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OVERVIEW:

Company Summary

REFINITIV

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

CONFERENCE CALL PARTICIPANTS

Timothy Arcuri *UBS - Analyst*

PRESENTATION

Timothy Arcuri - *UBS - Analyst*

Good morning. I think we'll start. I'm Tim Arcuri. I'm the semiconductor analyst here, and we're very pleased to have Haviv Ilan, who is the CEO of Texas Instruments with us. So thank you, Haviv.

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

Good morning, Tim. Thanks for having us. Appreciate it.

QUESTIONS AND ANSWERS

Timothy Arcuri - *UBS - Analyst*

Great. So Haviv, maybe we can start. You had your off-cycle Capital Management Day. You talked about spending a lot of money through 2026. And if the revenue growth is not there after that, you could cut the spending. So can you just talk generically about how you're thinking about basically intersecting your capacity additions with demand?

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

Sure. And again, if you think about our Capital Management Day -- and you can find, of course, material on our website -- it was really a deeper dive into our long-term plan. This is not about '25 or '26. This is where we think about the company in the next 10 or 15 years and getting prepared for the opportunity.

It started with a description of why we think growth will come, really focused on our presence at the right market -- for us, industrial and automotive, growing presence over there, and they've done well over the last 10 years. I think they can do even better in the future. And then the strengthening of our product portfolio in both analog and embedded to support the opportunity.

And now you have to get prepared. And in our case, it's preparation first for the next 10, 15 years, but also a step forward on being -- on controlling more of our destiny, meaning shifting our capacity internally, a higher use of building wafers and assembly and test, the finished goods, inside the company. Towards the end of the decade, a position of above 90% on both. So we want to really control our destiny not only, again, on the capacity side, but also on the technology. So that's a high level of what we described over there, including a higher level of granularity of how we made the investments, what happens in Phase 1 until '26, how we prepare for the longer term.

And then this idea, as you said, of flexibility of capacity. Once you get rid or put behind you the long lead time items like cleanrooms, qualification, you modulate your capacity according to what demand can do. And in our case, we want to be ready for a broad set of opportunities or outcomes. So if the market and our position continues to strengthen, we want to be prepared to support that. But as you said, if the market weakness is more persistent and we kind of got ahead with capacity, we'll take a pause and wait for growth to resume -- we do have a strong conviction that it will return to trend line -- and then add capacity as needed. Just being in this position of having the cleanroom and the qualification behind you and

able to modulate output by just installing tools is a very, very good position to be at, a position that we wish we had in the previous upcycle. But we are going to have it not only in the next upcycle, but for the next 10 and 15 years, and this is where the excitement is for the company.

Timothy Arcuri - *UBS - Analyst*

And how important has the CHIPS Act been in terms of timing some of those investments?

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

Look, I think we've been very transparent that our strategy was there even before the CHIPS Act was discussed or announced. We embarked on that mission in the end of 2020. We were more external about it, communicated externally in 2021. But this is something that we've been in the making for the last five and six years.

I think the CHIPS Act certainly helped. We are very excited about it. I think it's historic. It got support on both sides of the aisles. And it's definitely something that helps us achieve our objectives. So definitely, not the reason of why doing it, but we do appreciate the help coming from the U.S. government to allow us to play on really on a level playing field versus our global competition.

Timothy Arcuri - *UBS - Analyst*

You've been at the company a long time, and you've been on the board since 2021. You've been CEO since 2023. As you look back at this last cycle, what did you learn from the last cycle that you take forward with you over the next five to 10 years? What did the company do right, and what do the company do wrong?

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

First, you're right. We are continuing -- as part of our culture, we always want to learn and improve, right? So you learn from every cycle. The last cycle was unique. It was a little bit different than others, both in the fact that it was, I think, very pronounced. Also kind of asynchronous, different markets behaved differently, different geographies, behaving differently. So a lot to learn.

I will say that, first and foremost, I'm very proud of us keeping a steady hand on our ambition to act as owners that will own the company for decades. And what I mean by that, don't let the macroenvironment, if you will, change your steady hand on what you want to do long term. Treat your customers correctly. We didn't engage with deals like -- call them NCNRs. I think we kept pricing in a very responsible way. So I think we treated our customers very, very well.

We also supported growth in all markets, but also biased our supply towards the markets that we think are the most strategic for our future, which are industrial and automotive. I'm very pleased about that.

And in general, and I hear it from customers -- TI, oh thank God we listened to you. We wanted a deal, and you said you won't need it, and you were so right; now we have to work back some of the deals we have made with others.

So I think we got a lot of credit on that. Also the fact that we kept the pricing competitive is helping us now as we prepare for the next upcycle. So I'm very proud about that.

And most important thing for me, also continuing to build and invest in R&D through the cycle. Invest in capacity through the cycle rather than trying to manage a temporary or a specific year of free cash flow rather than looking at the longer-term plan for the company. So very, very proud about that.

We got a great support on the board, of course, from Rich and the entire team. So that was good.

Now, you asked about -- we can always do better. And you can see some of our actions right now are related to be even more prepared for the next opportunity. You see inventory being managed differently in TI. We are taking a higher, I think, advantage of the fact that we have a lot of diversity and longevity in our product portfolio that allows us to not wait for customers to put backlog on us, but rather build ahead and get ready, with a positive low risk.

We want to have enough of the -- on the shelves to service these customers when they discover they need it. And we can see it right now, even in this year, customers come to us last minute, and they need parts, and we can deliver it to them. So that is playing very well.

And maybe the most important point, as we discussed a minute ago, just getting the capacity ahead of the demand. So this is something that we are doing. I'm very pleased with the execution. We always say, oh, we wish we had some of that cleanroom built previously before the previous cycle, but it's definitely going to be there for the next cycle and beyond. And that's the exciting part, just getting ready for -- in a better way for the next opportunity when it presents itself.

Timothy Arcuri - *UBS - Analyst*

So can you talk a bit about the demand environment currently? Are you seeing customers come to you with more rush orders and more expedites where they say, I need it, and I need it now. And is that a good sign? Do you read it that as? Or would you say, just as many customers are saying, well, I'm still burning down inventory as customers that are coming to you saying, I need it and I need it now?

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

Yeah. As usual, the answer is it depends, and especially in this cycle; as I mentioned before, this cycle has been very unique in the sense of the asynchronous nature, or if you think about very different behavior by markets and also by geographies, if you will.

So give you an example, three markets, personal electronics, enterprise -- which is mainly kind of the cloud compute and high-performance compute -- communication. These markets are already in a recovery mode. I think PE started the earliest. Personal electronics started in the beginning of '23 kind of its recovery, and it's continuing. It's doing very well. This is where we see real-time orders coming in, and we are very pleased to support them, as you said. I think it's a very high level of customer service, and our customers appreciate that.

But I see also similar behavior on the comms and enterprise markets. Customers are discovering that they took inventory too low, and they need kind of a last-minute order, and we have it available for them, either on TI.com or through the backlog channel where -- however we do business with these customers. So that's going very, very well.

On the automotive market, it's mixed. So as I think I described in the last earnings call, we are seeing a very strong recovery in China. Q3 was a new record high for revenue on the automotive market, and the momentum is building over there. But if you take the other part of the automotive market, call it mainly Europe but also other geographies, it's just more muted. I think customers over there are going through some inventory digestion. So you're seeing a different phase of the automotive market.

And the industrial market is the one that has been the more persistent. I think this market is still working in some sectors. I would describe it as already hovering at kind of the bottom and maybe wanting to recover. In other areas, still working itself down, and a few sectors already growing. So it's a mix of sectors, and each and every one of them on the -- in a different phase.

The important point is that secular growth. Let's take the industrial market. If I look at the hundreds of end equipments, there is obvious secular growth. When I go look at architectures when we talk with our customers, there is more content per end equipment in the next generation versus the previous generation. So even with a flat unit count of the end equipment, we will see growth. This is why we call it secular growth. I think that's

coming. Each and every end equipment actually, not even sector, is in its phase, but one day, they'll all point in the right direction. And then I think this is where we can see a fast recovery.

Our job -- you guys do probably a better job -- is not to call when exactly it's going to happen, but we want to be prepared for any scenario. A slow recovery with one shape or a very fast recovery with a different shape. We want to be prepared with capacity, with inventory, with the right product portfolio for each and every case the market wants to throw at us and be successful in each case.

Timothy Arcuri - *UBS - Analyst*

Is there sort of anything in the last month or two that is encouraging to you? I asked this because we had a company that's levered to the auto industry yesterday, and we were speaking with them. And they were speaking about some recent green shoots and autos and mostly was China, but the comment was also even beyond China. So are you encouraged by what you've seen in the past couple of months? Or is it still -- you would just say it's mixed?

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

Look, I think I gave you a very high-level description of what we see in the market. And that's what we see in Q3. Regarding Q4, and you know us, Tim, let's let it play out. If there was something very special to call out, we will, but there is nothing special to call out. I think the environment I described is the mix between the different markets, and even different geographies within specific markets is very clear, and I expect that to continue into the future.

Timothy Arcuri - *UBS - Analyst*

Great. Let's talk about market share because this is an interesting question that your share quote of the analog market went down about 350 basis points versus what it was pre-COVID. Now, we can debate why that was. I think part of it was the fact that you didn't have enough capacity, and you talked about that. Part of it was that you don't have take-or-pays or NCNRs, and some of your peers did. And obviously, that's not coming back to bite them.

So can you talk about market share? And when I look at my competitors' estimates, they basically are sort of superimposing today as the base. And just growing you at an analog market growth. When really my contention would be that you ought to regain most, if not all, of that share over the next few years. How do you think about that share? Are you confident you're going to regain that share and sort of -- like what are the mileposts that you're looking at?

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

No, it's a great question, I think, and you kind of answered some of it already. But it's so complex, because there are so many ingredients. First, you have to look at the math, and market share is math, and I think the math is the math, right? So that's also what I use internally. Let's use it as a motivation to move even faster.

Second, you said it, there is timing. I mean we do know -- and you can see it in the numbers. We -- I think we started our decline a little earlier. We also have exposure to markets in a different way versus some of our competitors. And there was this asynchronous behavior. So there is a time element here that you want to let the cycle play out to really measure it over time. So some of it, I expect TI maybe to be maybe an early -- earlier adopter of the decline, but maybe also on the way up, we can be earlier than others. I don't know -- time will tell on that.

I think there is a pricing element. We -- I mentioned it before, we were very responsible. I'm very, very proud of that because I think it positions us to share gains in the future, meaning we stayed very competitive through the cycle. The team was very humble to understand market price and not rest under previous successes.

And on top of it, there is some share loss that, based on supply, I mentioned mainly in areas like personal electronics, communication, enterprise - this is where we had to make some tough choices. So yes, my expectation from the team is to use the score to motivate us to run faster and take back some of that share. Is that what I expect the team to do -- of course. Can I tell you it's going to happen? Again, we have to let it play out. But the culture should be -- always look at the score, acknowledge it, and act upon it. And that's the energy we drive with the team. Let's see what the market wants to do. Let's see how we behave inside this market.

I will say that I'm very pleased with our momentum. I think it's being built. We saw a clear -- if you look at the -- forget about TI marketwise. The market, from a unit perspective, troughed somewhere in the first quarter of 2024. We are seeing WSTS without memory units growing since then.

And I expect once the phases of hitting the bottom and starting growth goes through the entire set of market sectors, end equipments and geographies, we can go back to trend line. And I think right now, when the sun is down, some people think the sun will not shine again, to your point. I don't see it that way. I think secular growth is actually intensifying in our market, especially in industrial and automotive. And TI will be prepared to support it as the market goes back to trend line. And I will say, it will. I can't predict the exact time, but it always does, and it will.

Timothy Arcuri - *UBS - Analyst*

Can we talk about China, because China is an omnipresent debate for investors. The perception is that it's a melting ice cube because of all the money that they're investing in these lagging nodes. Can you talk about how competitive you are in China? In many ways, I see you as one of the only Western suppliers that can compete in China over the longer term. Can you kind of talk about that?

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

Sure. First, before we talk about the competition, I think the market is attractive, right? China is about short of 20% of world GDP. This is a market you don't want to ignore. It's also a fast-moving market and customer base. Very high willingness to adopt new solutions. And by that, very competitive.

Now you add -- especially in the last five to seven years, and we've been watching it for five to seven years -- a lot of emerging competition that I respect a lot. These guys are building parts that are competitive in many areas. They are still -- they don't have the breadth. They don't have internal capacity, so they have to share some of the margins with their foundries and their OSATs, but you do need to respect them. And I think they do beyond very simple parts. I see competition across our portfolio, at a 5-cent amplifier but also at high dollar amount of integrated radar on a chip, okay? We see competition across the board, and we respect the competition.

Having said that, I think our competitive advantages allow us to play the game in China. The fact that we are building our capacity internally, the fact that it does go into 300mm wafer fabs -- very, very modern, very, very attractive cost structure. Think about assembly and test. We are -- we own our technology. We own our capacity. We compare ourselves to the cost of the OSATs. We are very, very competitive. So it allows us through this vertical integration to support the market price that is usually set by the competition. We don't set the market price. It's set by the competition, and we can be very, very competitive.

To your point, I don't want to characterize as are we doing better than others. But I will say that I'm excited about the opportunity in China. I think we can not only play the game but also grow market share in China. That's actually the objective I have for the team.

And so far, so good. The customers respond very well to our competitiveness. They respond very well to the level of speed and energy that TI presents or displays. It also responds very well to our geopolitical dependable capacity. A lot of our customers in China, and this is not only OEMs -- I want you to think also Tier 1, think about automotive Tier 1s. They sell to everyone. They don't sell only to Chinese OEMs. They would sell to the European OEMs, to the American OEMs, to the Japanese OEMs. And our business in China is doing very well on both sides, both on the OEM side and the Tier 1s. They want geopolitical dependable capacity because they also have concerns about supply and what the world will throw at them in terms of restrictions. So in that sense, our strategy is very well-received, not only in the Western part of the world, but also in China with our China customers.

Timothy Arcuri - *UBS - Analyst*

Just on China also, there's a lot of talk about tariffs. And you have a back-end site in Chengdu. Have you begun a strategy to sort of hedge if you had to source back-end supply elsewhere, could you fully source it at other sites?

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

That's -- look, again, as I said, this -- our investment in internal capacity is a multiyear process. So as I said, we started it somewhere in 2020. We are well into it right now. I think it's a six-year process that we are almost 65% done. So very excited about that.

But it's not only dependable capacity, it's also very diverse. So if you think about, I mentioned China, think about China as about 20% of world GDP. How do you want your China assembly and test footprint to be versus your capacity? Probably 20%. And this is exactly how we are planning it.

So as we go become a more and more vertical integrated company in terms of supply, 95% of our parts built internally, you want to have -- you don't want to be overbiased toward China because who knows what the world wants to do in the future. So you align your Chengdu site to make sure that you can build every part that you've built in China also in Malaysia or in the Philippines. And you keep the scale of it at about 20%. So you can always -- if the world wants to decouple, you can do China for China and non-China for non-China. If the world stays open, and I hope it will, you can continue to have this diverse supply chain. Our customers in China and outside of China appreciate that. So TI -- and I'm hearing it again and again from the CEOs that I meet with, and that's from them -- TI is very, very unique in the sense of it has a diverse dependable capacity, at scale, which means that we have the footprint according to -- think about world GDP -- and at an affordable level.

So it's not only important to be dependable, you also need to be competitive. Our capacity is affordable, very, very appreciated by our customers, which I expect will allow us to win more market share in the future.

Timothy Arcuri - *UBS - Analyst*

Can we talk about the EV market in China? One surprise, I think, coming into earnings, everyone expected autos to be weak and expected industrial to maybe be getting a little better. And it was actually the opposite. Autos turned out -- not just for you, but for everybody -- autos was a bit better than feared during earnings, and industrial still was weaker or not getting better as people had hoped that it would.

Now, a lot of the auto story is in China, and that does appear to be better than what people thought. Can you talk about exactly what's going on in China, what the dynamics are? Is it all related to EV? Are there other factors at work?

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

Oh, I think we just touched it five minutes ago. It's a combination. So first EVs in China, highly adopted, it's already crossed the 50% or it's at equilibrium in new cars in China. I think it's 50-50 EVs, non-EVs. If you look at EVs, just more content, these are more the modern -- more modern, I would say, platforms. Just more content per vehicle, not only because of the EV portion, just more features inside the car.

And you add to that, I think the Chinese customers are doing well. I just mentioned the Tier 1s. I think they are winning market share worldwide, not only in China, and that also helps the growth in China. And inventory correction was just done earlier in China. Everything just goes -- happens faster in China. So we've seen a very quick inventory correction, maybe end of '23, bottomed in the beginning of '24 and then recovery since then -- a very, very rapid one. I think the Western part of the automotive market is still taking its time. I mean there is still some inventory digestion. And they -- that's why you see kind of a mixed performance on the automotive market.

But again, in general, in China, this is a big market both on the OEM ones and the Tier 1s, you want to play in both, and I think TI is well positioned to continue to do well over there.

Timothy Arcuri - *UBS - Analyst*

Can we talk about the CHIPS Act for a moment? It's both grants and it's ITC. The ITC seems pretty bulletproof. It's -- whenever you're investing and you're putting in the capacity, you get a credit against that. The grants are a different animal though. Could that change? So in the new administration, could there be maybe a renegotiation of the milestones to get the grant money? How do you sort of see the grants evolving?

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

Yes, as I said before, first on CHIPS, historic and very important for our future. I think -- I'm excited about it. As you know, TI was kind of a late announcer of -- on the PMT or preliminary terms that we agreed with the administration.

I will just comment, we haven't finalized our agreement. So I can't communicate anything new today, but I'll just say in general that we are very pleased with the collaboration, the speed of movement and I'm optimistic about the future over there. When we have something to announce, we will.

I won't comment about -- I won't speculate, let's say, what changes will be made. I just remain very optimistic about the CHIPS Act. I think it's important. I think people realize it, and we'll continue to work closely with the administration to make progress there.

Timothy Arcuri - *UBS - Analyst*

Can you walk us through sort of some of the qualification? I know Phase 1 of your current CapEx plan is largely a transfer story. You're moving 150mm production, moving it into RFAB and external foundry production MCUs moving into LFAB. How is the qualification process going?

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

Okay. No, it's a great question. I think it's important to understand part of the reason we are investing at a higher level of a higher capacity intensity in Phase 1 is just because we want to move more of our capacity internally. That's really the Lehi move that you've mentioned.

So in the Embedded business, used to be predominantly done on foundry, that's going to reverse. It's going to go inside TI, mainly in Lehi. And I'm very pleased about what's going on there. Look, our Embedded business is mainly an industrial and automotive business. Long design cycles by the customer. They take time to qualify the parts, but the execution has been going very well. We are done with 65nm. We are now on the 45nm node. And so far, so good, including high safety products in automotive. So that's going well.

On the 150, yeah, we have a couple of fabs that are last two fabs that run 6-inch, or 150mm wafer fabs. I'm excited about just putting this capacity in 300mm wafer fabs, most importantly, to secure supply for our customers for the next 40 years. These are parts -- some of them were done in the '80s, and they're still running in production. We don't want to run them on old technology. Actually, everything -- every time something breaks in a fab like that, you find yourself in a challenge to find even spare parts. So moving this capacity into our modern 300mm wafer fab is highly appreciated by our customers. And that process is going on right now. It's going well. Of course, when we are done, you shut down the 6-inch wafer fabs, and then you get a fall-through. Right now, there is not a challenge over there. It's just a lengthy process because we have thousands of different parts running on our 6-inch wafer fab, and it's an important execution to go through to qualify the parts and to move the customers into the modern technology. The exciting part is once you do it, you get the next 40 years at least of supply resiliency on the most modern and low-cost capacity of 300mm wafer fabs. So it's going well.

Timothy Arcuri - *UBS - Analyst*

Great. Can we talk about lead times and inventory management? You have stated eight to 12-week lead times. But in reality, your lead times are basically zero, because when a customer is on consignment, when they want it, they pull it. When they don't, they don't. Yet, you have a pretty advanced inventory management system, and you've moved away from build to order.

So can you talk a little bit about that? We all see the inventory number on your balance sheet so high, and I get asked the question all the time, don't you worry about that? Isn't that a problem? And I say, no, it's not. So I'm just I'm just sort of wondering how you think about the inventory model.

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

Yes, that's a great question. I think a lot of people just look at the numbers, and it looks like, why do you need all this inventory. But you're right that we are I think pioneers in thinking about inventory in semiconductors very differently than the past. I think the days of you just built to order on products shipping to multiple customers, multiple end equipment. Customers expect it to be on the shelf. And I think having them ready on the shelf, it's very high customer service, but that's not the objective. The objective is to win market share because of that, okay? And that's what exactly we are doing. And we've used kind of data, big data to analyze what parts have very low risk of obsolescence. Think about they have diversity. They have longevity. We have years of signals on these parts on real consumption. And let's get them built in a replenishment way. You think about how many of these parts can you hold or how many of this inventory can you hold on wafer stage or what we call -- some people call die bank -- we call it chip stock, what you hold in finished goods. And the math is related to the cycle time to build a new part. And also what type of surge you want to support, right? There's always going to be a surge that I won't have enough inventory to support. But we have informed ourselves through history, what type of market behavior in terms of demand we want to support.

And I have the best scientists on this problem. This is a very complex control problem with a lot of ingredients, with different cycle times for each part, different consumption signals of each part, and unknown consumption future. But when you start to use an algorithm and data to do that, you discover you can build your inventory in a very secure way, meaning no obsolescence, and then be always there for your customers. And it's more and more customers. Some of them never built electronics in their lives, moving into electronic systems. That allows us to serve them in a unique way.

That's part of our strategy. That's why you're seeing investment in inventory. I think it will prove itself in the next upcycle, whatever it wants to be, that TI can be very differentiated in its support level, and hopefully, that translates into market share gains.

Timothy Arcuri - *UBS - Analyst*

I do too. So we've run out of time. Thank you, Haviv.

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

Thank you, Tim. Thanks. Thanks for having us. Thanks.