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# EDITED TRANSCRIPT

Texas Instruments Inc Capital Management Update Call

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## PRESENTATION

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

Good morning, and welcome to the Texas Instruments 2023 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](https://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 our 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 our scorecard for 2022 and updates for 2023. Then we'll provide a historical summary of our capital allocation and take a deeper look into specific areas of investments. As we mentioned previously, we'll provide more details about our investments to strengthen our manufacturing and technology competitive advantages, and specifically an update to our long-term 300-millimeter wafer fab roadmap plans, capital expenditures and depreciation implications, where you'll see we're preparing for higher growth. Then we'll review R&D allocation priorities and our progress on building closer direct relationships with our customers. Next, we'll highlight 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 is also available on the investor relations website at [ti.com/ir](https://ti.com/ir). The following guiding principles from that overview will help frame today's discussion.

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, which are 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 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 great business model that's focused on analog and embedded products and built around our 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 and are difficult to replicate.

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

Our second competitive advantage is the broad product portfolio of analog and embedded 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 and TI.com. This provides access to more customers, projects, sockets per project, and insight into our customers' needs. We'll provide some insight on our progress with the reach of our channels.

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

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

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**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. In 2022, we again met our multiple objectives.

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.

Capital expenditures were \$2.8 billion, about as planned, and cash return was about 130% of free cash flow. We continue to maintain our long-term objective of 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 2023, our long-term objectives remain the same.

For 2023, we have two updates that you will see highlighted. As we mentioned previously, we're ensuring our capacity is prepared to support higher growth rates. As a result, we expect CapEx to average around \$5 billion per year from 2023 to 2026 and about 10% to 15% of revenue per year in 2027 and beyond. These are gross CapEx amounts and therefore do not comprehend benefits related to the CHIPS Act.

Regarding inventory, our long-term objectives, such as maintaining high levels of customer service, remain the same, and we updated the upper end of our inventory target to better reflect the way we will operate.

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 2013 to 2022, we have allocated about \$87 billion of capital. Given that magnitude, you can appreciate why capital allocation is a job we take quite seriously and one that has a significant impact on owner returns.

Our largest category of capital allocation, about 40% of the total, has been investment 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 \$10 billion over this 10-year period.

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

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 decreased \$1.6 billion, as we have increased cash levels.

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 300-millimeter wafer fab capacity, help to extend our cost advantage and give us greater control of our supply chain. Today, we will provide an update on our long-term capacity roadmap that will support growth over the next 10 to 15 years.

Let me start with a reminder for those not as familiar with the semiconductor industry of why 300-millimeter wafers matter. A chip, meaning an unpackaged product, made on a 300-millimeter wafer, costs about 40% less than a chip built on a 200-millimeter wafer, the size used by most of our competitors. This translates into a great competitive advantage.

The source of this advantage is the area of the wafer. A 300-millimeter wafer has 2.25 times more area, which in turn means we can get about 2.3 times more chips, but it does not cost 2.3 times more to process that larger wafer. This translates into a structural cost advantage.

To understand how a 40% less expensive chip impacts gross margin, it is easiest to use an example, one we have used for some time now, shown on this slide, of a part built on a 200-millimeter wafer compared with a 300-millimeter wafer.

This example shows a theoretical part that sells for \$1 with a gross margin of 60%. The chip itself would cost about 20 cents if built on a 200-millimeter wafer, and this would reduce to 12 cents on a 300-millimeter wafer.

In this example, the remaining costs of assembly and test are the same, regardless of the size of the wafer. The net result is that gross margin improves eight percentage points.

As this example illustrates, our 300-millimeter manufacturing capability and the resulting cost structure provide a unique competitive advantage for TI.

To help the generalist portfolio manager listening, who may not be familiar with the semiconductor cycle, this chart is a helpful way to understand how you have to plan for the long term, independent of what the semiconductor cycle may be doing in any one year.

This chart shows semiconductor units shipped 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.

Last year, we introduced a long-term 300-millimeter roadmap, and the team has been making tremendous progress throughout 2022. We have several 300-millimeter wafer fab projects underway, including RFAB2 in Richardson, Texas, LFAB in Lehi, Utah, and the multifab site in Sherman, Texas.

Production began at RFAB2 and LFAB in 2022, and construction is underway at the new Sherman site, which we expect to begin production as early as 2025. These wafer fabs will be targeted for 45- to 130-nanometer technologies that are optimal for analog and embedded products and can go to smaller lithography as needed.

Last year we presented a detailed manufacturing roadmap that would enable TI to support about a 7% growth rate through 2030.

We have updated that plan to support approximately 10% annualized growth through 2030. This increase is a reflection of a combination of higher confidence in semiconductor content growth, particularly in industrial and automotive, our position in these markets and continued strong customer response to our geopolitically dependable capacity.

As a reminder, the gray line was the estimated annual CapEx we shared with you one year ago. The black line now shows our current estimate of an average \$5 billion of CapEx from 2023 to 2026.

Beyond 2026, we expect capital expenditures to normalize, at about 10% to 15% of revenue going forward, and will be a function of our revenue growth rate expectations.

As a reminder, these are gross CapEx projections.

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, we currently support about 80% of wafers internally, and this will increase to about 90% by 2030. At the same time, external foundries will continue to be important suppliers.

On the third line, you will see that 300-millimeter will increase from 40% of our internal production to about 80% by 2030. This gives some perspective into how our 300-millimeter 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 this year to 90% by 2030.

In summary, this plan to support higher growth reflects the combination of higher confidence in semiconductor content growth, particularly in industrial and automotive, our position in these markets and continued strong customer response to our geopolitically dependable capacity. As a result, we will continue to increase our allocation toward capital expenditures, as we believe top-line revenue growth will be a greater component of free cash flow per share growth over the next 10 to 15 years.

Last year, the U.S. government passed the CHIPS Act, from which we will benefit. For the purpose of today, there are two main provisions in the act we will mention. The first is \$39 billion of grants, of which \$10 billion is allocated to mature technologies. Any potential benefit is uncertain and not reflected in our estimates, but we are actively seeking funding for any programs that we qualify for as we submit our grant application in February.

The second provision provides a 25% investment tax credit, or ITC, for U.S. semiconductor manufacturing investments, and we expect to this to provide a cash benefit of about \$4 billion. With the ITC largely offsetting the higher CapEx levels, our depreciation expectations are consistent with what we have shared with you previously. Therefore, we continue to expect that depreciation will increase from about \$1 billion in 2022 by about \$500 million per year, to around \$2.5 billion in 2025.

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

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**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 our 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've provided data for 2013, 2021 and 2022, so you can get a sense of how the product portfolio has changed over the long term as well as compared to last year.

We can find great investment opportunities in all our markets and continue to do so. That said, the direction of our R&D investments, shown in the second column, are unchanged from last year.

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

Personal electronics investments are up slightly, but we'll continue to be selective.

Communications equipment investments are steady.

And enterprise systems investments are up slightly in support of growing cloud and server infrastructure.

And Other, which is just shown for completeness, is primarily the calculator business where investment is flat but at low levels.

Here, you can see the strategic progress we've made in the important markets of industrial and automotive. In 2022, those markets combined represent 65% of TI's revenue, compared to 62% in 2021 and just 42% back in 2013.

As a reminder, the industrial and automotive markets have high diversity, meaning many customers, many sectors and many 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 market therefore requires a long-term commitment and a willingness to invest broadly across sectors and product categories, both of which we've done and will continue to do.

I'd also like to share an update on our progress of 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 will increasingly desire the convenience and productivity of online relationships along with skilled customer and commercial support. This is a broad secular trend and we see it 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.

In 2022, we continued our progress on building closer direct relationships, averaging about 70% of our revenue transacting direct. This compares to about a third of our business transacting directly in 2019.

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

TI.com is an important part of the reach of our channels and delivers additional customer convenience with online sales.

In 2019, we formed a team dedicated to building our TI.com online business and accelerating investments in this channel. Since that time, we've expanded the number of countries where we support transactions in local currency where TI is the importer of record, we've added new payment methods and provided new methods for financing. In addition, we've been investing in logistics and highly automated product distribution centers for less than two-day delivery to customers' doors or to their manufacturing docks.

In 2022, we had more than 60,000 unique customers transacting quantities from a single unit to millions of units via TI.com. Revenue in 2022 on TI.com accounted for about 10% of our total revenue.

Now tactically, in 2021 and in 2022, TI.com revenue was most likely helped by the market conditions, but we believe the long-term strategic potential of online sales through TI.com is high, given its convenience for customers.

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

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**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 2022 was \$8.7 billion, which was about flat to 2021.

At the same time, CapEx was at \$2.8 billion, or 14% of revenue, as we began higher investment levels in 300-millimeter wafer fabs to strengthen our competitive advantages.

As we described at the beginning, our overall objective is to maximize long-term free cash flow per share.

We believe this is not only the best metric to judge our performance, but it is also the one that we, as owners, ultimately care about.

In 2022, free cash flow was \$6.47 per share. This was down 5% from 2021, and free cash flow margin was 30% for the year. Since 2004, free cash flow per share has grown 11% compounded annually.

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

For 19 consecutive years, we have steadily increased our dividend, including an 8% increase in fourth quarter of 2022. These increases

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represent 17% for five-year and 21% for 10-year compounded annual growth rates. In 2022, dividend payments represented 73% of free cash flow, supporting their continued sustainability and growth. As of January 27, 2023, the dividend yield was 2.8%.

Our objective in repurchasing shares is the accretive capture of future free cash flow for long-term investors. We focus on consistently repurchasing shares when the intrinsic value of the company exceeds its market value.

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

We have reduced shares outstanding 47% since 2004. We ended 2022 with \$21.5 billion in open authorizations, having bought back \$3.6 billion worth of stock in 2022.

With respect to cash returns, in 2022, we returned \$8.64 per share, which represents an increase of 81% versus 2021. In total in 2022, we returned 134% of free cash flow, and since 2004, we have grown returns at a 17% compound annual growth rate.

It may be helpful to frame our performance versus others in the S&P 500. Our free cash flow generation puts TI in the 84th percentile, cash returns in the 92nd percentile and return on invested capital in the 95th percentile when compared to the S&P 500.

We believe our strong relative 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're 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 that 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 ESG and sustainable investors are aligned with our long-term ambitions and have been a 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 up the lines for questions. (Operator Instructions) Operator?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We'll first hear from Ambrish Srivastava of BMO Capital Markets.

**Ambrish Srivastava BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst**

I want to start out with the top-line assumptions guys -- and Dave, I know you're a student as much as we are, and you probably go deeper into the data. Analog long-term trend line growth 6%, microcontroller at 3%. And if I put that against TI's growth, clearly, in analog, you guys have been taking share, five-year CAGR 9%, 10-year 8%. And I'm rattling off this data, and I'm getting to the question, five-year embedded is -1%, right? 10 years, it's 3%. So how do we believe the 10% number? What's -- what are the underlying assumptions for that, Dave, and Rafael?

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

Well, first, I'll start with what changed as we mentioned in the prepared remarks. And from last year, we've just got higher confidence in the semiconductor content growth over the long term and particularly in industrial and automotive.

The second is the position of our products in the market. So the product portfolio that we have, the adoption of that portfolio, and it's just higher today. And I'll also just point out that 65% of our revenue is in the industrial, automotive markets, where we've seen structural content growth. So that will be -- as it gets up to a larger percentage of our revenue, that will continue to compound and help us grow faster.

And then the third one, as we mentioned, is just increasingly strong customer response to our geopolitically dependable capacity. So that includes our current footprint that we have as well as the roadmap that we just put out.

So -- and back to your -- the specifics of your question, I think that those growth rates aren't that much higher than the numbers that you gave for Analog. We've been talking about the progress that we've made in Embedded and the confidence that we have in that. Long term, we believe that those two segments can grow at similar rates. And I think that even the most recent results show that we're making good progress towards that goal. So things aren't done there, but we are encouraged with the direction. Do you have a follow-on?

**Ambrish Srivastava BMO Capital Markets Equity Research - MD & Senior Semiconductors Research Analyst**

Yes, Dave. Just a quick tactical one, the \$4 billion on the potential benefits. The timing of that is -- that's an annualized basis, right, if you put in the accruals and the cash grant?

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

Yes. So let me kind of walk you through that. And yes, you're absolutely right. It's \$4 billion that we expect as a decrease in PP&E basis, and then we'll lower depreciation, then we'll get the cash.

So let me just give an example to try to make it as clear as possible. If we spend \$1,000 on U.S.-based CapEx, we would accrue a 25% benefit, or \$250, under long-term assets on our balance sheet. So then what you would see on the balance sheet instead of \$1,000 in PP&E, you would see \$750 in PP&E and \$250 in other long-term assets. Now you're depreciating only \$750 as opposed to \$1,000. So that's where you get the lower depreciation. And then eventually, we get the \$250 in cash.

The way we get that, just based on the current rules -- and it could change -- it's a year after the assets are placed in service. So I could have that CapEx spent in '22, placed in service in '23 and get the CapEx -- get the cash in '24. In fact, right now, we're not assuming getting any cash in 2023 because of that dynamic.

One more tactical point is even though this is all for the ITC, the investment tax credit -- we're assuming nothing for the grant -- but even

though it's called an investment tax credit, this is not going to change the tax rate on the income statement, okay? It's going to work through the balance sheet and income statement, as I just described.

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**Operator**

Our next question comes from Vivek Arya of Bank of America Securities.

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

Do you think, Rafael, that (inaudible) TI can grow free cash flow per share in the next five years as you have done in the last five years?

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

So thanks for that question. I'm glad you framed it over at least five years because the way we're thinking about it is long term. And yes, absolutely, over the long term, that's exactly what we're doing, is to feed the long-term growth of free cash flow per share.

As we have said and we just said on the call, our belief is that over the next 10 to 15 years, the key driver of long-term growth, of free cash flow per share, is the top line; it's revenue. And in order to be able to grow revenue, we need to invest in manufacturing and technology, have a manufacturing footprint that's not only there that we own and control, but it's geopolitically dependable, right? And that's, as Dave mentioned, that's one of the key things that our customers are clamoring for. Do you have a follow-up?

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

I'm also curious, when you look at your CapEx intensity beyond 2026, I think you raised it to 10% to 15% right, versus the 10% before. So how does the math work? If your capital intensity is going to these levels, I'm still confused how you can grow free cash flow at the same pace as you were able to do before. Like why is capital intensity going to be much higher even beyond 2026 versus what you thought before?

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

Yes. So this is purely a function of growth rate expectations over the long term, beyond even the time horizon that we showed you. Remember that you spend the CapEx one year, you really don't get the equipment in place and the factories in place until like three years later. So what you're seeing in that chart from, say, 2027 to 2030, it's based on expectations on 2030 and beyond. So when we get closer to that time frame, we'll give you an update based on our expectations. So we just wanted to give you an indication, roughly the 10% intensity correlates to a 7% growth, and the 15% intensity will correlate to about 10% or so revenue growth, beyond 2030, okay? Hopefully, that answers that question.

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**Operator**

Next, we have from Ross Seymore of Deutsche Bank.

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

Rafael, I wanted to go back to the revenue growth assumption and that pivot to more of a growth-centric strategy. You gave the three main reasons why you're more confident in the growth than you were in the past. If you summarize all those up, how much of it is your belief that the analog and embedded markets will just grow faster, versus the belief that TI will actually take share within those markets?

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

Yes, Ross, I would say that as we look at markets, like automotive as an example, we look at the possibility that electric vehicle adoption could be faster over the next 10 years than what it's been over the previous 10 years. That -- we think that the possibility of that is there. And we want to be ready for it with the infrastructure to do it.

Same thing in industrial, of course there's 13 different sectors there and hundreds, if not thousands, of different end equipments. But just take one, like factory automation, and is it possible that factory automation can be faster in the next 10 years. So yes, there is an assumption that we want to be prepared for that.

And then with market share gains, as we've talked about before, they don't move quickly in analog and embedded. So the plan is not assuming that there is a change -- a significant change in what our long-term share gains would be. But I can tell you our confidence that we'll continue to gain share is very high. So do you have a follow-on?

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

Yes. And the CHIPS Act side of things. Rafael, do you know when you will have more color on the \$10 billion? Or just even any framework beyond the ITC side, so people can kind of start to fold that in as when that could be another offset to some of the higher capital intensity that you just discussed.

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

Yes. So the applications are due this month. So sometime this month, we will turn that in. And we are going to actively pursue every -- pursue every avenue that we have related to it. And clearly, we fit very well in the criteria and what they're looking for, particularly with the mature -- what they call mature technologies, which is really the sweet spot for auto and industrial. But it's highly uncertain, it's discretionary on the Department of Commerce. So when they tell us and we know, at the appropriate time, we'll let you know.

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**Operator**

Next, we'll hear from C.J. Muse of Evercore ISI.

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**Christopher James Muse *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst***

Yes. I guess this is perhaps just a short-term question. As it relates to the timing of getting the cash from the ITC, roughly 12-month delay. How are you thinking about free cash flow returns kind of in that -- kind of year one? Would you include the anticipated refund 12 months hence? Or would you wait until you actually get the free cash flow dollars?

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

Yes. What I would tell you is that there's no change in how we think about returning cash to owners. Our objective, as we have on the chart that we just showed, is to return all free cash flow to the owners. We do that through both dividends and buybacks. And that's never meant to be any single quarter or every -- even every single year. But over the long term, we'll return all that cash.

I will also point you to the strength of our business model and our balance sheet. So, we have tremendously strong operating cash. You saw that one of the charts had that, as well as about \$9 billion of cash that we've had above those higher levels for the last couple of years and plenty of access to debt to support our objectives. Right now, we actually have negative net debt. So we actually have more cash than debt. And we have the -- we're the highest debt-rated company in the semiconductor space. So we have plenty of options there. Do you have a follow-up?

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**Christopher James Muse *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst***

Yes, please. So you've talked for years about the 300-millimeter advantage. And it's interesting, 300-millimeter not depreciated versus fully depreciated 200-millimeter. We just ran over the crossover point for 90-nanometer. And so curious, are you starting to see a -- an acceleration potentially in share gains? Obviously, that will take time. But are you seeing anything on that front? And then secondly, it sounds like maybe some competitors are actually considering 300 now too. So how are you seeing the evolving landscape for 300-millimeter for overall kind of analog?

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

I'll just comment on that. And Dave, if you want to -- all I'd say, we've been -- I saw the article that you're referring to, we've been investing in 300-millimeter since about 2011 because of the advantage, the long-term advantage that, that provides, and we've been talking about it. But other than that, Dave, do you want to...

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

Yes. I think that, obviously, we've talked about owning and controlling that manufacturing footprint is important. And the fact that as we invest, we're putting in place 300-millimeter, it's going to continue to give us a structural cost advantage.

As it relates to market share, we do believe that customers are attracted to the manufacturing footprint just as they have looked at improving their resiliency of their supply chain. And they like the fact that we control that supply chain. They like the fact of where those assets are placed. So that will likely be a tailwind to share gains.

But I'll go back to what I've said for many years now, that share just doesn't move quickly in these markets. That's part of the reason why it's such a high quality marketplace. There's lots of natural competitive barriers. So we don't expect that there will be a landslide or a significant shift at the rate of picking up share, just based on history.

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**Operator**

Next we'll hear from Blayne Curtis of Barclays.

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**Blayne Peter Curtis Barclays Bank PLC, Research Division - Director & Senior Research Analyst**

I have two as well. Maybe just on the cost for a second, it's the same chart, I think you've had on the benefits of 300-millimeter. I guess in the past, you bought equipment kind of opportunistically, and I'm assuming to get the equipment now, you're paying a pretty premium price, given the shortages we've seen. So I'm just kind of curious how it affects the math, obviously, then you have the offset from at least the 25% from the CHIPS Act. So I'm just kind of curious, you showed the same slide, but I'm just kind of curious, any thoughts on those moving pieces and how it changes that math.

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

Yes. I'll just -- that slide is meant to be high level, give you directionally what 300-millimeter does versus 200-millimeter. There are a lot of puts and takes inside of that. You mentioned a few of those. But the bottom line is that 300-millimeter is more cost effective, structurally speaking, than 200-millimeter. And that's whether you buy the assets used or new, just because they last so long. And those factories will generate revenue and profit for a long, long time.

And the other angle to that is owning and controlling that, right? And have it in geopolitically dependable locations, which all our -- the factories -- the fabs that we are building are in the United States. And I'll comment that the assembly test are in geopolitically dependable locations as well in a diversified fashion. Do you have a follow-up?

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**Blayne Peter Curtis Barclays Bank PLC, Research Division - Director & Senior Research Analyst**

I did. I want to ask you, on the inventory, it's kind of open-ended, it says greater than 200 days. You've been adding inventory kind of at the end of the year. And if you think about -- it's a down revenue year this year. And you're adding capacity, I think, at like 10% per your chart. So if you kind of match those together, you get over 200 maybe by June. And if you follow it out with Street numbers, you're kind of over 300 days. So I'm assuming you're not going to add that much. I'm kind of curious is it truly open-ended, or are there some hard cap on where you would go. Obviously, revenue dependent, but just thoughts on that cap?

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

Yes. What I would tell you, go back to that slide that we showed, Slide 13, right? So we're managing for the long term with that gray line in mind. And cycles come and go. But over the long term, you have seen what the semiconductor space has done, and we're only more excited just given the secular trends in industrial and automotive and everything that goes underneath that -- energy efficiency, safety, et cetera -- that are driving those. So we believe in the long-term trend, and we're putting inventory in place to prepare for the next up-cycle.

And as I pointed out, it's in the scorecard; the objectives for inventory are the same, right? So keep high levels of availability, customer service.

And then the last thing I'll point out is, keep in mind, given our strategy, we have a very broad catalog portfolio, so our parts sell to many, many customers -- in some cases, dozens of customers -- and they have it in their applications for years, in many cases, decades. And the inventory itself lasts a long time on the shelf, so the risk of obsolescence is very, very low. So that allows us to think about inventory that way and to put it at such upside potential that we can run it the way we describe and have higher levels of inventory.

**Operator**

Next, we'll hear from Harlan Sur of JPMorgan.

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**Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst***

As a follow-up on Embedded, it's driven relatively good growth trends post that refocusing of the business, right, a few years ago. And it's certainly holding up relatively well amidst kind of the near-term demand uncertainty.

Can the team just articulate what is that new strategy and focus within Embedded? Is it more focused on core auto and industrial markets with application-specific platforms? Or is there more of a shift to general purpose products to go after the large market opportunity in the catalog sector?

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

Yes, thanks for that question. I'd say it's really the latter and adding in products that from the very start are targeted to a broader customer base. And so I think of microcontrollers as an example that can be used in hundreds of different types of end equipment.

So as we've talked about, we want to have that business be a high quality business, one that's contributing to free cash flow growth over the long term. And so we didn't set any artificial turnaround dates for that business. And it takes time to build a high quality business like that. So again, we're really pleased with the progress that we've made there. We're not popping any champagne corks and declaring it done. But we -- the objective is to make that a long-term contributor. Do you have a follow-on, Harlan?

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**Harlan Sur *JPMorgan Chase & Co, Research Division - Senior Analyst***

Yes. So one of the -- as you guys mentioned, one of the near-term, newer sort of go-to-market channels has been TI.com, right? Grew strongly in 2021, the growth in 2022, about 10% of overall revenues. Wondering if TI.com also has the additional benefit from a business planning perspective and operations perspective of just being a good leading indicator of the demand inflection just because, at TI.com, you guys are seeing customer demand transactions in real time?

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

Yes. I agree with the summary as well as the conclusion there. We do see customers come -- of all sizes, from very small customers to very large customers -- when they have a need, the convenience of having tens of thousands of our products available immediately. We've got that infrastructure in place that we can make a delivery to almost anywhere in the world the next day. And in some locations, we make multiple deliveries a day.

So whether you're thinking of a contract manufacturer that -- their margins aren't high, they have to -- got to pay close attention to cash flow needs, so having that convenience, they found, is very, very attractive.

So -- but -- and it does give us a better or a real-time look on what customers' needs are and will fluctuate with that near-term demand.

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**Operator**

Our next question will come from Stacy Rasgon of Bernstein Research.

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

The first one, I wanted to ask about -- is the driver of this change more around your confidence in the content trends in the businesses, or is it the geopolitics? Like, are you thinking you're going to see like an acceleration in market share, say, in the out years as this capacity comes on line and maybe the geopolitical situation evolves from where it is today?

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

Yes, Stacy, it's really a combination of the three things that we talked about.

So, the customer response to where we've got capacity today and where it's going in, the fact that we control it. As customers are looking to understand resiliency of their supply chains, they find it highly attractive.

But it also -- we do have a higher confidence in semiconductor content growth, especially in industrial and automotive. I kind of gave a couple of examples of why we have that confidence.

And then the third one is just our great positions in those markets are continuing to get stronger with the product portfolio. So, you can see that very clearly in the direction that we're going with Embedded, but it's true as well in our Analog businesses. So yes, and we don't have any inflection in share gain that's played into those numbers. But our confidence in share gains is, like I said before, is very, very high.

And just as our four competitive advantages -- manufacturing and technology, the breadth of the product portfolio, the reach of our channels, as you know, we've got 70% of our revenue direct. That just gives us better insight, access to more projects, just better understanding what their needs are. So all those things lead to the confidence that we have. You have a follow-on?

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

I do. So you're effectively reinvesting the entire tax credit in higher CapEx, which is fine. I get it. But you haven't baked in any of the direct subsidies, with potential for those. So assuming you get some direct subsidies, how should we think about what you might do with those? Should we think about those as an offset to this profile, or is the potential there that those -- that some of those or all of them might get reinvested as well?

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

What I would tell you, at this point, the supportable revenue trend line that we show is how we're thinking about it, and we show you the puts and takes with the ITC. So we don't have any additional expansion beyond that at this point planned.

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

That's right. Yes. And I'd say that our expansion is really built on what we expect from the market, independent of what we're receiving through the CHIPS Act. And the CHIPS Act is -- makes those investments more affordable.

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

And just to add, we do applaud the legislation for CHIPS Act, both the ITC and the grants, to put the U.S. in a more competitive and level playing field versus what other countries have. So this is a good thing for the country in general.

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**Operator**

Our next question comes from Tore Svanberg of Stifel.

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

Yes. So historically, if you look at the analog industry, I wouldn't say capital is really how you win, right? I mean I think it's the people. So I do appreciate all the CapEx. But how should investors and customers feel comfortable with your ability to hire people to run all these fabs? Because my understanding is that there's certainly a shortage and lack of qualified people in manufacturing industry in the U.S.

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

I'll start. Dave, if you want to chime in. But I don't want to oversimplify that process, but our team has been handling that very well over many years -- our business, manufacturing and HR teams. And we have held a steady hand. So we didn't do anything crazy over the last two or three years with a huge increase in hiring. We did some increases thoughtfully. And then we're going to continue having the steady hand that applies to OpEx.

But then on the factories, we've been ramping RFAB1 and RFAB2 for some time, and we've been planning the Sherman factories for some time. And we've been also ramping the factory in Lehi for some time. So we're experienced with that process, and we'll continue working it.

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

Yes. Maybe I'll just add that as we acquired Lehi, we had the great benefit of the employees coming to us to be able to support that. So that was, I think, fortuitous that we were able to add quite a number of employees right through the middle of the downturn through that acquisition.

And additionally, we've got a factory that's in Sherman, Texas, that's operating today. We announced plans that, that would be closing. So we do have employees there to support production over the long term. But of course, we still have been adding people into RFAB2. We'll continue to add people there as well as up in Sherman, as well as in Lehi. So all three of those areas will see increased people over time. So do you have a follow-on, Tore?

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

Yes. No. Back to the share gain question. So I think -- and this is mainly on the analog side. I think historically, you've said maybe it could take up to three years to gain 100 basis points of share in the analog market. This strategy, does that accelerate that potential? Or should we still think of that kind of being the bogey, maybe 100 basis points every three years?

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

Yes. I would say that, again, that 30, 40 basis points of share that we've gained over the long term just is indicative of the fact that analog share doesn't move quickly. Our belief in that hasn't changed. And as I mentioned before, the plans don't assume any significant changes in long-term share gains.

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**Operator**

Our next question will come from Joshua Buchalter of Cowen and Company.

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**Joshua Louis Buchalter Cowen and Company, LLC, Research Division - VP**

Kind of a simple one, but I think impactful. If we deconstruct sort of the increase in your revenue growth outlook long term, how much of that is confidence in the secular drivers you mentioned, but also in the pricing environment and the ability to either maintain or grow ASPs over the long term versus how you're previously thinking about things?

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

I'll start. Rafael, if you want to add. I think when you look at that plan out in time, we don't have assumptions that pricing is going to continue as it has in the last couple of years. But that it would return to what the longer term trends are that we've seen over the last 10 and 20 years.

So now if it does behave differently, that would be upside to the revenue part of that plan. But there is not an assumption that what we've seen in the last couple of years would continue. Do you have a follow-on?

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**Joshua Louis Buchalter Cowen and Company, LLC, Research Division - VP**

Yes. I wanted to ask about the inventory target as well. So you increased on books to over 200 days, but you're also moving more direct, which is moving more onto your books. How should we contextualize, I guess, the total amount of inventory you're comfortable carrying, between if we add those two, on books and in the channel, together?

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

Yes, I'm glad you brought that up because that is, everything else being equal, that also puts upward pressure on our inventory levels. Because a lot of the inventory that was in consignment or distributors were holding, now we're the ones that are holding that inventory.

And really, in that, the whole ecosystem didn't change. It just shifted inside, but we're comfortable with that. That is, owning and controlling that inventory is just more efficient that way. I also point to, as we go from 80% internal to 90% on the wafer side, that also puts upward pressure on inventory. And again, it doesn't change the ecosystem necessarily from that standpoint, but it gives us more control of that inventory.

And the cost profile is also better when you're the one building it -- over the long term -- when you're the one building it versus you have someone else build it. But all of that is accounted for in our statements on inventory. And by the way, you're quoting the days, and that is the target we gave you. I like to think about it in dollars because days can be -- it's obviously backwards looking, and it can be affected by any one quarter that is lower.

But as I said on the earnings call a week ago, we would not be uncomfortable adding anywhere between \$1 billion to \$2 billion of inventory to the levels where we finished last quarter, and that would position us well for long-term growth through the cycle.

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**Operator**

Next, we'll hear from Chris Caso of Credit Suisse.

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**Christopher Caso *Crédit Suisse AG, Research Division - Research Analyst***

I guess maybe just to clarify my understanding of the net changes since last year's capital management call, just kind of summarizing all you said, and correct me if I'm wrong here, but it sounds like from a depreciation standpoint versus last year, you're saying there's no change and essentially the ITC credit offsets the additional depreciation coming from the gross CapEx.

And then from a CapEx standpoint, it sounds like you've gone -- you've increased CapEx by \$1.5 billion a year through '26. But there's \$1 billion offset from ITC, and I suppose that you -- there could be some additional offsets from grants if that happens, recognizing there's some timing differences. But is that the kind of net effect of the changes since last year's capital management call?

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

You got it almost right. At the end, you said \$1 billion offset on ITC, there's a \$4 billion offset on ITC.

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**Christopher Caso *Crédit Suisse AG, Research Division - Research Analyst***

I didn't say annually, \$1 billion per year.

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

Okay. Yes, yes. So that's right. So you're getting essentially the same depreciation that you had before, but now we can enable much more revenue during that time, so call it 10% or so CAGR versus the 7%. In dollars, that was about, what, a \$34 billion endpoint to about a \$45 billion endpoint. And that's supportable revenue. Of course, it's not a forecast, but that is the revenue that we can support. In fact, we have optionality to support even more, just given the footprint that we're deploying, that it can always be accelerated further if needed.

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**Christopher Caso *Crédit Suisse AG, Research Division - Research Analyst***

That's helpful. And just a follow-on question, just following on to some of what you said on pricing and the expectation that this normalizes going forward. What -- I guess the question is, what has to happen with pricing in the industry to offset the fact that capital intensity is rising, just by virtue of what you're spending -- you've said in the past you're buying new tools as opposed to used tools. So that seems like a permanent structural change. Is it the case that the pricing increases that have already happened are enough to fully amortize that change, and such a pricing doesn't need to go higher? Or just what are the implications of higher capital intensity if pricing doesn't continue to go up?

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

Yes. Maybe I'll start, Rafael, and you can add. Chris, I think as we look at pricing, we've talked about the fact that our approach hasn't changed; we price to market. Price isn't usually the #1 reason why customers are selecting our products. There's just a lot of other reasons that they do, typically, before price becomes the main consideration. And we price so that it's not -- it's not the reason they don't buy a product, right? So that's how we think of it. The market sets the price. Now, there are reasons that in the industry that the cost of manufacturing is going to go up. I've heard others say that, that means that therefore pricing has to change. If that's true, then it's true.

But we're -- we just believe in the basics of economics, and we get back to supply and demand balance, that things would behave like it has in the past. So that's the base case that we've got. If it turns out that it's better, then that will be an improvement to that base case.

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

Yes. And the only thing I'll add, I guess to go back to kind of basic economics and basic kind of business strategy, Porter's 5 forces if you will. But we like where we are in that dynamic. When you look at our relationship to suppliers, customers, competitors, we really like where we are. We like where -- the type of products that we sell, given that they're catalog, industrial, diversified customer base, so -- and versus competitors, having our four competitive advantages and the position of strength that put us in, and we're going to continue adding to that with the investments that we just delineated. So that just puts us in a great position, and pricing will do what it will do. But if we're in a good position, we'll be able to adjust accordingly.

**Operator**

Next we'll hear from Toshiya Hari of Goldman Sachs.

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

My first question was on the CHIPS Act. As you guys plan for the next five, 10, 15 years for your business, is there an underlying assumption that government subsidies or government funding, particularly from the U.S. government, is a recurring thing? Or could the CHIPS Act be a one-time dynamic? And does that matter for your capital spending philosophy?

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

Yes. No, good question. That is highly speculative. So -- but the current law is what it is, and it goes from '23 to '26. So whatever is placed in service during that time, that is what's eligible for the ITC, for the investment tax credit. And of course, the grant is discretionary, so that depends on the Department of Commerce.

But there's rumors that it could be extended. But hey, that is highly, highly speculative. It depends on the U.S. Congress, what they decide to do and that dynamic.

But to your point, as I alluded to earlier, this legislation put the United States on an even playing field with what other countries have been offering for quite some time. And I imagine will continue to offer, right?

And semiconductor, there's always a new article talking about how semiconductor is the new -- is the new hot commodity, the new oil of the 21st century, and countries want to have their geopolitically dependable sources of semiconductor. So -- but who knows what will happen? We focus -- right now, we're focused on the next 10 to 15 years, and this footprint will serve us really well at least through 2030.

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

Okay, got it. And then as my follow-up, just on TI.com, you guys saw very significant growth in '21. And it looks like '22 revenue through TI.com grew pretty much in line with the broader company. How should we think about TI.com penetration going forward? And remind us if there are any margin implications as TI.com continues to grow?

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

Yes. Let me -- I'll start and Rafael can add in. The first is, is that we don't have a percentage that we're trying to drive TI.com to -- I think customers, as they learn of its convenience and the ease of getting product that's immediately available, we believe that just the strategic value of that is going to grow over time. So we wouldn't be surprised if it continues to move up as a percentage of revenue, but we won't do anything unnatural to drive it in that direction. So Rafael, do you want to comment on the margin?

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

Could you ask the question specifically on margin again?

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

Yes. So assuming TI.com grows over time, over the next five, 10 years, how should we think about any margin implications from that?

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

Yes. In the big scheme of things, I think Dave alluded to it, the big advantage of TI.com is strengthening that relationship with customers. It just makes it a lot easier for everybody, not having a, not having the intermediary with the distributor, but also the convenience of TI.com, logistics, same-day shipment. We're the importer of record. We do it on the local currency. So that -- we think that is the really main drivers. Those are the main drivers why customers are moving to -- have moved and continue to move to TI.com.

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

Okay. I think we've got time for one last caller, please.

**Operator**

Sure. And that caller will be Joseph Moore of Morgan Stanley.

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

I think you kind of answered this, but -- and I've asked it to you like for over 10 years, but I keep getting the same question again. If the 300-millimeter seems like it gives you a pretty significant cost benefit when I look at the migration over the next few years, is that higher returns to TI? Or are there instances where you use that to be more price aggressive in businesses where it's not the first consideration, but it is a consideration? Just how do you think about the trade-off of how you use that incremental margin?

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

Yes, I'll start with that. And Joe, I appreciate as you -- how you frame that question because we've had 300-millimeter for over a decade now. So -- and there are all kinds of predictions of what we would do or how we would fill up that capacity when we opened up RFAB1.

So I'd say just look at the last 10 years as evidence of what we've done. We had that capacity in place well ahead of demand, and we put it in place to support our growth long term, and that's what we're doing today. So there's really no changes to that. And as you said, our products are -- have lots of reasons why customers are sticky. That's why share doesn't move quickly inside of the markets, and pricing is a consideration, it just is very rarely the number one top consideration. Do you have a follow-on?

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

Yes, let me just add. Are there areas in analog and embedded that are more price sensitive than others? Of course, there are. In those places, it makes sense for us to release parts that are more bare bones, stripped down, that do just what the customer needs. And 300-millimeter is another enabler of that because then it gives us the best cost footprint of anybody in the industry. So we're not afraid of that hand-to-hand combat in that -- in those spaces of the market. We don't just focus on the higher end spaces. We can cover a broad range of industrial and automotive, but then also personal electronics. So I think you have a follow-up.

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

And then when you think about \$5 billion per year for the next four years, do you -- are you going to try to market time that from year to year? You've talked about downturns can last five or six quarters. Would you think about spending a little less in those years? Or are you just like by the time we've -- the adjustment happens, that's already played out, so we're going to be relatively consistent. Just -- is there going to be a sense of trying to cycle time which years you spend more or less than \$5 billion?

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

Absolutely not. We are going to spend this, in fact, as soon as possible to put those factories in place and ramp them and qualify them, and we're not going to slow it down for a short-term market dynamic.

In fact, we're very well positioned to protect these investments. That's strong operating cash flow, but also, as I said, strong balance sheet, plenty of cash, plenty of access to debt, because we're looking at this over the long term through the cycles, right?

And the lead time on putting this in place is such that you -- if you blink, you miss it, and you -- as we said many times, we're better off having capacity two or three years ahead than be a few months short, just given the upside potential versus the downside risk.

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

Rafael, you want to finish -- wrap this up?

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

Okay. Yes. I'll finish this up. Thanks everyone for joining the call. Very enjoyable, as always. I just want to thank all of you for taking the time today to go through our capital management update.

Let me emphasize a few points.

We remain focused on consistent execution of how we manage capital.

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.

Our 300-millimeter manufacturing strategy is a unique advantage and will continue to benefit TI for a long time to come.

We remain committed to returning all free cash flow to our owners.

Dave?

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

Okay. Well, thank you all for joining us. A replay of the call will be available on our website, and as well as the slides that we used on the call today. Have a good day.

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**Operator**

Again, that does conclude today's conference. Thank you all for your participation. You may now disconnect.

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