REFINITIV STREETEVENTS

EDITED TRANSCRIPT

TXN.OQ - Texas Instruments Inc at Citi Global TMT Conference

EVENT DATE/TIME: SEPTEMBER 05, 2024 / 1:10PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Haviv Ilan *Texas Instruments Inc - President, Chief Executive Officer, Director*

CONFERENCE CALL PARTICIPANTS

Christopher Danely *Citigroup - Analyst*

PRESENTATION

Christopher Danely - *Citigroup - Analyst*

All right. Great. Thanks, everyone. I am still Chris Danely, still the Semi Analyst here at Citi. It seems like I've been saying that every 5 minutes or 27 times a day. Hopefully, I can keep my voice for a few more hours. Next up is a stock that we recently upgraded, Texas Instruments, and we have the big guy literally and figuratively, Haviv Ilan. We started to call him the Hebrew Hammer here after a while, the President and CEO.

As some of you may recall, because I've been on Wall Street for like 1,000 years, or maybe 27. We had a buy rating on Texas Instruments for literally a decade, between about 2012 or maybe 2011, 2021 or '22. And one of the main reasons, in addition to their consistently spectacular returning cash to shareholders, was basically the margins went up every year for a decade. And that led to, obviously, higher free cash flow, higher earnings, but more importantly, led to a consistently higher multiple.

And so recently, we determined, hoped with some guidance from the big guy here that we're going to get on another long-term upward progression in margins, hence the upgrade. So Haviv, thank you very much for being here.

QUESTIONS AND ANSWERS

Christopher Danely - *Citigroup - Analyst*

And I guess I want to ask a couple of philosophical questions first. You guys had this special off-cycle capital management call, where you detailed some of the changes to CapEx. So I guess I'm just curious, and I've had a lot of people ask, what brought about the decision to do that?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. A couple of -- first, again, thanks for having us, Chris. Good to be here again in '24. As we said during the call, we saw it as a great opportunity. First, the timing is such that we are now 60% into a very complex investment cycle for the company that will position us, I think as you mentioned, to do very well in the coming years once we are complete.

And as you execute a complex plan, you learn, you have more information. And we also got feedback from owners, specifically one was public. But we used the opportunity, not only to meet and engage in a constructive discussion, but also to reach out to all of our shareholders. And it was very obvious to me, and I've done some of it. I was in New York when that came out. And our shareholders said, look, we understand your plan, but our company is big. We have many PMs. It will be very beneficial to go deeper to provide, first, why do you think you'll grow in the long term. Second, your investment plan is $20 billion to $25 billion over six years. Could you give some more higher level of granularity? And I think the most important for them, a little bit of what if. We heard you that you can modulate capacity over time, but can you show how, and what does it mean, and why do you have to spend $5 billion a year through '25, and so on.

So we thought it would be a good idea to just have a one-time off-cycle capital day because that's a venue where, unlike earnings call, we can provide some supporting material. We've put out a presentation out there. You can go back to our website and listen to it. You can see the slides. And I think it just did that, first and foremost, to show our confidence in our future growth and why we think we are positioned to do such.

Second, we want to get prepared, and this is where we -- kind of the main body of the presentation was to show the three phases of our investment. And some of them are, quote-unquote, fixed. These are related to the long cycle time type of investment you have to make when you build a 300mm wafer. But then the most exciting part when you are done with that, you are positioned now to modulate, first, your capacity at whatever scenario of revenue the market wants to throw at you. And we provided four. When you provide four, people ask me why not five or six, however, I think we provided enough information and guidance of what could happen in different revenue scenarios. I think in that sense, and I had the chance to meet with some owners this week prior to our discussion this morning, and I think it was well-received.

The material was good. The answers were clear. The granularity was there, and the scenarios are well understood. But I want to take the chance even today if any clarification is further needed, we can do that during our discussion today.

Christopher Danely - *Citigroup - Analyst*

Sure. Thanks. I guess, number one, what surprised me was the emphasis on the flexibility like you talked about CapEx, where you gave a bunch of different scenarios. And I think Rafael said, yes, I mean we could literally take CapEx to 0 if we need to. I've never heard that.

I've never seated in practice maybe for a quarter or something like that, but that was pretty interesting. Are you -- is this like an effort to be a little more transparent going forward or a little more responding to different questions or opening up the kimono, so to speak?

I know you guys used to not really comment on gross margin. Rafael actually talked about gross margin, gave some gross margin guidance, which I can tell you, I liked. I think most investors like. Is this the Haviv stamp on TI?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

I'm not sure I would characterize it that way, Chris. I would say that, first, when you go through such a complex plan, I think it's -- and it was very clear to us that there was an opportunity to just go deeper. And the timing was just right, right? When you start the plan, everything is on paper, it's on slides, we have Excel sheets, but nothing is being executed. When you execute the plan and some of these fabs are already ramping, you just have more information.

I think Rafael mentioned it, and I as well. And we talked about a six-year plan. So yes, when you start it, do we know exactly when we will finish each of every phase of our execution? The truth is no.

And to be even more transparent -- and this is something that we always want to be, to your question -- we had also more risk. These are -- we started the plan during the crazy COVID time. You can't buy any equipment, including transformers, and all kind of issues with water-treating type of equipment because lead times are so long, and we had more risk in the plan. And we thought it would take a little bit longer and also a little bit more expensive, to be fair, to finish that preparation for our future.

But the plan was always to be flexible. The plan is to get to a stage where you remove the three, 3.5 years lead time from your build-out, and you can now go into modulation of capacity according to demand, which is what we did in the last decade. We simply had a huge empty shell called RFAB that we could build into in the previous decade, especially when we also had to -- or we decided to move away from some of our businesses, right?

So that makes you almost like you can better your portfolio, but you don't have to put in a lot of capacity. We have learned that this decade is going to be very different. Our portfolio is the right one. We like our position. So we had to go to this phase of, let's get prepared. And if the opportunity presents itself, let’s not be short or delayed, to be able to support it. And that's what we have done.

And Rafael's comment was flexibility beyond a certain point, right? So just to repeat, the '21, '22, '23, '24, '25 plan have not changed. Five years of ramping CapEx from a very low level, below $1 billion a year, to up to $5 billion, running at that level through '23, '24, '25. And then in '26, especially on the Sherman execution, it was a little bit pulled in versus our worst-case scenario. We will be ready ahead of the end of '26. So that's how you see the -- now we have a cleanroom. I've qualified my parts. Customers will either have a lot of orders or not. If the demand is very high, we'll continue to equip the fab, and that's going to be the big part of why CapEx can go higher there, okay? And on Lehi, we are going to continue to build a cleanroom, and that's going to be finishing towards the end of '26. So this is why you see a flexibility in 2026, but it's not zero to $5 billion. It's actually $2 billion to $5 billion. $2 billion represents its long lead items of cleanroom qualification, pilot lines that we have to go through. And the extra $3 billion will be equipment, most of it on the front end, but also if you are growing your business, you have to invest both in the front end and the back end. So that was the point. And from 2027 and beyond, I don't know if you said zero, but I think it can go from maintenance CapEx, which is very low, to up to $5 billion, if you want to run and chase the market that may come back to trend line one day. You probably analyze it more often than me, Chris, but it will come back to trend line one day.

And when it's there, we need to be ready. So that's kind of what we provided, highest -- very high flexibility in 2027 and beyond. And when I say beyond, it's not only the end of the decade. Beyond means the cleanroom of LFAB is huge. So you can grow into it multiple years, I would say, 10 or 15 years.

And Sherman is not only two shells. We have put together two shells, but it can go 1, 2, 3, 4. So that gives you -- when we said, hey, we are embarking on a journey to build our position to supply at the highest level to our customers at a lower cost, 300mm manufacturing facilities, it's really for 10, 15 years. It's tough to go through it right now when the market is in a down position, but we prepare the company exactly for that, with a strong balance sheet, and we are very pleased. I am very pleased with the execution of the plan.

Christopher Danely - *Citigroup - Analyst*

Yes. Well, you guys are growing mid-single digits both quarters. I wouldn't say, your market is in a down position, and we'll get to that in a second. I did have a few of your holders and potential holders ask me this to ask you, does this mean you will be on the earnings calls?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes, I think that's -- and this is maybe related to your previous question. I think I don't want to be the only CEO in our industry that is not. We have changed leadership 1.5 years ago. I think it was a good call for action for us. And yes, we'll do that every quarter. But again, not an off-cycle capital management every six months, but back to once a year, starting February.

Christopher Danely - *Citigroup - Analyst*

Great. And I'll throw in my vote for maybe restarting the Analyst Day every once in a while. I know Dave probably turned stark white, I heard that. But it was a great TI vest. Another one that came out was, Rafael and I actually talked about gross margins and gave some growth.

Was this a conscious decision on your part, on his part? Is this much to do about nothing? Can we expect some more talk or some more information on gross margins? This has pretty much been absent from TI guidance for more than a decade.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. And I think you and I met before in a smaller setting, and we discussed through it. And you just have to go back to TI communicating and TI executing and TI discussing internally is all the same. We don't carry different messages. And the way we run the company internally, the way we think about investments is really driven by free cash flow per share growth for the long term. That's the truth. That's the way we measure it. That's the way I speak to the Board about the future. We just -- that's our lingo, okay? And I think it helps to think that way because I think it guides, in my opinion, the decision-making in a higher quality. And that's also how we believe shareholder value is being built over time. You want to grow that free cash flow per share over time.

Now, I think because people do care about margins, it's very important to provide guidance. And I don't think we provided guidance on our material, but I think maybe Rafael answered the question. I think we gave a framework. And some of it is just accounting, right? You put the CapEx in. This is very easy to analyze. It's real time. You know -- when we spend the money, you know what it is. Now, we have depreciation schedules that are different. Some of the equipment is five years, some of the fab, call it, equipment, that is more the subfab, as we call it, is longer. And then the building and everything is really long term here. So it's a complex math. So Rafael does, I think he provided the depreciation schedule. And I think we gave one more year. I think we gave all the way to '26. So we gave a piece of information there.

We also guided that the fall-through is going to be better. And that's really related to the fact that our capacity is showing higher level of efficiency, I would say, meaning the cost -- or call it the throughput of a factory is higher than we originally anticipated, which is good news to us because the equipment is new and very expensive. But at least it has a modernization, this data capability that makes it run better, less maintained, less often maintained, which allows to higher throughput. So we've guided to a higher fall-through of revenue. You need revenue growth, by the way, Chris. This thing doesn't work without revenue growth because your depreciation grows every year, at least until a certain point. But then once it does that and revenue comes in, the fall-through is very nice.

I think we guided around 85%, or we gave a range, 75% to 85%.

But when you bring capacity from external to internal, and we have great examples on that from Taiwan to Lehi on many analog and embedded products, you get a very nice fall-through. And the CapEx is behind you. The depreciation still lingers a little bit longer, but the fall-through is very, very nice and very attractive. And that's how you can come into some scenarios. And I think Rafael mentioned, I think we get four scenarios. And I think he mentioned on three of them, you'll see -- the higher ones, of course, because you do need revenue -- you will see a very nice fall-through, and then margins will grow.

Now I'll tell you one more thing. When I look at 2030 -- and again, this is not a 10, 15 years from now. When I look at the end of this decade, margins are very attractive and in any revenue scenario, because what happens in the end of the decade, if revenue is high, you continue to invest, but the fall-through helps you a lot, right? The revenue fall-through in a very high margin. If you grow less, this is where the flexibility comes into play, and depreciation runs its course, and it starts to fall, and then your margins are very, very attractive. And there is no reason -- I think I said it to you one time, but in the long term, there is no reason why they couldn't get to the place they were before. Just think about fall-through above 75%. You run it -- you run the model, you see where it falls. So I think that's what Rafael mentioned without providing too much specificity, I would say.

Christopher Danely - *Citigroup - Analyst*

We just want the breadcrumbs, we don't need the whole bowl but breadcrumbs are great.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. The equation is there, yes, you can use it. Yes.

Christopher Danely - *Citigroup - Analyst*

I'm curious, we haven't had a chance to catch up since you made this announcement. What's been the investor reaction to that? Any surprises, good, bad, anything in between?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

So the good news -- and even this morning, we met with some folks. Most of them said, hey, what's new? It's the same thing. This is good news to us. At least our investors were not surprised because they would ask questions, of course, when you go into an investor meeting -- which is they'll go deeper. We have more time. They come over to see us in Dallas. So we went through these scenarios, but I think all of them loved the fact that they have it now with a supporting material. It helps them educate their internal teams. So that was very well-received. Not a lot of surprises. I think we found a couple of cases where people said, oh, I thought, you had less flexibility in 2026. It was good to see that it was -- you could go all the way down to 2, which is good news.

And also the other -- again, positive was the capital intensity for the future related to the efficiency of the fabs is a little bit better. And this was a change. But we have given a number that was more on the conservative side based on our history of, I think, 1.5x growth of revenue once you are in equilibrium, okay? And now I think we updated to 1.2.

So that means that our investment had better be that because these fabs are so expensive, but the fabs are just simply more efficient. Once you build them, they run well. The throughput of the fab is higher. So that capital intensity for the rest of the decade was a little lower. And even I think we provided one case on the slide over there. If we need to still support a very high revenue growth at 10% CAGR, we can now do it at a $5 billion run rate rather than a higher number that we showed before.

So that was the only feedback we got. But in general, good feedback about me spending more time externally and also on the calls and also the fact that our plan is laid out there with transparency. That was all good feedback, yes.

Christopher Danely - *Citigroup - Analyst*

Yes. I think that's one of the main appeals of TI in an industry with a lot of volatility, the consistency, not to mention the high margins and returns and all that, but the consistency that you guys have had. It's like a Procter & Gamble on steroids, I always say. So now that you've been in the seat for, I think it's 1.5 years. And change things around. What's the Haviv stamp going to be on TI? What do you want to be known for or known as in your tenure in the driver's seat now?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Look, Chris, you mentioned it. Stability and steady hand on strategy is easy to say when the markets are all positive and everything comes in, falls in place. And I think it's being measured or should be measured and examined when the -- you have a tougher situation, like we are experiencing now. Look, this is one of the largest peak to troughs in the history of this market. Just look at unit trend, then you compare -- you have to go all the way back to 2000 to see the same level of decline or cycle intensity, okay? And we are right now hovering at that trough of the market. And our hand is steady. That's not easy to do, and you also have to prepare for that. That's why you have to prepare your balance sheet, you have to prepare your shareholders. You also have to communicate maybe better, as we are now doing. But I think that's not easy to do. And that's why we are very proud of our discipline in that sense. That's the TI DNA. That's what I've learned over the years, starting from Rich and the management team, and this is what you could expect moving forward.

Different style, but also a very other big important part, and we were very transparent about that the last decade was all a decade of bettering our portfolio, from a product portfolio and a market portfolio. And some of this is also a very heavy decision-making process. If you remember, in the beginning of the last decade, we were heavy mobile phones, right? Smartphones, those OMAP, big investment, and we have taken that to zero, okay? That's not an easy process, and we have some other examples in ASICs, our custom business, in comms for Embedded. A lot of tough decisions, especially with what we call our “Other” segment, areas that we wanted to be out of. And that's also what created a lot of value for shareholders because you have a better portfolio, higher level of quality, industrial/automotive, analog and embedded, as you said, good longevity and diversity, which usually has this trait of good margins and good returns over the long term. That hard work is behind us.

Now all of that is done to run the next decade, and capacity is part of it. The value of -- or the source of free cash flow per share growth for the next 10 and 15 years is going to be mainly contributed from the top line. And that's a different phase of the company. Same strategy, different phase. And to do that, first, you have to provide the means. The means to the team is, hey, we invest in our R&D, continue to keep a steady hand there. We are building capacity. We know we didn't have enough in the last cycle. We are not going to repeat that shortage again in the future. That's at least our intention or our ambition.

And then you go play offense. And it's nice to play offense when you've done your portfolio management tough decisions. It's just easier to play offense. All your energy, all your concentration is get out there with customers, expand your product portfolio, build it up, and go win sockets out there. And the beauty of our market is such that you win share slowly, but it stays when you do it. So this is what we are doing these days. I'm very pleased with where we are in that process. The team is reacting well, but the numbers have to prove it.

So if you think about my tenure and my ambition, it’s to leave behind me a company that shows that it can grow the top line and continue to improve and get some leverage beyond that, but show that we can do it in a consistent manner across a wide set of customers across a wide set of products. That's my objective. Okay. And yes, let's see if we can do it. If we can prove that.

Christopher Danely - *Citigroup - Analyst*

Let's talk about that, the playing offense, and you talked about share gains. Can you give us any insights into what TI is doing? Or has anything changed in terms of progressing to share gains? I mean I keep hearing if I had a nickel, if I had a shackle for every time that I heard from someone over in Asia that TI is cutting price or getting aggressive. I mean, it's been going on for like 20, 25 years, and your margins keep going up.

So clearly, you're doing something right. Yes, maybe just give us the playbook on offense and share gains going forward? Is anything changing? Or what are the main --

---

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Let me say strategically, nothing is changing. And our intention is always to grow share and expand margins. So nothing has changed, and I think we will do that, okay? That's our plan.

I will say that there is a little bit of tactical, and I kind of touched upon it five minutes ago. Look, last upcycle, unlike anyone in our past, we had to make some tough calls. Meaning, when we had to bias our capacity and support our customers, we couldn't support all customers at the highest level, like we would. We supported the entire market and the entire customer base, but we think we could have done better, okay? We talked about capacity, we talked about inventory, that's the foundation of great customer support. So I think that's check, behind us. And now you go back to playing offense and say, look, a couple of years ago, we know we had to -- we had a discussion and we told you we could not support your entire demand and some sockets we said, hey, they will have to go away. We knew that. But it's a good time right now once we have capacity, once we have the right cost structure to go and reengage, and that's what we're doing. And nothing new, competing for sockets like we used to.

I will tell you also, Chris, that it's really biased towards the non-industrial and automotive markets, meaning when we had to make tough choices, we try again to bias a higher level of support to industrial and automotive. You can also see our performance, especially in automotive. I think we are -- we've continued to gain share even through this cycle. And I would say on the industrial side, for sure, we've held our position, okay?

But in areas like PE, in areas like enterprise, in areas like comms, it's an opportunity for us to kind of roll up our sleeves again and go reengage with customers. And I can tell you that I see positive results already, also showing up in our numbers. We talked about Q2. Q2, strong growth sequentially in PE, also growing year over year, strong growth in the enterprise growing year over year. Comms, very low level right now, but starting to raise its head up because how much can you deplete inventory. So I think we've reached that point. And industrial and automotive still going through their cycle. So that's where we see opportunities. That's where I feel that three out of the five markets that we address are in a good position, of kind of shipping to demand and maybe a little bit plus in some areas.

But in industrial and automotive, we have to see. I am pleased on our progress on these markets because, again, our portfolio is growing. We are adding embedded to the mix. And I see a very, very good future for these markets, but I think they are still playing out. I don't think that the inventory depletion is done in these two, and we'll just have to wait, and it will play out in the next several quarters. We'll see when it wants to end.

When all the five markets go through their asynchronous cycles, they will all point up to the right. And it's going to be interesting because now let's see what supply and demand, the supply and demand balance is. We'll see who cares about where wafers are coming from, what choices people will do. We will be prepared for that opportunity.

Christopher Danely - *Citigroup - Analyst*

You said you don't think that the inventory depletion is done in auto and industrial, but your industrial business, I think, is growing this quarter. So why would you say that if the industrial business is going to be up?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

So first, this quarter is still being played out. And really, we are just-in-time company. We have very low lead times, so we have to let Q3 play out. But let's go to Q2. Q2 industrial. Usually Q2 is a very good seasonality for industrial traditionally, at least for TI. And I think we declined, what was it? I think low-mid -- low to mid somewhere, yes, low- to mid-single digits decline. Automotive did something similar, okay? So to me, it has to show, Chris. So I know there are talks that industrial is done. I have to see it, and we really have to go through Q3 and see where it is. We haven't seen evidence so far that industrial is done. We haven’t seen evidence that automotive is done. And usually, as you know, Dave, this is what -- nothing is changing in TI. We'll call it when we see it. We haven't seen it yet, so we haven't called it yet.

Christopher Danely - *Citigroup - Analyst*

Great. Okay. I wanted to touch on another thing you said 300-millimeter and moving more towards internal. How much of an advantage of this is it to you on the cost perspective? And are you able to offer better pricing to competition by virtue of bringing more in-house and using 300-millimeters, maybe talk about the positives there?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. First and foremost, we talked about always improving our efficiency of manufacturing, in this case, margins. To me, the market price is the market price, and I'll touch about the pricing in a minute. I don't want to say it's not important. But to me, there is a market price.

TI wants to compete in a wide set of sockets. We are building more and more parts into that portfolio, and that helps a lot because our -- and I've said it before, when we did the Lehi plan, we kind of -- you do a make versus buy Excel sheet drill, as you know. There is a certain foundry wafer price if you're buying from your foundry partners. That number went up significantly since we've done the make decision, okay? So it's very attractive right now. I think Rafael mentioned some numbers, but the price you pay for the wafer is cash versus the cash you put into a wafer in Lehi. It's a tremendous difference. It's pure fall-through, okay? And this is an outlier that you don't need revenue growth for that. You just transfer revenue.

So the problem is, it takes time because we are -- think about our Embedded business, predominantly industrial and automotive, two or three process nodes, the different flavors of them. You have to go part by part and move them from, in our case, Taiwan to Lehi, send samples to the customers, customers put it on the board, they say it's good, then you can start shipping.

And we are going through that. Almost complete on F65 or our 65nm embedded flash process done. Also in some of our 45nm parts, but not completed everything. The automotive sockets are always longer because some of them have a high safety rating, so you have to do more tests. But when Lehi completes, and I think I would call it somewhere in 2026, it has revenue because most of it is transfer revenue, and the margin fall-through is amazing, okay? I won't repeat the numbers that Rafael gave, but it's really making it a no-brainer why you want to do it as soon as possible.

Now, regarding the market and the price, I would say, and this is always our -- part of our strategy is to grow across sockets. Meaning, we are not growing maybe vertically, with building more stuff on our parts, but rather we want to extend to more areas of the board. To do that, you have to build a strong portfolio, but you have to be -- every socket has a different attribute. Some of them are very, very differentiated. You are the first one or only one with a part. That's always fun, okay? This kind of falls in your hands; there is less sensitivity on pricing. Some of them are -- that you have competition. And we are the largest analog supplier. The competition, let's say China, would take a high runner from TI and do a pin-to-pin replicate to try to win socket; that's what they do. And to do that, you have to have an answer. And the answer is you have to make -- we want to make good margins on these sockets as well. And this is where the cost structure is very important.

So 300mm wafers, when I talk to my team, we don't need to be selective. We don't need to reduce our landscape of competition to narrow areas of the board. We can earn share and grow by expanding to more sockets and not having to walk away from anything. And doing that by a very nice margin pickup every time we do that, again, towards capacity that is already in place. So I like the reaction of the team. I like the reaction of customers that see us competing in China and worldwide.

And I think the Lehi case is a great example where our Embedded business used to be sometimes not at the right cost structure to attack some of the sockets. Call it low-power MCU, for example, that you see competition coming from everywhere. As a challenger, you come in with a great cost structure. You can play the game. And there are many low-power catalog MCUs out there that you can go and attack in high-volume cases, but also in the industrial and automotive domain that are smaller kind of concentration of revenue per socket.

Christopher Danely - *Citigroup - Analyst*

Yes. We like higher margins for sure. So if we list the drivers of your, you can call them gross or free -- we'll put it in TI terms, free cash flow margins going up. Clearly, higher utilization rates are going to help more 300-millimeter. Lehi, more in-house. Could you maybe list the margin drivers over the next, I don't know, five to seven years as far as getting those back to the previous peak?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

No, I think you touched it. Look, this is a very --

Christopher Danely - *Citigroup - Analyst*

Making sure, I'm not missing anything.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. But I think you said it. But at a very high level, why is it coming back? We have right now a very concentrated effort not only to get capacity ahead and be prepared for the upcycle, so you see us accelerating CapEx, but when you move your capacity one time from an external supply base on the front end to internal, you have to have a little bit of a short-term higher intensity to do that because you don't do it for new revenue. You do it for control and cost of your future. So there is a fall-through there, but that's why you see the intensity higher in the short term.

And I will say, we always talk about the front end, but we do the same on the back end on the assembly and test side. We don't want to be reliant on the OSATs. They are very China-heavy, and our customers want a different answer. So also there, the investments in Malaysia, the investment in the Philippines are substantial. They are not as high as the 300mm wafer fabs, but it also gives us cost and control for our future.

So in that sense, that's the list you said. But I will say again, this thing doesn't work without revenue growth. So when you grow revenue and it falls through so nicely at that 85% area, that is going to be the best driver for future margin expansion.

Christopher Danely - *Citigroup - Analyst*

Yes. Let's talk about revenue growth. For all those folks out there that say TI is losing market share, a funny thing happened on the way to share loss. You've had by far the best performance this year in terms of revenue growth of any of the peers. Why has TI done so well this year? Do you think it's part of the whole playing offense? The analog industry doesn't lend itself to large swings. Why is TI doing so well this year?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Look, we have a very different definition of doing well. To me, I'm not pleased with where we are, okay? So the ambition is higher, and I think we can do better. I will say that we have some, a little bit unique ways of going to market -- very direct, very just-in-time. So the buffer in the channel for us is actually almost nonexistent, right? It's all internal. So that could be playing out something in some way.

We also -- and again I don't think -- on the pricing side, the average price of the market went up significantly. I think TI was thinking long term there as well. So everything that guides our decisions long term, we wanted to be a highly valued supplier by our customers. So of course, pricing went up for TI, but I think in a very responsible way that helps us now go back and attack.

And the last thing, which is we touched upon before, look, we -- in three markets, these are the smaller three markets that we have in the company. 75% of our business was industrial and automotive in 2023, but the other markets are also important, and now the difference is we do have the capacity. So you are seeing a rapid, I would call it, momentum in PE or consumers as you guys call it, in enterprise, and as I said, comms starting to show strength.

And I also would point to a geography. So China was the place that kind of troughed, peaked ahead of everything, any other region, troughed the first. And now I think it's going to rise the first. So in China, it's a little bit more unique for us because we see all markets growing. In Q2, we talked about 20% sequential growth. We talked about momentum. But unlike the other regions, it was across all markets, automotive included, okay? So that was a good signal. Now this is only one point, let's let Q3 play out. But maybe China could be an early indicator for what the market can do in the future across geographies, we'll see.

Christopher Danely - *Citigroup - Analyst*

Something I used to ask Rich all the time, and now I'll ask you, in terms of China is, they have this big program to try and take everything internal. How do you view your China business longer term? Would you expect them to slowly take more products to internal sources? And do you think that your China growth will slow? Or how do you view that from a TI perspective?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Let's start with the next several years first because I think that's important tactically to understand that we are more equipped to compete in China. So that's a very good, I believe, opportunity. And still they represent 20% or so of world GDP. It's a big market, especially when you think about EVs.

So playing the game there, we will continue, and I see momentum. As I said, I was there a month ago, met with all our large customers, about 20 meetings, and TI is welcomed back. TI's capacity is appreciated, especially as these guys want to build end equipment that are going to be exported to Europe, to South America. They value our play, they value our competitiveness, so that was very positive.

Look, in the long term, I think China is going to be more competitive. It used to be almost the easiest geography because you didn't have local competition. But I can tell you, when we compete in Japan, the local competition in Japan is strong. When we compete in Europe, there is always a first look; my peers in Europe get some looks as well. So I think China will become the same.

I will say the last point, I don't see pressure from the top over there, call it government pressure, at least not through the CEOs that I meet, to favor one over the other. It's very pragmatic, right performance, right quality, good cost structure, you can play. So that's the way I see China moving forward, and that's our play.

Christopher Danely - *Citigroup - Analyst*

That's a good perspective. Last question for me, I think. You talked about the product portfolio. You guys have spun out or proven down other product lines, sensor and control most famously, which worked out for both sides. When you look at, say, the calculator business or the other business or the embedded business.

Are there any changes up, down, add, subtract, you think could happen or you look at or possibilities there?

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Yes. So you put them in the same bucket. And I know we are considered a big Analog company, and we are. But Embedded is going to become more important for us moving forward simply because we are underpenetrated. So Embedded, I think we're going to play a game that is Analog-ish, meaning building internal, diverse product portfolio, use your channel, expand positions and create this diversity and longevity. So the four competitive advantages are brought into Embedded. And by the way, we are also investing $15 billion to do that in Lehi, so the confidence is high. So I don't put it in the same bucket. You will see us -- I think you'll see in the coming years, and we’ve started to see evidence already now, Embedded is going to be a very good contributor to free cash flow per share growth. If you ask Amichai and the team, they want to beat Analog, okay? So there is this healthy competition internally, and I believe Embedded will prove that, okay? So that's on the Embedded side.

Now the Other business, it's really two businesses. The majority there is the DLP, the projection business, very, very high margin. It's kind of an analog business, MEMS-based. The market is stable, and we are always finding new applications. So we love that business a lot, and we'll continue to run it very responsibly for very nice returns on the long term. And the calculators, everybody knows us for that. That's how my mom learned about Texas Instruments. You're going to work for a calculator company, when they acquired us 25 years ago. But very, very nice margins, gives us also inroads into students and some brand name. We like it a lot. It's not a big part of our strategy. It's not very large. So that's a calculator business. But you can expect this Other segment to stop bleeding because you don't see -- and I touched it upon it half an hour ago. When I look at our portfolio, including calculators and including DLP, we like where we are. And that's -- I can tell you, I've been 25 years in TI. Rich showed us a kind of a wider range of 40 years when he pitched to us several years ago. We like where we are. That is where I think investors should pay attention because TI has never been more prepared for the future. We've put the capacity in place. We are almost four years out of six in, so we are positioned. And it's for me and the team to prove it, that it's going to be one of the best investments in the market.

Christopher Danely - *Citigroup - Analyst*

Great. Thanks, Haviv. Thank you, everyone.

Haviv Ilan - *Texas Instruments Inc - President, Chief Executive Officer, Director*

Thank you.
