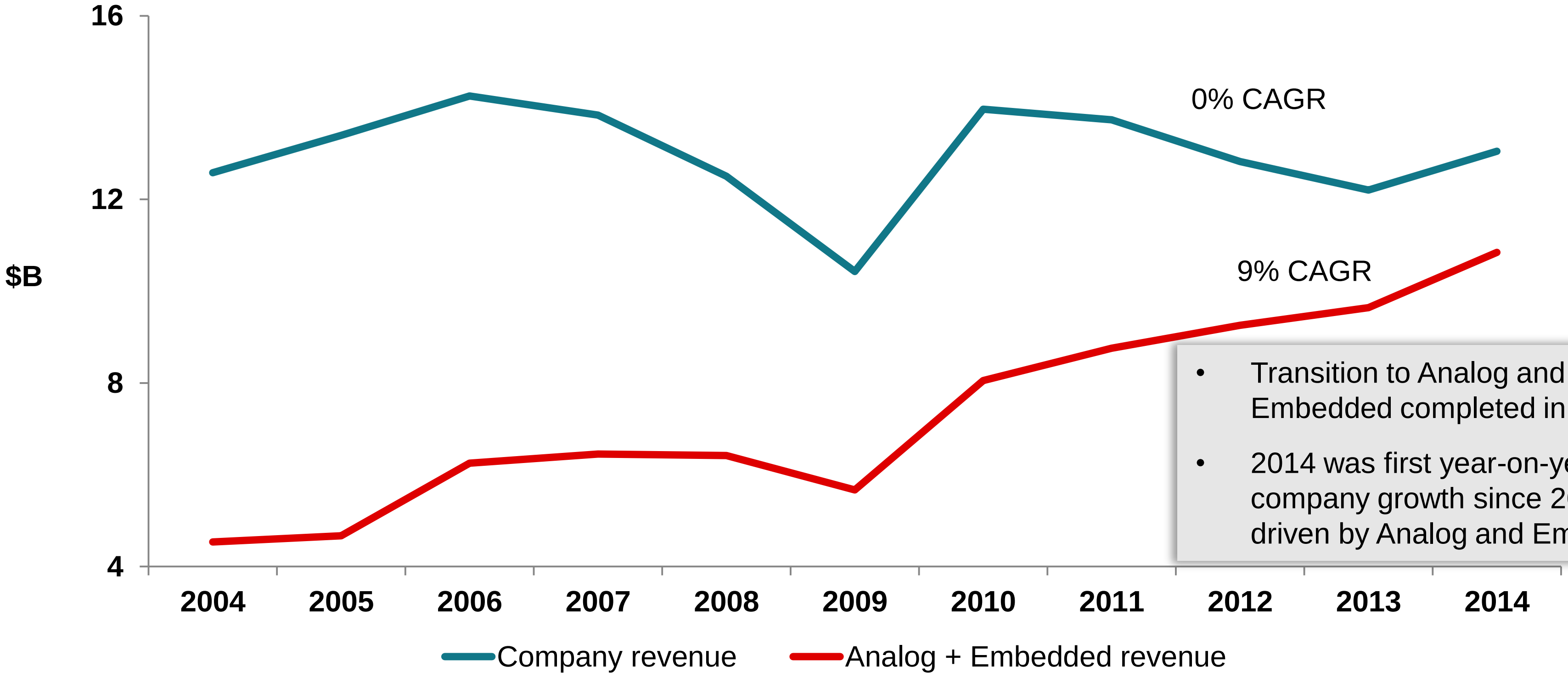


= No top-line help

\+ Expanded FCF margins
(product mix, 300mm, reduced CapEx)

\+ Reduced share count

Looking forward: Analog and Embedded drive revenue growth



- Transition to Analog and Embedded completed in 2013
- 2014 was first year-on-year company growth since 2010, driven by Analog and Embedded

Note: 2004-2009 Analog and Embedded estimates

Drivers of FCF/share growth

- **Looking back: 13% CAGR**
  - = No top-line contribution as portfolio shifted to Analog and Embedded
  - + Expanded free cash flow margin
    - + Product mix and 300mm
    - + Lower CapEx: long-lived assets, opportunistically purchasing capacity
  - + Steady accretive repurchases resulted in 39% fewer shares outstanding
- **Looking forward: help from the top line**
  - + Top-line growth driven by Analog and Embedded
  - + Continued expansion of ***free cash flow margin to 30% of revenue on a sustained basis*** in good markets (assumes no permanent R&D tax credit)
    - + Expanding 300mm and product mix
    - = CapEx holds steady ~4% of revenue
  - + Continue share repurchases, assuming appropriate economics

Summary

- TI is in a unique class of companies: able to grow, generate *and* return cash to shareholders for a long time to come
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  - All of which results in diverse and long-lived positions (high terminal value)
- Looking forward: continued growth of FCF
  - Top line starts to help
  - 300mm capacity is a growing advantage
  - FCF margin expansion to 30% of revenue on a sustained basis in good markets

Risk factors and non-GAAP measures

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