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PRESENTATION

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

Thanks for coming, everyone. I'm just adjusting all my AV up here. Thankfully, not my attitude. I'm Chris Danely, your friendly neighborhood semiconductor analyst here at Citigroup. Welcome, everyone, to the Citigroup Technology Conference. It's our pleasure for our first keynote of the conference, naturally, which is a tradition here, to have Texas Instruments. This is not Rich Templeton. We have the Israeli version Rich Templeton today, the new President and CEO, Haviv Ilan. So Haviv, thank you very much for coming.

Once again, we want to make this very interactive, if at all possible. So if anybody has a question at any time, feel free to raise your hand, and I will try and squint through the bright lights to make it out. So Haviv, thank you very much for coming.

QUESTIONS AND ANSWERS

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

And I guess, naturally, the first question is what's going to be the difference? Or what are you going to have as your sort of Haviv stamp on TI? What can we expect to see, if anything?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Exactly. If anything, I think that's -- first, good morning, and thanks for having us, Chris. So that's probably the main question I get from investors, and the easy answer is not a lot of change simply because, if you think about the strategy that the company has put together, that was not done alone by Rich. That was teamwork, and I was participating in that discussion. So very proud of where we are.

And just to me, my ambition is to leave that company stronger when I do my term leading this company. That's what we expect each and every leader in the company to do for their team. So again, don't expect a change in the strategy. It's going to be a different style maybe. As you said, maybe a different accent. But in essence, I'm going to continue the work that Rich has done for us for so many years and proud to continue his legacy.

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

Yes. I see you guys have stuck with a minimum 6 '5 height requirement too for a CEO of TI. I know that Rich has been up here and talked about these sort of 3- to 5- and 5- to 10-year plans that you go through. So can you just talk about, I guess, what the CEO plan is? Is it you focus mostly on 5 years, 10 years, 3 years, 3 to 10? And then what would be your -- maybe your top three objectives as you navigate the next decade or so in semis?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And the way we think about it, it starts really with, as we call, our ambition. Part of our ambition is to act and invest and behave as owners that will own the company or the stock for decades. And so there is no -- when we make decisions, there is no specific time frame in mind. It's really all about how do we grow our free cash flow per share over the long term and what's the best investment that we can make today.

Some of them could be more short-term investments, some of them can be longer term that can optimize or can give us the best probability to grow that free cash flow per share at a higher rate. And this could be investments in capacity, in R&D, channel advantage, you name it; that what leads our decision-making process and our discussions internally.

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

Great. So just to run through some of those goals and in particular some of the long-term targets, you recently put out a 10% long-term revenue growth target. Can you just talk about how that came about? And what would be the key drivers for that?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Absolutely. So first, just a quick correction. We actually did not forecast to provide the growth target because I don't think you can put targets out there. It's all about how you prepare to support the target. So for us, it's really what we said, hey, when we look at 2025 to 2030 and even beyond, what type of decisions we need to take today, these days, to be able to have the option to reach the target. That's maybe the way to think about it.

So if you look carefully on our capital management slides, and they show the latest version earlier this year in February. We said, hey, we want to make investments such that we have the opportunity to support a $45 billion revenue plan in 2030. And that translates to about, as you said, 10% growth.

So the number one question, as you said, is why. Why do you think you can get there? If you look at the history, why would TI be able to do it? And here -- and that's the way we discussed it internally. And we even saw almost two versions of that plan. One with a lower or more modest revenue target in 2030. And then in the beginning of this year, we said, you know what, we want to up that plan or to have a chance to reach even a higher revenue target.

What brought up this confidence? So I would start with -- and I think you talked about it with Rich even last year. I think 10, even 12 years ago, internally, we talked internally about what are going to be the best markets in the semiconductor industry for the Analog and Embedded market. And we, I think rightfully called it, and this is all credit to Rich, that it's going to be industrial and automotive.

At the time, it was not very obvious. I would say that even internally, a lot of debate. Is that going to be really the right bet for the company? And Rich went through it with us and talked about -- thanks to the secular growth of these markets with content addition, meaning if you do the same in end equipment and even if the number of end equipments -- for example cars -- is going to be flat over the years, the content addition is going to drive growth.

And I think that's what happened in the last decade, and we believe even accelerates in this decade. It's very, very intuitive and easy to see when we talk about the automotive market. Just think about the acceleration, not only in EVs, even in the just ICE vehicle, the combustion engine vehicle, we see more and more content addition. But if you go even to the EV example, the adoption is even higher.

But maybe even more exciting when you go into industrial, when you go end equipment by end equipment, when I look at the generation to generation transition, there is simply acceleration of new content, and we want to be able to support that growth.

The second element of our confidence is our position. If I go back again 12 years ago, I would say one-third of the company or so was in industrial and automotive. I think in 2013, we said 42%. Dave has it on his slides over there. We left 2022 with 65%. And if you watched our announcements in Q1 and Q2, the earnings call, I think these markets held the best in '23. So that percentage may even be higher this year. So our position here, not by accident, is much higher now.

And when you have a big part of your business positioned in the fastest growing markets, just mathematically, you have a chance to grow faster.

Last but not least, also related to our investment in capacity, I think the importance of our investment and the way customers have received our investment plan, as what we call our geopolitically dependable capacity plan, is exciting. We are seeing customers turning to TI and even having higher confidence right now to have more of their boards turning into TI.

So these three elements really give us the confidence that, hey, 10% is achievable. Or at least we don't want to be in a situation 2, 3 years from now, goodness, we had a chance to go serve that market, and we haven't made the investment. So that's what's behind the big CapEx plan, to your question, Chris.

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

Yes. And just to dig in, I guess, to start with the end markets a little bit, between industrial and automotive, do you feel, I guess, better or more confident in either of those end markets as a growth driver over the next few years? And why?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

First, I feel great about both, and I don't think it's a few years. I think it's really decades. I'll start with industrial simply because of the breadth of it. I think we are in some areas also only in the early curve of adoption of new systems.

If you think about automation, if you think about grid infrastructure, if you think about medical, if you think about robotics, we are seeing acceleration of adoption of automation. We are seeing boards becoming more sophisticated. Content is growing and excited about that, especially with the longer design cycles. I think this is decades of opportunity of growth.

If you go into automotive, even here, look at EV's adoption, I know they are growing very fast. It's a bigger part of the percentage of cars being manufactured every year. But we are far away from 50% yet. So if you think about the S-curve adoption, I think we have a lot of room of growth ahead of us and not only to 2030; I think beyond as well. So excited about both markets. I think the longevity of the growth on industrial is even longer than automotive.

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

And do you see those two end markets -- by the way, those are our two favorite end markets as well -- continuing to take share as a percentage of TI revenue over the next 5 to 10 years?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

The way I look at it, we first want to serve all markets. Our assumption is that they will be the fastest growing markets in the semiconductor industry. As we said in the last decade, we have done more and more work on the R&D side and shifted or biased, I would say, our R&D towards this market. So I think we have an early-move advantage over there.

And as I tell to my team, just growing with the market is nice, but we want to grow a little bit faster. So if you think about where I pushed the team, it's not only to let these markets grow and grow with them. Hey, let's pick up some share. It doesn't have to be step function step up, but can we have a continuous growth of market share over the long term? I think based on our competitive advantages, we can do just that.

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

Yes. We'll dig into the competitive advantages in just a second. I wanted to ask about margins. So you've long had, and still have some of the highest margins in the industry, which -- and also your message doesn't necessarily change, which I think contributes to the hallmark of consistency that people expect from TI and the resultant premium multiple.

Now, much like any other company in semis, your margins have dipped a little bit with the pullback here in the correction. Can you just give us a sense of the margin drivers for TI, whether it's gross operating or free cash flow or all of the above? The margins, say, what would pull the margins up and what would take the margins down over the next several years?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes, Chris as you know, this is -- I may sound a little boring and stuff that you've heard before from TI but...

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

We like boring from TI. You guys have -- multiple -- married me. I'm nice and boring. Come on, I like it.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

To us, again, if we think about how you make investments, what needs to drive the team, it's not always the easiest decisions to make. It's not to think about optimization of margins, especially not in the short term. I'll just give an example.

Think about the decision, and I think it's going to be super important. I'm excited about it. I think it's going to serve us so well. But right now, at a down cycle, and there is no doubt we are in a down cycle, how popular it is and how comfortable it is to make an investment in capacity through the cycle. It's not comfortable, but I think I'm very proud of the conviction, the discipline and also the preparation of the company to go through it.

And when you think about drivers of margin, of course, in the short term, there is going to be stress on margin. But that's not how you think when you make a decision. If you think that way, you actually choose not to invest, which will yield, I believe, worse results on your long-term free cash flow per share growth.

So we are going through it right now. We are making good progress on our investment. And I think when you look, again, long term of what this investment can do for us, I think we go back to that period and say, wow, TI was calling it right. It made the right level of investment and the fall-through, the margin expansion, the -- and the most important thing for us, the growth of free cash flow per share was to everyone's satisfaction. I would just comment about that.

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

Sure. Is there any reason to believe that your free cash flow per share -- and I would imagine this is a goal for you. Is there any reason to believe it cannot continue to hit new highs over the next 5 to 10 years as a result of these investments? I remember in, I think it was '08, '09 when your predecessor bought a bunch of equipment from companies that were literally going bust.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

And how cheered was that at that time? I don't think you got a lot of cheering, at least that's what Rich...

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

I don't think anybody was cheering anywhere in '08, '09 in this room. But we saw the benefits that paid off. And so now you're doing the same thing. We'll dig into Sherman and Lehi. But is there any reason to believe -- is it a goal of yours to continue to post to new highs in free cash flow per share?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

The simple answer, Chris, is no. If you just -- and I think Dave, you show kind of a trend line of free cash flow per share, even in the last capital management review. We would not make the investment if we wouldn't think that it would yield these type of results and this type of trend line.

I would say, and I think we -- you guys talked about it last year, the way or the value would come from top-line growth, right? And I think this is a great decade to do it. As we said, with the secular growth ahead of us, we'd, I think, again, underestimated the importance of TI as a supplier controlling its destiny and getting these factories in Lehi, in Richardson, in Sherman to what customers would need in the next 5, 10 and 15 years. So we are excited about that, and I think the results would show that.

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

Sure. And if you had -- because I know you're a competitive guy, if you had to list the main advantages TI has over the competition because let's face it, these guys have the choice to invest in anything, what would be the, I guess, the top three reasons that TI advantages over the competition?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And this is -- thanks for the question, Chris, because I do want to talk about that. We touched upon some of them, but I think some of them sometimes are, yes, we've heard it, nothing new. But I think the context is very, very important. We talked for years about -- and it's kind of in the base of the pyramid that we show -- owning manufacturing and having that done internally. Everybody always understood the cost element of it and why a 300-millimeter wafer fab could build a better cost structure for the long term.

People less focused on the control side. But it was the words that are always there, just overlooked. And I feel I can tell you, when I speak with customers, as I said before, it is highly valued right now. And today, when you think about the analog market and how you win market share, it's socket by socket; in our case, tens of cents by tens of cents, and you have to win with the best part.

But it's even better and gives you a better chance to win when a CEO or CPO of your customer directs project teams to use a supplier like Texas Instruments. So that will continue to be a competitive advantage.

And I think we are strengthening it. So if you think about the plan we've showed in the beginning of the year, higher percentage internally, higher percentages 300-millimeter wafers. We are going to leave the decade with more than 90% internal, both on the front end and the back end, meaning fabs and assembly and test, more than 80% on 300-millimeter wafers. I think the way the company will be positioned to compete in the market will be amazing.

You move into the breadth of the portfolio. And again, here TI has a lot of parts, but it's very important to our customers. When you go solve a solution or solve a problem of a -- or bring a solution to a customer problem and you look at the amount of parts that are being exercised on the board and how they grow from generation to generation, having a broad portfolio with different technologies is important.

Of course, you have to win every socket. You have to have the merit of each and every part to be the best in its category. But when you can provide a solution for a bigger problem, I think customers value that and just adopt us even quicker.

And on top of it, we talk about the channel advantages, the third -- the main one and maybe the most overlooked right now. We've done a lot of work in the last -- actually started almost 7 or 8 years ago in steps, but we became more public about it in the last couple of years, how we are going to take and support our customers in a direct fashion.

So from -- I think we moved from 35% of direct business to above 70% right now. I think we left the year last year at 70%. And we think -- everybody says, you just want to have higher margins to remove the buffer between you and the customer. The truth is that it allows us much more intelligence about what customers are doing and what they need. And I see the best advantage over time is to help us grow market share.

Because when you start to -- I mean you remove the buffer between you and the customer, and you can do it either with a direct sales force, which is a very -- the largest in the industry or even on TI.com, as you collect information, as you support customers, as you ship to their production needs, you become more intelligent of what is the future opportunity, what is the application the customer is running and how to serve the relevant part of our more than 80,000 parts through that specific customer.

And I think our machine is getting smarter and smarter. It collects the information. It is very digitized in the way it works. And I think when we again look backwards a decade from now, you would ask yourself, how did we do business before that? I'm just very proud of the progress over there, and I think it's going to continue and strengthen our position in the market.

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

Yes. Let's touch on manufacturing for a second, especially what's topical in terms of shortages, lead times, cycles, et cetera. It seems like TI has the -- because we're still dealing with shortages and all that fun stuff. It seems like TI has the least amount of shortages and products on allocation. Is that true?

Do you see that as a competitive advantage for TI that your parts are just more available? Do you think that leads to share gains? And maybe talk about TI's response to all of this allocation and manufacturing production issues. Is that why you kept -- or excuse me, are increasing the internal amount of manufacturing?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. So maybe a couple of points. First here, I think, on -- I think, Dave, you talked about it in the earnings call. There are always hot spots in our portfolio. There are always areas that are constrained. But I think there are very few of them right now. And in general, we are able to support customers well.

I think also to your point before the way or the fact that we have not forced customers to take part, we haven't engaged in NCNRs or noncancelable, non-reschedulable deals, allows us to serve customers to what they need at the time they need it. And -- but more importantly and to your question of how we think about the future, right now, there is a downturn. So of course, customers probably can get what they need. When you look at...

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

Like some of your competitors.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

When you look at the future -- and again, you started the path, and I know, Chris, you've done that many times, and you've analyzed cycles. And we went through a big one in the last several years. We think about the trend line, but not only that, what could be the noise or the cycle above the trend line?

So as we prepare for the future, our mind is, what do we need to have in terms of inventory, in terms of how we support customers. What type of -- if you think of TI.com, what type of API we need to have between them and us so we can serve them even better in the next cycle. So all our investments even in the short term are eyed towards that future. We would want to be the best supplier, not only in a down cycle, but also in an up cycle, when it counts the most. I think customers remember that, and customers would appreciate it.

Now to your point, yes, we are bringing capacity online. So it helps us solve the last hot spots that we have. You mentioned Lehi, you mentioned RFAB. These are areas that some of our largest hot spots have been. So every wafer that is producing -- being produced in Lehi in RFAB is getting us to be in a better shape for that future.

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

Let's talk 300-millimeter for a minute or two. You were a pioneer there. We still haven't seen any of your competitors really step up with their own 300-millimeter fab for various regions. Can you just give us the percentage of revenue, of Analog revenue on 300-millimeter now, and then what the goals are? And maybe talk about the cost advantage and how you leverage that cost advantage versus the competition.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And I think just in terms of position, I think we left '22 at 40%, Dave. Dave is hinting. Thanks, Dave. And I think we showed, hey, by the middle of the decade, maybe 2026, it could be maybe two-thirds of our revenue for the company. And leaving the decade should be above 80%; that's where we are marching towards. Cost advantages on 300 are exciting. But -- and I think we show an example on our capital management.

If you just take the same die, same process technology, and I just moved the process technology as is to a larger wafer, you get 2.25 more chips per wafer. The cost doesn't grow by 2.25. So you get a cost advantage of about 40% on the front-end side. I mentioned also our OSATs are also going to move internally. That's going to supply or provide even further cost advantages on top of it.

Now I will say that what's exciting to me and also to our customers, what we are doing as part of 300-millimeter wafer is not only just moving process technology over there. I think what the best thing that for our customers that we take part that they care about, they may have been done 34 years ago and we put it on modern technology.

And now I can serve customers another 30 or 40 years on -- no risk of obsolescence, no risk of end of life, and by the way, also a very nice shrinkage of die sizes for the cost advantage. So that combination of 300-millimeter wafer technology really provides our customers with peace of mind that they will have what they need from TI. It will be the best deals, at the most modern technology. And they can count on us, not only in the next 5, 10 years, but in the next decade. So that's a very, very important part of our investment strategy.

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

Great. I wanted to go through a few very common investor questions that I get on TI, plus the fact that people stopped me in the halls and said, I hope you ask them that. So number one, as it relates to 300-millimeter is we've been hearing for years that TI is very aggressive on pricing, and your gross margins are still among the highest in the industry.

So would you say that, has your pricing strategy changed? Is this just a function of 300-millimeter? Has there been one of these Chinese competitors that's popped up and you're going through the Whac-a-Mole strategy? And maybe just address the whole TI is very aggressive on pricing, and yet it hasn't seemed to impact the margins at all.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. I mean I've seen -- to me, it's a little noise, I think. I don't think we -- not anything has changed on our pricing strategy, if that's the question. I do believe -- and I've been in the company now almost 25 years, I don't remember us not competing for a good profitable business, okay? So we always have. We've always been doing this.

I do believe that -- and you mentioned -- and I said that as part of our competitive advantages is to bring our portfolio into 300. And it has cost advantage. And when you think about cost advantage, I think the biggest value other than you can get the margins, but also I don't think it precludes us from competing.

I don't -- if I think about our team and our portfolio, I think we don't need to be selective of how we make good business or good profit on our investments. It supports the breadth of the portfolio. I think the fact that we can compete for each and every socket in each and every geography is helpful because I don't have to walk away from tough business because the cost advantage allows you to play. So very proud about that.

As we say always, in TI, we like the very complex, integrated $50 part, but we also like parts that sell for $0.05. And I think Dave said that even -- it can even go lower than that. What we like is, as long as we can make a good, growing profitable business on these parts, we continue to serve the socket. So that's what we are doing. Maybe that's part of how 300-millimeter wafer fabs come into play, including in China or anywhere else.

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

Yes. One other question that I always get is why is TI's R&D so low relative to the competition. And after the first 5 years of getting that question and you guys still growing just nicely, it started to die down a little bit, but it's there. And kudos to Dave for the best comeback, maybe you should ask the competitors why their R&D is so high. So at any rate, I have to give credit where credit is due.

At any rate, how do you think you managed to keep R&D, let's call it roughly, I don't know, 5% to 7% below the competition? Is there some sort of secret sauce? Is this part of the Rich Templeton handbook as to how to go about your business at TI, or it's an urban legend or maybe not that everybody gets there?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. I think what you referred to, Chris, handbook or we call it playbook, whatever, but it's really the discipline, it's really the culture of how you take a very profitable business that can run in high margin and keep a high level of discipline of continuous improvement. I think it's very, very important because if you look at some of the margins of the Analog business, I think they crossed -- Analog crossed almost 50% last year in some quarters.

You can get complacent. You can say, this is -- I have no threat. It's too profitable. Everything is good. And we don't like that. Coming from a very competitive background myself, that passion to always drive and improve how we convert dollars into results is going to stay there. That's what we teach, that's what we demand, not only at the top of the company, but in each and every product line. And we have about 60 of them.

That's part of how I spend my time, making sure that not only -- the objectives are very clear, that they are measurable. Also the type of leaders you want to choose to lead these type of businesses should be understanding that it's not about the margins that this business generates right now. It's all about what it can -- how better could it be for the future.

So that's part of the maybe urban legend that you have mentioned. But I think if you go back to our strategy, when we talk to investors, part of the strategy is not only the four competitive advantages. It's also the efficiency that we run in our business, so R&D included. And we'll continue to do that. We are very proud of it, and I think we have a good momentum going there also for the future.

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

Great. One question that I'm always delighted in asking Rich every year given his perspective and experience is the age-old cycle question. So that one starts to go over to you. I mean, how do you explain what the heck has happened over the last year, 1.5 years with certain end markets falling off and others doing okay? And we have some manufacturing issues and just all kinds of stuff out there. So give us the TI take on what's happening.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And I think first, you've seen, I think with the chatter this morning, Chris, you've even seen more cycles than me. But I do believe this one -- I think this one is special in the sense, as you touched upon it, the markets behave differently along the path of the cycle. I think because the cycle was -- it originated with COVID and people staying at home, buying more equipment. It is more PE or personal electronics and then the automotive customers.

And I give the two extremes, kind of we don't need any parts. So the order of which the cycle manifested itself is PE first, first growth, first decline. Automotive came to the party a little later and still ongoing. I think they've talked about it even in the earnings call in July that automotive still held and grew. And then you can take each and every market and actually each and every sector, even in industrial, and you will see a different behavior, just different phases of time.

So when I talked to Rich, he would mention that, that cycle is different in that sense. But the beauty of what we do is, first, not surprised by it. I think, saw it early and prepared to go through it. Because as you think about 2013, the investment you need to make, the last thing we wanted to do is having to stop ourselves because of where the cycle is. And we've modeled the company and prepared the balance sheet in such a way that we would be able to prepare for the future, whatever the cycle wants to do.

So we don't pay a lot of attention to it. We don't stay ignorant about it. But it's going to do what it's going to do, and we'll just let it run its course. And I just want to make sure we come out of it stronger to support the next up cycle.

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

I think you hit the nail on the head is that TI doesn't really change too much, if at all, depending on whether it's an upturn or a downturn. But you know that consistently, your free cash flow will continue to grow as the cycles continue. I wonder if you could just give us a little bit of insight into the planning process. I know that you and Rich have mentioned this 5- to 10-year plan or a multiyear plan.

As you think back, Haviv, because you've probably said in these things for a long time, what has changed those plans? I mean I'm sure you've altered the 5- or 10-year plan. I can't imagine that a cycle caused it, but maybe a couple of cycles, or what was the last time you guys have changed the plan? Or what usually causes those things to change?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. So again, the -- in essence, we embarked on this plan of investment in capacity, getting our inventory prepared even before it was obvious of what the cycle was going to do. These discussions started 2, 3 years ago. I think 18 months ago, we went with the plan externally, but we made the Lehi acquisition back at the end of '21. So it's almost 2 years for now. So you can think about the plan as being prepared and executed starting a long time ago.

It is true that we've made -- I don't know -- so cycles don't change the plan. And I think you asked even Rich, will it change -- will the plan change if the cycle is more severe? And he just said one word: no. So I would repeat that a year later. But I would say that we did have an update of the plan in this year.

And the biggest thing that has changed over there, not only that we saw customers excited about our investment and we wanted to do more, but also felt that with CHIPS Act coming and now coming to fruition, we have a chance to accelerate our investment. And this is something that is right now in discussions with the right office. But to me, it's a very important investment that the government is making to allow us to really compete on a level playing field with people from Europe, from China or wherever you want to go. I think it's something that, as Rich said last year, is historic, and we are excited about that.

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

Great. One other thing I wanted to ask about that I get asked about a lot is just the threat from China. Whether that is economical, like their economy continues to sort of sluff along or competitive side, where you continually see these new semiconductor companies popping up out of China, does that take up much of your time? What do you ascribe the competitive threat for domestic Chinese analog manufacturers?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Again, so maybe two points here, Chris. First, on the market, whatever it wants to do in the next decade, it's still going to remain an important market, a big market. And we would like to serve it, especially when our competitive advantages can come into play in China as well. It's also in China that the main customer base that we are saving -- serving -- is on industrial and automotive, our competitive advantages on the manufacturing and technology, the breadth of the portfolio, the channel serves us very well also there.

And we don't want to make bets or kind of shift our investment plan according to what markets geographically are going to do. So we are committed to supporting our customers there. And I can say also that our customers in China, not only that they are very excited about our plan, including our investment planning capacity, they also are thinking about diversifying their business.

So think about EV customers. They want to go and do more business outside of China as well. And a supplier like TI with our breadth of technology, with the way we serve them, can solve multiple problems on a board is also exciting for them.

Regarding the competition in China, it's a little different than what we see in other parts of the world because usually, we would compete with the competitors that are very focused on a very small part of our portfolio. So if you think about a product line, this product line could have several families of products. We could sometimes see one family company. And they could be small revenue type of competitors. They could be also running more substantial amount of revenue.

What I'm excited about is that the competitive advantages that we have built, again, especially in industrial and automotive, are playing also in China. We do tell the team, hey, you -- that's not enough. Competitive advantages are not enough to win the business. You better have the best part.

So if you have the same performance, the same power consumption, the same size of the package, don't make it a tie because then you may lose the business. Be better in each and every socket than the competitors in China. And so far, the team has reacted well and keeping the bar very high on the competition.

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

Great. We're starting to run out of time. I wanted to make sure if anybody in the audience has a question, feel free to raise your hand. I can't see anything through these lights, but I don't see any questions out there. So I will keep going.

I wanted to ask you about the product portfolio, as you sit there with your -- I'm sure your little TI game board, you got your Analog thingy here and your Embedded thingy over here. On the Embedded side, while the business has recovered very nicely, the margins are still a little bit below the corporate average. How do you see that business going forward? Do you guys ever consider pruning it or taking some of it away or giving it the old sensor and control routine and spinning it out? Any thoughts there?

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Yes. And again, Embedded, as you said, I think we have stabilized that business. It had its issues several years back, but I think the team -- Amichai and the team are executing very well on. And we have adopted the plan over there. I think 4 years ago, we've been very transparent that we are not happy with the portfolio or the road maps or the capital allocation on R&D and where we went. We also didn't like the execution on our plans. So we said we have to fix both.

So the Embedded business has taken a position that, hey, we are going to build parts that are building on our competitive advantages -- can be built internally, can serve broad markets, can provide this diversity and longevity aspect of our business. Team is executing very, very well. I'm very pleased with where we are right now.

But I think, Embedded, the most important thing, and that's how we look at it, can it be a contributor to free cash flow per share growth? I think the answer is yes. They are improving the portfolio. We are building more and more of their parts now internally in Lehi that we required for Micron. And I'm very pleased by the cost structure and the ability to generate growth of free cash flow per share.

So good progress to date. Team is keeping the bar high. And I think, again, when we go back and see, should have we kept it or not, the answer will be obvious. It's going to be a great contributor for the company.

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

Great. With that, we're out of time. Thanks very much, Haviv. Thanks, everyone.

Haviv Ilan - *Texas Instruments Incorporated - CEO, President & Director*

Thank you, Chris. Thanks for having us.