



GLENN HEGAR TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

P.O.Box 13528 • Austin, TX 78711-3528

December 14, 2018

Sara Bronser
Superintendent
Plano Independent School District
2700 W. 15th Street
Plano, Texas 75075

Re: Certificate for Limitation on Appraised Value of Property for School District Maintenance and Operations taxes by and between Plano Independent School District and Texas Instruments Incorporated, Application 1286

Dear Superintendent Bronser:

On October 8, 2018, the Comptroller issued written notice that Texas Instruments Incorporated (applicant) submitted a completed application (Application 1286) for a limitation on appraised value under the provisions of Tax Code Chapter 313.¹ This application was originally submitted on August 21, 2018, to the Plano Independent School District (school district) by the applicant.

This presents the results of the Comptroller's review of the application and determinations required:

- 1) under Section 313.025(h) to determine if the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter B; and
- 2) under Section 313.025(d), to issue a certificate for a limitation on appraised value of the property and provide the certificate to the governing body of the school district or provide the governing body a written explanation of the Comptroller's decision not to issue a certificate, using the criteria set out in Section 313.026.

Determination required by 313.025(h)

Sec. 313.024(a) Applicant is subject to tax imposed by Chapter 171.
Sec. 313.024(b) Applicant is proposing to use the property for an eligible project.

¹ All Statutory references are to the Texas Tax Code, unless otherwise noted.

Sec. 313.024(d) Applicant has requested a waiver to create the required number of new qualifying jobs and pay all jobs created that are not qualifying jobs a wage that exceeds the county average weekly wage for all jobs in the county where the jobs are located.

Sec. 313.024(d-2) Not applicable to Application 1286.

Based on the information provided by the applicant, the Comptroller has determined that the property meets the requirements of Section 313.024 for eligibility for a limitation on appraised value under Chapter 313, Subchapter B.

Certificate decision required by 313.025(d)

Determination required by 313.026(c)(1)

The Comptroller has determined that the project proposed by the applicant is reasonably likely to generate tax revenue in an amount sufficient to offset the school district's maintenance and operations *ad valorem tax* revenue lost as a result of the agreement before the 25th anniversary of the beginning of the limitation period, see Attachment B.

Determination required by 313.026(c)(2)

The Comptroller has determined that the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in this state, see Attachment C.

Based on these determinations, the Comptroller issues a certificate for a limitation on appraised value. This certificate is contingent on the school district's receipt and acceptance of the Texas Education Agency's determination per 313.025(b-1).

The Comptroller's review of the application assumes the accuracy and completeness of the statements in the application. If the application is approved by the school district, the applicant shall perform according to the provisions of the Texas Economic Development Act Agreement (Form 50-826) executed with the school district. The school district shall comply with and enforce the stipulations, provisions, terms, and conditions of the agreement, applicable Texas Administrative Code and Chapter 313, per TAC 9.1054(i)(3).

This certificate is no longer valid if the application is modified, the information presented in the application changes, or the limitation agreement does not conform to the application. Additionally, this certificate is contingent on the school district approving and executing the agreement within a year from the date of this letter.

Note that any building or improvement existing as of the application review start date of October 8, 2018, or any tangible personal property placed in service prior to that date may not become "Qualified Property" as defined by 313.021(2) and the Texas Administrative Code.

Should you have any questions, please contact Will Counihan, Director, Data Analysis & Transparency, by email at will.counihan@cpa.texas.gov or by phone toll-free at 1-800-531-5441, ext. 6-0758, or at 512-936-0758.

Sincerely,



Lisa Craven
Deputy Comptroller

Enclosure

cc: Will Counihan

Attachment A – Economic Impact Analysis

The following tables summarize the Comptroller’s economic impact analysis of Texas Instruments Incorporated (project) applying to Plano Independent School District (district), as required by Tax Code, 313.026 and Texas Administrative Code 9.1055(d)(2).

Table 1 is a summary of investment, employment and tax impact of Texas Instruments Incorporated.

Applicant	Texas Instruments Incorporated
Tax Code, 313.024 Eligibility Category	Manufacturing
School District	Plano ISD
2017-2018 Average Daily Attendance	50,704
County	Collin
Proposed Total Investment in District	\$3,183,000,000
Proposed Qualified Investment	\$502,000,000
Limitation Amount	\$100,000,000
Qualifying Time Period (Full Years)	2021-2022
Number of new qualifying jobs committed to by applicant	7*
Number of new non-qualifying jobs estimated by applicant	0
Average weekly wage of qualifying jobs committed to by applicant	\$2,238.50
Minimum weekly wage required for each qualifying job by Tax Code, 313.021(5)(A)	\$2,238.50
Minimum annual wage committed to by applicant for qualified jobs	\$116,402
Minimum weekly wage required for non-qualifying jobs	\$1,246
Minimum annual wage required for non-qualifying jobs	\$64,792
Investment per Qualifying Job	\$454,714,285.71
Estimated M&O levy without any limit (15 years)	\$178,418,343
Estimated M&O levy with Limitation (15 years)	\$78,432,159
Estimated gross M&O tax benefit (15 years)	\$99,986,184

* Applicant is requesting district to waive requirement to create minimum number of qualifying jobs pursuant to Tax Code, 313.025 (f-1).

Table 2 is the estimated statewide economic impact of Texas Instruments Incorporated (modeled).

Year	Employment			Personal Income		
	Direct	Indirect + Induced	Total	Direct	Indirect + Induced	Total
2019	800	978	1778	\$34,084,000	\$86,916,000	\$121,000,000
2020	433	570	1003	\$19,572,546	\$59,427,454	\$79,000,000
2021	329	380	709	\$17,378,198	\$42,621,802	\$60,000,000
2022	436	440	876	\$23,025,242	\$50,974,758	\$74,000,000
2023	182	244	426	\$12,153,414	\$29,846,586	\$42,000,000
2024	547	643	1190	\$30,476,594	\$71,523,406	\$102,000,000
2025	325	450	775	\$21,418,670	\$51,581,330	\$73,000,000
2026	629	810	1439	\$37,310,958	\$92,689,042	\$130,000,000
2027	453	673	1126	\$29,712,046	\$80,287,954	\$110,000,000
2028	736	995	1731	\$44,995,682	\$122,004,318	\$167,000,000
2029	574	854	1428	\$37,551,878	\$110,448,122	\$148,000,000
2030	839	1,141	1980	\$51,885,438	\$154,114,562	\$206,000,000
2031	632	982	1614	\$41,309,814	\$139,690,186	\$181,000,000
2032	752	1,121	1873	\$47,923,494	\$168,076,506	\$216,000,000
2033	632	846	1478	\$41,309,814	\$141,690,186	\$183,000,000

Source: CPA REMI, Texas Instruments Incorporated

Table 3 examines the estimated direct impact on ad valorem taxes to the region if all taxes are assessed.

Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O	Tax Rate*	Plano ISD I&S Tax Levy	Plano ISD M&O Tax Levy	Plano M&O and I&S Tax Levies	Collin County Tax Levy	Richardson Tax Levy	Collin County Tax Levy	Estimated Total Property Taxes
				0.2690	1.1700		0.1923	0.6252	0.0798	
2020	\$195,000,000	\$195,000,000		\$524,550	\$2,281,500	\$2,806,050	\$374,888	\$1,219,062	\$155,630	\$4,555,629
2021	\$287,625,000	\$287,625,000		\$773,711	\$3,365,213	\$4,138,924	\$552,959	\$1,798,116	\$229,554	\$6,719,553
2022	\$329,184,375	\$329,184,375		\$885,506	\$3,851,457	\$4,736,963	\$632,857	\$2,057,929	\$262,722	\$7,690,471
2023	\$609,164,766	\$609,164,766		\$1,638,653	\$7,127,228	\$8,765,881	\$1,171,119	\$3,808,254	\$486,174	\$14,231,429
2024	\$626,794,646	\$626,794,646		\$1,686,078	\$7,333,497	\$9,019,575	\$1,205,013	\$3,918,469	\$500,245	\$14,643,302
2025	\$802,902,780	\$802,902,780		\$2,159,808	\$9,393,963	\$11,553,771	\$1,543,581	\$5,019,427	\$640,797	\$18,757,575
2026	\$886,198,961	\$886,198,961		\$2,383,875	\$10,368,528	\$12,752,403	\$1,703,718	\$5,540,161	\$707,275	\$20,703,557
2027	\$1,002,046,087	\$1,002,046,087		\$2,695,504	\$11,723,939	\$14,419,443	\$1,926,434	\$6,264,391	\$799,733	\$23,410,001
2028	\$1,048,590,735	\$1,048,590,735		\$2,820,709	\$12,268,512	\$15,089,221	\$2,015,916	\$6,555,370	\$836,880	\$24,497,386
2029	\$1,069,814,216	\$1,069,814,216		\$2,877,800	\$12,516,826	\$15,394,627	\$2,056,718	\$6,688,051	\$853,819	\$24,993,214
2030	\$1,046,106,411	\$1,046,106,411		\$2,814,026	\$12,239,445	\$15,053,471	\$2,011,140	\$6,539,839	\$834,898	\$24,439,347
2031	\$1,263,667,151	\$1,263,667,151		\$3,399,265	\$14,784,906	\$18,184,170	\$2,429,400	\$7,899,942	\$1,008,533	\$29,522,045
2032	\$1,190,541,972	\$1,190,541,972		\$3,202,558	\$13,929,341	\$17,131,899	\$2,288,817	\$7,442,792	\$950,172	\$27,813,680
2033	\$1,158,056,173	\$1,158,056,173		\$3,115,171	\$13,549,257	\$16,664,428	\$2,226,363	\$7,239,704	\$924,245	\$27,054,740
2034	\$1,169,080,018	\$1,169,080,018		\$3,144,825	\$13,678,236	\$16,823,061	\$2,247,556	\$7,308,621	\$933,043	\$27,312,281
2035	\$974,484,768	\$974,484,768		\$2,621,364	\$11,401,472	\$14,022,836	\$1,873,447	\$6,092,089	\$777,736	\$22,766,108
2036	\$837,991,899	\$837,991,899		\$2,254,198	\$9,804,505	\$12,058,703	\$1,611,039	\$5,238,790	\$668,801	\$19,577,334
2037	\$752,181,101	\$752,181,101		\$2,023,367	\$8,800,519	\$10,823,886	\$1,446,068	\$4,702,335	\$600,316	\$17,572,605
			Total	\$41,020,970	\$178,418,343	\$219,439,313	\$29,317,031	\$95,333,343	\$12,170,571	\$356,260,258

Source: CPA, Texas Instruments Incorporated

*Tax Rate per \$100 Valuation

Table 4 examines the estimated direct impact on ad valorem taxes to the school district and Collin County, with all property tax incentives sought being granted using estimated market value from the application. The project has applied for a value limitation under Chapter 313, Tax Code.

The difference noted in the last line is the difference between the totals in Table 3 and Table 4.

Year	Estimated Taxable Value for I&S	Estimated Taxable Value for M&O	Tax Rate*	Plano ISD I&S Tax Levy	Plano ISD M&O Tax Levy	Plano M&O and I&S Tax Levies	Collin County Tax Levy	Richardson Tax Levy	Collin County Tax Levy	Estimated Total Property Taxes	
				0.2690	1.1700		0.1923	0.6252	0.0798		
2020	\$195,000,000	\$195,000,000		\$524,550	\$2,281,500	\$2,806,050	\$374,888	\$1,219,062	\$155,630	\$4,400,000	
2021	\$287,625,000	\$287,625,000		\$773,711	\$3,365,213	\$4,138,924	\$552,959	\$1,798,116	\$229,554	\$6,489,999	
2022	\$329,184,375	\$329,184,375		\$885,506	\$3,851,457	\$4,736,963	\$632,857	\$2,057,929	\$262,722	\$7,427,749	
2023	\$609,164,766	\$100,000,000		\$1,638,653	\$1,170,000	\$2,808,653	\$1,171,119	\$3,808,254	\$486,174	\$7,788,027	
2024	\$626,794,646	\$100,000,000		\$1,686,078	\$1,170,000	\$2,856,078	\$1,205,013	\$3,918,469	\$500,245	\$7,979,560	
2025	\$802,902,780	\$100,000,000		\$2,159,808	\$1,170,000	\$3,329,808	\$1,543,581	\$5,019,427	\$640,797	\$9,892,816	
2026	\$886,198,961	\$100,000,000		\$2,383,875	\$1,170,000	\$3,553,875	\$1,703,718	\$5,540,161	\$707,275	\$10,797,754	
2027	\$1,002,046,087	\$100,000,000		\$2,695,504	\$1,170,000	\$3,865,504	\$1,926,434	\$6,264,391	\$799,733	\$12,056,329	
2028	\$1,048,590,735	\$100,000,000		\$2,820,709	\$1,170,000	\$3,990,709	\$2,015,916	\$6,555,370	\$836,880	\$12,561,995	
2029	\$1,069,814,216	\$100,000,000		\$2,877,800	\$1,170,000	\$4,047,800	\$2,056,718	\$6,688,051	\$853,819	\$12,792,569	
2030	\$1,046,106,411	\$100,000,000		\$2,814,026	\$1,170,000	\$3,984,026	\$2,011,140	\$6,539,839	\$834,898	\$12,535,005	
2031	\$1,263,667,151	\$100,000,000		\$3,399,265	\$1,170,000	\$4,569,265	\$2,429,400	\$7,899,942	\$1,008,533	\$14,898,606	
2032	\$1,190,541,972	\$100,000,000		\$3,202,558	\$1,170,000	\$4,372,558	\$2,288,817	\$7,442,792	\$950,172	\$14,104,167	
2033	\$1,158,056,173	\$1,158,056,173		\$3,115,171	\$13,549,257	\$16,664,428	\$2,226,363	\$7,239,704	\$924,245	\$26,130,495	
2034	\$1,169,080,018	\$1,169,080,018		\$3,144,825	\$13,678,236	\$16,823,061	\$2,247,556	\$7,308,621	\$933,043	\$26,379,238	
2035	\$974,484,768	\$974,484,768		\$2,621,364	\$11,401,472	\$14,022,836	\$1,873,447	\$6,092,089	\$777,736	\$21,988,372	
2036	\$837,991,899	\$837,991,899		\$2,254,198	\$9,804,505	\$12,058,703	\$1,611,039	\$5,238,790	\$668,801	\$18,908,533	
2037	\$752,181,101	\$752,181,101		\$2,023,367	\$8,800,519	\$10,823,886	\$1,446,068	\$4,702,335	\$600,316	\$16,972,290	
				Total	\$41,020,970	\$78,432,159	\$119,453,129	\$29,317,031	\$95,333,343	\$12,170,571	\$244,103,503
				Diff	\$0	\$99,986,184	\$99,986,184	\$0	\$0	\$0	\$112,156,755

Assumes School Value Limitation and Tax Abatements with the County.

Source: CPA, Texas Instruments Incorporated

*Tax Rate per \$100 Valuation

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Attachment B – Tax Revenue before 25th Anniversary of Limitation Start

This represents the Comptroller’s determination that Texas Instruments Incorporated (project) is reasonably likely to generate, before the 25th anniversary of the beginning of the limitation period, tax revenue in an amount sufficient to offset the school district maintenance and operations ad valorem tax revenue lost as a result of the agreement. This evaluation is based on an analysis of the estimated M&O portion of the school district property tax levy directly related to this project, using estimated taxable values provided in the application.

	Tax Year	Estimated ISD M&O Tax Levy Generated (Annual)	Estimated ISD M&O Tax Levy Generated (Cumulative)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Annual)	Estimated ISD M&O Tax Levy Loss as Result of Agreement (Cumulative)
Limitation Pre-Years	2020	\$2,281,500	\$2,281,500	\$0	\$0
	2021	\$3,365,213	\$5,646,713	\$0	\$0
	2022	\$3,851,457	\$9,498,170	\$0	\$0
Limitation Period (10 Years)	2023	\$1,170,000	\$10,668,170	\$5,957,228	\$5,957,228
	2024	\$1,170,000	\$11,838,170	\$6,163,497	\$12,120,725
	2025	\$1,170,000	\$13,008,170	\$8,223,963	\$20,344,688
	2026	\$1,170,000	\$14,178,170	\$9,198,528	\$29,543,215
	2027	\$1,170,000	\$15,348,170	\$10,553,939	\$40,097,155
	2028	\$1,170,000	\$16,518,170	\$11,098,512	\$51,195,666
	2029	\$1,170,000	\$17,688,170	\$11,346,826	\$62,542,493
	2030	\$1,170,000	\$18,858,170	\$11,069,445	\$73,611,938
	2031	\$1,170,000	\$20,028,170	\$13,614,906	\$87,226,843
	2032	\$1,170,000	\$21,198,170	\$12,759,341	\$99,986,184
Maintain Viable Presence (5 Years)	2033	\$13,549,257	\$34,747,427	\$0	\$99,986,184
	2034	\$13,678,236	\$48,425,663	\$0	\$99,986,184
	2035	\$11,401,472	\$59,827,135	\$0	\$99,986,184
	2036	\$9,804,505	\$69,631,640	\$0	\$99,986,184
	2037	\$8,800,519	\$78,432,159	\$0	\$99,986,184
Additional Years as Required by 313.026(c)(1) (10 Years)	2038	\$7,962,438	\$86,394,597	\$0	\$99,986,184
	2039	\$7,488,884	\$93,883,481	\$0	\$99,986,184
	2040	\$7,091,898	\$100,975,379	\$0	\$99,986,184
	2041	\$6,795,823	\$107,771,202	\$0	\$99,986,184
	2042	\$6,598,959	\$114,370,161	\$0	\$99,986,184
	2043	\$6,420,094	\$120,790,256	\$0	\$99,986,184
	2044	\$6,301,501	\$127,091,757	\$0	\$99,986,184
	2045	\$6,186,005	\$133,277,762	\$0	\$99,986,184
	2046	\$6,073,527	\$139,351,290	\$0	\$99,986,184
	2047	\$5,963,994	\$145,315,283	\$0	\$99,986,184

\$145,315,283

is greater than

\$99,986,184

Analysis Summary

Is the project reasonably likely to generate tax revenue in an amount sufficient to offset the M&O levy loss as a result of the limitation agreement?

Yes

NOTE: The analysis above only takes into account this project's estimated impact on the M&O portion of the school district property tax levy directly related to this project.

Source: CPA, Texas Instruments Incorporated

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Attachment C – Limitation as a Determining Factor

Tax Code 313.026 states that the Comptroller may not issue a certificate for a limitation on appraised value under this chapter for property described in an application unless the comptroller determines that “the limitation on appraised value is a determining factor in the applicant’s decision to invest capital and construct the project in this state.” This represents the basis for the Comptroller’s determination.

Methodology

Texas Administrative Code 9.1055(d) states the Comptroller shall review any information available to the Comptroller including:

- the application, including the responses to the questions in Section 8 (Limitation as a Determining Factor);
- public documents or statements by the applicant concerning business operations or site location issues or in which the applicant is a subject;
- statements by officials of the applicant, public documents or statements by governmental or industry officials concerning business operations or site location issues;
- existing investment and operations at or near the site or in the state that may impact the proposed project;
- announced real estate transactions, utility records, permit requests, industry publications or other sources that may provide information helpful in making the determination; and
- market information, raw materials or other production inputs, availability, existing facility locations, committed incentives, infrastructure issues, utility issues, location of buyers, nature of market, supply chains, other known sites under consideration.

Determination

The Comptroller **has determined** that the limitation on appraised value is a determining factor in the Texas Instruments Incorporated’s decision to invest capital and construct the project in this state. This is based on information available, including information provided by the applicant. Specifically, the comptroller notes the following:

- Per Texas Instruments Incorporated in Tab 5 of their Application for a Limitation on Appraised Value:
 - A. “Currently, TI is reviewing its options for expanding semiconductor wafer fabrication capacity. These options include the possibilities of acquiring an existing factory operation or constructing a new 300 mm plant.”
 - B. “In connection with the option to construct a new plant, TI is evaluating three possible locations: Singapore; Utica, New York; and Richardson, Texas.”
 - C. “New York and Singapore are both offering significant and competitive incentives (e.g., tax, capital grant, training, utilities, etc.). Governmental agencies in each of New York and Singapore are involved in discussions with TI and are working hard to prevail in the site-selection process. TI has modeled the financial impact of the locations and various packages (both which are subject to an NDA).”
 - D. “As part of the developmental process for evaluating the New York location, TI has met with officials from the offices of Empire State Development, Mohawk Valley EDGE, and the Marcy Nanocenter; reviewed a proposed site; reviewed a comprehensive quantitative workforce analysis of the area, including demographics, education, and compensation; and negotiated an incentives package for an investment.”
 - E. “Additionally, TI has had a long-term knowledge of the extensive wafer fabrication operations in Singapore and the ecosystem the government has established to support it, in part because TI formerly operated a wafer production joint venture—partnering with the Singapore government and two other investors.”
 - F. “TI has not made any public announcements of its intent to expand wafer fabrication capacity. On a May 15, 2018 shareholder conference call, TI’s COO responded to a question regarding possible expansion, saying: “We have multiple options and we’re constantly looking at those

options. You could buy a used facility. You could build onto an existing location that we have, like you mentioned, if we had had space or land available. You could also go depending on incentives or other things like that and different even states in the U.S., you could go to a whole new location if you wanted, and build brand new if you wanted.”

- G. In their Tab 5 Texas Instruments Incorporated included a chart that demonstrated that the two other proposed locations would both offer between \$1.3M and \$4.1M annual savings compared to Texas. Additionally, with “respect to other incentives offered, including tax abatement and grants, Location 1’s offer is approximately \$622M more in savings than projected savings in Richardson, TX and Location 2’s offer is approximately \$214M more in savings than projected savings in Richardson, TX.”
- H. “There are likely certain advantages to TI choosing the alternate sites. But TI will consider all relevant factors before deciding where to build its facility—making a decision based on what will provide the greatest return on investment for its shared holders. A 313 agreement is paramount to the economics of the Texas location.”
- On August 30, 2018 Comptroller Glenn Hegar tweeted the following “Great news! @TXInstruments will be expanding in N. Richardson. Along with the expansion will come 650 new jobs and \$3.2 billion invested in the local economy.” Texas Instruments Incorporated addressed this announcement in their Tab 5 with the following: “Comptroller Hegar is incorrect in his suggestion that TI has decided where to build its contemplated expansion. Comptroller Hegar’s mistaken assertion appears to be based entirely on a NASDAQ.com article that he linked in his tweet, and which is attached to this Tab 5, but which does not commit TI to the N. Richardson location. This article, written by Zacks Equity Research is unaffiliated with TI and does not provide any quotes or citations in support of its claims. Presumably, the author based the entire article on TI’s public 313 application, which was posted on PISD’s website.”
- Per an August 24, 2018 *Dallas News* article:
 - A. Anand Srinivasan, a semiconductor analyst for Bloomberg, states that “Even aside from possible tax incentives, Dallas-Fort Worth has an edge.”
 - B. “Texas Instruments has numerous factories at 15 manufacturing sites across the globe, including Germany, China and Mexico. But the company, which began in 1930 as Geophysical Service, has long emphasized domestic production and it has long roots in Dallas.”
 - C. “They have always had very inexpensive land,” Srinivasan said. “They have always manufactured here. There are legacy factories. Once you start using them, the depreciation costs taken into account, there’s no reason for you to move unless the cost of manufacturing is so low in other countries.”
 - D. “TI’s most recent manufacturing expansions have also been in North Texas with a Dallas facility that began production in 2002 and a Richardson facility in 2010.”
 - E. “They use pricey equipment that Texas Instruments bought for a discount several years ago after Qimonda, a semiconductor company that made memory for computers, filed for bankruptcy.”
 - F. “The potential facility in Richardson could be a place to grow that kind of manufacturing, Srinivasan said. It could also use the other half of the discounted equipment TI acquired, which has been mothballed. By opening another 300-millimeter facility near its others, the company could boost efficiency by sharing equipment, personnel and logistics, he said.”
- Per the Texas Instrument Incorporated Investor Relations presentation about their Capital Management Strategy, dated February 6, 2018:
 - A. “Our 300mm Analog manufacturing strategy is a unique advantage and will provide benefits for a long time.”
 - B. We plan “to continue to ramp 300mm Analog” at their RFAB and DMOS6 facilities and the “impact of 300mm Analog is just beginning”
- A November 17, 2017 *Forbes* article stated the following:
 - A. Texas Instruments “is also extensively focusing on the 300-millimeter analog fabrication vertical as 300 mm wafers cost about 40% less than an unpackaged chip built on 200-millimeter wafers, the size used by many of TI’s competitors.”

- B. "The company is increasing its manufacturing footprint for 300mm wafers, so the company will be able to support about \$8 billion of annual Analog revenue on 300-millimeter wafers.
- C. "The proportion of TI's revenues from 300mm production is likely to increase in the coming years, driving the company's margins higher. To increase its 300mm production, the company is likely to ramp up its production from RFAB and DMOS6 facilities, which cater to 300mm production, and were largely under-utilized until 2016. TI's RFAB and DMOS6 production facilities were operating at 45% and 25% of their full production capacity, respectively."
- Additional information provided by Texas Instruments confirms that TI currently only operates two 300mm fabrication facilities--"RFab" in Richardson, and "DMOS6" in Dallas.

Supporting Information

- a) Section 8 of the Application for a Limitation on Appraised Value
- b) Attachments provided in Tab 5 of the Application for a Limitation on Appraised Value
- c) Additional information provided by the Applicant or located by the Comptroller

Disclaimer: This examination is based on information from the application submitted to the school district and forwarded to the comptroller. It is intended to meet the statutory requirement of Chapter 313 of the Tax Code and is not intended for any other purpose.

Supporting Information

**Section 8 of the Application for
a Limitation on Appraised Value**

SECTION 6: Eligibility Under Tax Code Chapter 313.024

1. Are you an entity subject to the tax under Tax Code, Chapter 171? Yes No
2. The property will be used for one of the following activities:
 - (1) manufacturing Yes No
 - (2) research and development Yes No
 - (3) a clean coal project, as defined by Section 5.001, Water Code Yes No
 - (4) an advanced clean energy project, as defined by Section 382.003, Health and Safety Code Yes No
 - (5) renewable energy electric generation Yes No
 - (6) electric power generation using integrated gasification combined cycle technology Yes No
 - (7) nuclear electric power generation Yes No
 - (8) a computer center that is used as an integral part or as a necessary auxiliary part for the activity conducted by applicant in one or more activities described by Subdivisions (1) through (7) Yes No
 - (9) a Texas Priority Project, as defined by 313.024(e)(7) and TAC 9.1051 Yes No
3. Are you requesting that any of the land be classified as qualified investment? Yes No
4. Will any of the proposed qualified investment be leased under a capitalized lease? Yes No
5. Will any of the proposed qualified investment be leased under an operating lease? Yes No
6. Are you including property that is owned by a person other than the applicant? Yes No
7. Will any property be pooled or proposed to be pooled with property owned by the applicant in determining the amount of your qualified investment? Yes No

SECTION 7: Project Description

1. In **Tab 4**, attach a detailed description of the scope of the proposed project, including, at a minimum, the type and planned use of real and tangible personal property, the nature of the business, a timeline for property construction or installation, and any other relevant information.
2. Check the project characteristics that apply to the proposed project:

<input type="checkbox"/> Land has no existing improvements	<input checked="" type="checkbox"/> Land has existing improvements <i>(complete Section 13)</i>
<input checked="" type="checkbox"/> Expansion of existing operation on the land <i>(complete Section 13)</i>	<input type="checkbox"/> Relocation within Texas

SECTION 8: Limitation as Determining Factor

1. Does the applicant currently own the land on which the proposed project will occur? Yes No
2. Has the applicant entered into any agreements, contracts or letters of intent related to the proposed project? Yes No
3. Does the applicant have current business activities at the location where the proposed project will occur? Yes No
4. Has the applicant made public statements in SEC filings or other documents regarding its intentions regarding the proposed project location? Yes No
5. Has the applicant received any local or state permits for activities on the proposed project site? Yes No
6. Has the applicant received commitments for state or local incentives for activities at the proposed project site? Yes No
7. Is the applicant evaluating other locations not in Texas for the proposed project? Yes No
8. Has the applicant provided capital investment or return on investment information for the proposed project in comparison with other alternative investment opportunities? Yes No
9. Has the applicant provided information related to the applicant's inputs, transportation and markets for the proposed project? Yes No
10. Are you submitting information to assist in the determination as to whether the limitation on appraised value is a determining factor in the applicant's decision to invest capital and construct the project in Texas? Yes No

Chapter 313.026(e) states "the applicant may submit information to the Comptroller that would provide a basis for an affirmative determination under Subsection (c)(2)." If you answered "yes" to any of the questions in Section 8, attach supporting information in Tab 5.

Supporting Information

**Attachments provided in Tab 5
of the Application for a
Limitation on Appraised Value**

Tab 5

***Information Supporting Limitation as a Determining Factor
and Explanation of Affirmative Answers in Section 8***

Texas Instruments Incorporated (Texas Instruments or TI) takes a disciplined, long-term approach to capital investment. TI consistently evaluates manufacturing capacity needs and conducts extensive evaluation of all options before making any final investment decision. Key decision-making factors in our analysis are economic return and cash flow, including any related property tax burden.

Currently, TI is reviewing its options for expanding semiconductor wafer fabrication capacity. These options include the possibilities of acquiring an existing factory operation or constructing a new 300mm plant. In connection with the option to construct a new plant, TI is evaluating three possible locations: Singapore; Utica, New York; and Richardson, Texas. TI believes each of these sites has the infrastructure and skilled workforce necessary for TI to build, and successfully operate, a semiconductor manufacturing site. New York and Singapore are both offering significant and competitive incentives (e.g., tax, capital grant, training, utilities, etc.). Governmental agencies in each of New York and Singapore are involved in discussions with TI and are working hard to prevail in the site-selection process. TI has modeled the financial impact of the locations and various packages (both which are subject to an NDA).

As part of the developmental process for evaluating the New York location, TI has met with officials from the offices of Empire State Development, Mohawk Valley EDGE, and the Marcy Nanocenter; reviewed a proposed site; reviewed a comprehensive quantitative workforce analysis of the area, including demographics, education, and compensation; and negotiated an incentives package for an investment. TI has similarly met with officials from the Economic Development Board of Singapore and negotiated an incentive package. Additionally, TI has had a long-term knowledge of the extensive wafer fabrication operations in Singapore and the ecosystem the government has established to support it, in part because TI formerly operated a wafer fabrication joint venture—partnering with the Singapore government and two other investors.

TI has not made any public announcements of its intent to expand wafer fabrication capacity. On a May 15, 2018 shareholder conference call, TI's COO responded to a question regarding possible expansion, saying: "We have multiple options and we're constantly looking at those options. You could buy a used facility. You could build onto an existing location that we have, like you mentioned, if we had had space or land available. You could also go depending on incentives or other things like that and different even states in the U.S., you could go to a whole new location if you wanted, and build brand new if you wanted. So I think there are going to be a lot of different options that we can look at, whether it's new in a new location, new in an existing location, or a used facility that may come up that we can look at."

Below is a chart that compares the incentive programs and estimated savings in the two other locations we are considering with Richardson, TX. With respect to water & sewer costs, Location 1's offer is approximately \$1.3M per year less than projected costs in Richardson, TX, and Location 2's offer is

approximately \$4.1M per year less than projected costs in Richardson, TX. With respect to other incentives offered, including tax abatement and grants, Location 1’s offer is approximately \$622M more in savings than projected savings in Richardson, TX and Location 2’s offer is approximately \$214M more in savings than projected savings in Richardson, TX. There are likely certain advantages to TI choosing the alternate sites. But TI will consider all relevant factors before deciding where to build its facility—making a decision based on what will provide the greatest return on investment for its shareholders. A 313 agreement is paramount to the economics of the Texas location.

Incentive Program Comparison to TX

Incentives	Location 1	Location 2
Water & Sewer	~\$1.3M/Y savings compared to TX	~\$4.1M/Y savings compared to TX
Other (tax, capital grant, training, etc.)	~\$622M more in savings than what is projected in TX	~\$214M more in savings than what is projected in TX

Finally, on August 30, 2018, Comptroller Glenn Hegar tweeted from his personal twitter account, “Great news! @TXInstruments will be expanding in N. Richardson. Along with the expansion will come 650 new jobs and \$3.2 billion invested in the local economy.” Comptroller Hegar is incorrect in his suggestion that TI has decided where to build its contemplated expansion. Comptroller Hegar’s mistaken assertion appears to be based entirely on a NASDAQ.com article that he linked in his tweet, and which is attached to this Tab 5, but which does not commit TI to the N. Richardson location.

This article, written by Zacks Equity Research, is unaffiliated with TI and does not provide any quotes or citations in support of its claims. Presumably, the author based the entire article on TI’s public 313 application, which was posted on PISD’s website. For example, the article states that TI “plans to use \$500 million for new buildings or other non-removable improvements to the property...” This data point and use of “new buildings” and “non-removable” appear to be pulled directly from Schedule A2 of TI’s application. The article’s opening sentence—“Texas Instruments TXN plans to consider North Richardson manufacturing facility to increase its manufacturing capacity...” —is clearly accurate, but any insinuation that TI has decided on a location for the expansion is incorrect.



Glenn Hegar ✓

@Glenn_Hegar

Follow

Great news! **@TXInstruments** will be expanding in N. Richardson. Along with the expansion will come 650 new jobs and \$3.2 billion invested in the local economy.



Texas Instruments Plans to Add New Facility for Expansion

Texas Instruments TXN plans to consider North Richardson manufacturing facility to increase its manufacturing capacity, in an attempt to leverage.

nasdaq.com

11:30 AM - 30 Aug 2018

Texas Instruments Plans to Add New Facility for Expansion

By: Zacks.com

Posted: 8/23/2018 9:19:00 AM

Referenced Stocks: RMBS;IFNNY;CRUS;TXN

Texas Instruments [TXN](#) plans to consider North Richardson manufacturing facility to increase its manufacturing capacity, in an attempt to leverage benefits from the growing demand for the company's products.

Reportedly, Texas Instruments plans to invest \$3.2 billion in the project and bring an estimated 650 new jobs to Richardson by 2030. The construction on the property is expected to begin in 2019, with commercial operations slated to begin in the first quarter of 2022.

Notably, the stock has underperformed the industry in the past 12 months. It has gained 38.7% compared with the [industry](#)'s growth of 41.3%.

Business Strengthening Through Capacity Expansion

Capacity expansion has been a priority for Texas Instruments over time. Its capital allocation policy primarily includes acquisitions of meaningful businesses, returning capital to its shareholders and investing in research and development activities, as well as in equipment and manufacturing facilities.

Out of the \$3.2 billion to be invested in the Richardson manufacturing facility project, Texas Instruments plans to use \$500 million for new buildings or other non-removable improvements to the property, and the remaining \$2.7 billion for items such as computers, machinery or other movable goods.

Reportedly, the company already has 15 manufacturing sites in nine countries. Also, the deal is expected to save the company from paying \$100 million in property taxes over the span of a decade.

Bright Growth Prospects

Constant innovation of products, differentiation in business and manufacturing efficiencies that <https://www.nasdaq.com/aspx/stockmarketnewsstoryprint.aspx?storyid=texas-instruments-plans-to-add-new-facility-for-expansion-cm1011958>

include growing 300-millimeter Analog output, increasing exposure in growth markets, especially industrial and automotive markets, are increasingly proving to be advantageous for the company. We believe that Texas Instruments is uniquely positioned to leverage benefits from such favorable market trends. In addition, the company is working toward expanding its geographical footprint, adding new customers, focusing on developing new manufacturing processes and offering improvised products.

For the third quarter, Texas Instruments anticipates revenues between \$4.11 billion and \$4.45 billion (up 7% sequentially at the midpoint of the guided range). Earnings for the quarter are expected in the range of \$1.41-\$1.63 per share. The guidance includes an estimated \$10 million discrete tax benefit.

In the past 60 days, 11 estimates for 2018 and 10 estimates for 2019 have been revised upward. The Zacks Consensus Estimate is now pegged at \$5.66 for 2018 and \$6.12 for 2019, reflecting growth of 32.2% and 8.2% from 60 days ago respective tallies.

Texas Instruments Incorporated Price and Consensus

[Texas Instruments Incorporated Price and Consensus](#) | [Texas Instruments Incorporated Quote](#)

Zacks Rank & Other Stocks to Consider

Currently, Texas Instruments has a Zacks Rank #2 (Buy). Other top-ranked stocks in the technology sector are Cirrus Logic, Inc. [CRUS](#) , Infineon Technologies AG [IFNNY](#) and Rambus Inc. [RMBS](#) , each carrying a Zacks Rank #2. You can see [the complete list of today's Zacks #1 Rank \(Strong Buy\) stocks here](#) .

Long-term earnings growth for Cirrus Logic, Infineon Technologies and Rambus is currently projected to be 15%, 7.5% and 10%, respectively.

The Hottest Tech Mega-Trend of All

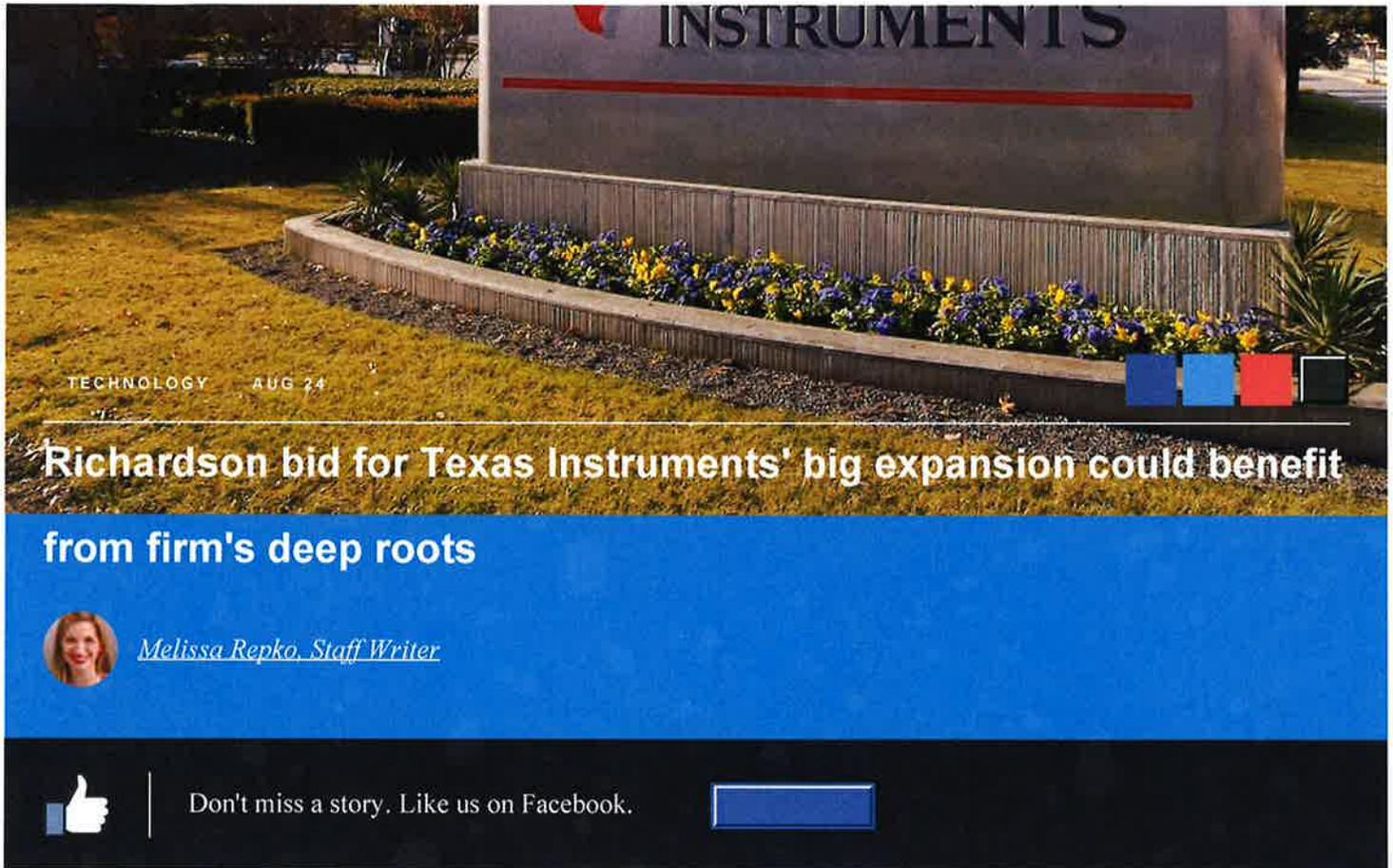
Last year, it generated \$8 billion in global revenues. By 2020, it's predicted to blast through the roof to \$47 billion. Famed investor Mark Cuban says it will produce ""the world's first trillionaires,"" but that should still leave plenty of money for regular investors who make the right trades early.

[See Zacks' 3 Best Stocks to Play This Trend >>](#)

Want the latest recommendations from Zacks Investment Research? Today, you can download 7 Best Stocks for the Next 30 Days. [Click to get this free report](#)

Supporting Information

Additional information
provided by the Applicant or
located by the Comptroller



If history is a guide, North Texas is a strong contender to land Texas Instruments' next major manufacturing facility.

The Dallas-based semiconductor company recently revealed plans for a potential new facility in Richardson that it says could amount to \$3.2 billion of investment and create as many as 625 jobs. It described the proposal in an application for a 10-year tax incentive agreement worth tens of millions of dollars with Plano ISD, the school district in which the new facility would be based.

The site would make wafers that later get sliced and diced into chips used in personal electronics, cars and industrial equipment. But Texas Instruments has provided few specifics.

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TEXAS INSTRUMENTS

The company wrote in the application that it owned the land in Richardson and already has operations there, but did not list an address. The company checked a box saying it is considering sites outside of Texas, but did not name the cities, states or countries of those possible sites.

If Texas Instruments decides on Richardson for the facility, it said in the application that construction would begin in the late summer or early fall of 2019. Commercial operations would start in early 2022.

"Our strategy has long been to ensure we have capacity ahead of demand to support our customers' growth, and we're in the research phase of exploring options," company spokeswoman Nicole Bernard said in an email.

Bernard said the application for tax incentives is "one step in a strategic decision process, allowing us to keep our options open without yet committing to a particular site location."

She declined to provide more details, citing competitive reasons.

Texas Instruments said in the application that it also planned to seek property tax breaks from the city of Richardson and Collin County, which could be worth up to \$8.9 million more.

Bill Sproull, president and CEO of the Richardson Chamber of Commerce, said the business group is "obviously excited about the opportunity" to reel in that level of investment.

"We worked on the original deal that brought the [Texas Instruments] investment to Richardson, and we think we're going to be competitive," he said.



TECHNOLOGY

Plano ISD spokeswoman Leslie Range-Stanton said the school board will vote on whether to approve the agreement in the next three to six months. She said it has only approved one other similar tax incentive agreement through a program known as Chapter 313 after its section of the state tax code. That was with Texas Instruments in 2004.

Even aside from possible tax incentives, Dallas-Fort Worth has an edge, said Anand Srinivasan, a semiconductor analyst for Bloomberg.

Texas Instruments has numerous factories at 15 manufacturing sites across the globe, including Germany, China and Mexico. But the company, which began in 1930 as Geophysical Service, has long emphasized domestic production, and it has long roots in Dallas.

"They have always had very inexpensive land," Srinivasan said. "They have always manufactured here. These are legacy factories. Once you start using them, the depreciation costs taken into account, there's no reason for you to move unless the cost of manufacturing is so low in other countries."

Only 13 percent of the company's revenue is imported into the United States, its chief financial officer Rafael Lizardi said in late July in the company's earnings call. For the three-month period covering April to June, TI's revenue rose 9 percent due to what it described as strong demand in the industrial and automotive markets.

TI's most recent manufacturing expansions have also been in North Texas with a Dallas facility that began production in 2002 and a Richardson facility in 2010.

The factories have advanced equipment that makes 300-millimeter wafers. The wafers, larger than those made by other TI factories, can each make more chips — which then can lead to higher revenue.

They use pricey equipment that Texas Instruments bought for a discount several years ago after Qimonda, a semiconductor company that made memory for computers, filed for bankruptcy.

Texas Instruments CEO Richard Templeton said ramping up production of 300-millimeter wafers is a key part of its business strategy. At a KeyBanc Capital Markets technology conference in mid-August, he said building a chip on a 300-millimeter wafer, instead of a 200-millimeter wafer, costs about 40 percent less.

“So, why do we love more 300-millimeter capacity as a percent of our total? Half our cost of goods are going to have a 40 percent cost advantage over a competitor,” he said. “Okay? That’s a wonderful thing.”

Lizardi also told investors in July’s earnings call to expect the company to invest significant capital into expanding production of the larger wafers.

The potential facility in Richardson could be a place to grow that kind of manufacturing, Srinivasan said. It could also use the other half of the discounted equipment TI acquired, which has been mothballed.

By opening another 300-millimeter facility near its others, the company could boost efficiency by sharing equipment, personnel and logistics, he said.

Staff writer Jill Cowan contributed to this report.



Business Briefing

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Capital management strategy

Rafael Lizardi

Senior vice president, chief financial officer

Dave Pahl

Vice president, head of investor relations

February 6, 2018

Agenda for this call

- Capital management strategy and scorecard
- Historical view of our capital allocation
- R&D allocation priorities and results
- 300mm Analog update
- Free cash flow* growth results and outlook
- Cash returns
 - Share repurchases
 - Dividends

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

Key takeaways from our discussion today

- We remain focused on consistent execution of our capital management strategy.
- Our business model is designed around four sustainable competitive advantages. We invest with a long-term view to strengthen and leverage these competitive advantages.
- Our disciplined allocation of resources to R&D and our initiatives are delivering growth in the best products (analog and embedded) and the best markets (industrial and automotive).
- Our 300mm Analog manufacturing strategy is a unique advantage and will provide benefits for a long time.
- We remain committed to returning free cash flow to owners.

Grow, generate *and* return

- TI is in a unique class of companies able to **grow, generate *and* return cash** to shareholders for a long time to come.
- Focused on **best products** and **best markets** within the semiconductor industry:
 - Best products: analog and embedded – large, fragmented, used in everything electronic
 - Best markets: industrial and automotive – fastest growing due to increasing content
- Our business model is designed around **four competitive advantages**:
 - Manufacturing and technology
 - Broadest portfolio of analog and embedded products
 - Reach of market channels
 - Diverse and long-lived positions (high terminal value)

Capital management: **objective and strategy**

Objective:

Maximize long-term growth of free cash flow per share

Strategy:

1. **Great business model:** built around four sustainable competitive advantages
2. **Discipline:** allocate capital to the best opportunities
3. **Efficiency:** constantly strive for more output per \$ of input

Capital management strategy: **business model, discipline and efficiency**

Great
business model

Cash
availability

Strong
balance sheet

Investments for
competitive
advantage

Cash returns

Analog &
Embedded



Effective tax
strategy

Funded
pensions
Debt

Technology
capability

Manufacturing
capacity

Channel
advantages

Working capital

Acquisitions

Dividends

Repurchases

Debt repayment

Uses of cash

Capital management 2017 scorecard

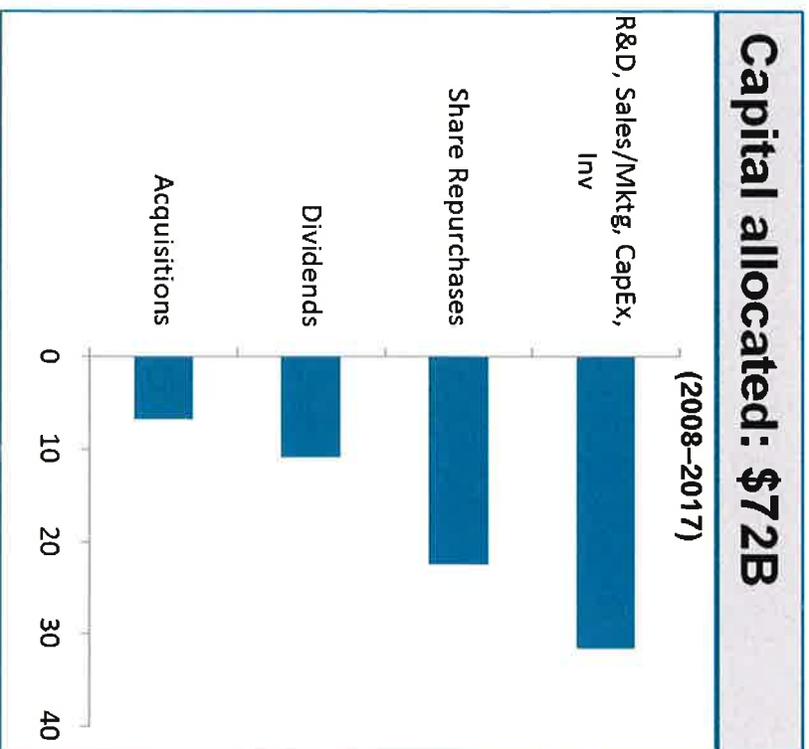
Metric	Target	Result	
Free cash flow generation	20 – 30% of revenue (TTM)	31.2%	✓
Inventory	105 – 135 days	134	✓
Cash owned by U.S. entities	~80%	78%	✓
Cash plus short-term investments	10% revenue (TTM) + dividends (NTM) + debt (NTM)	101%	✓
Pensions	Fully fund on tax-efficient basis	Fully funded	✓
Debt	When economics make sense	\$4.1B @ average 2.05%	✓
Capital expenditures	~4% of revenue	4.6%	✓
Cash return	FCF + proceeds from exercises – net debt retirement (TTM)	90%	✓
Dividends	50 – 80% trailing 4 years average FCF	57%	✓
Repurchases	Cash return target – dividends (TTM)	84%	✓

Capital management **updated scorecard**

Metric	Long-term objective	Target
Free cash flow generation	Maximize long-term growth of FCF/share.	25 – 35% of revenue (TTM)
Capital expenditures	Invest to support new technology development and revenue growth. Extend our low-cost manufacturing advantage, including 300mm, while maximizing long-term FCF/share. Recognize it may run higher if there is an opportunity to extend long-term manufacturing advantage.	~4% of revenue
Inventory	Maintain high levels of customer service, minimize inventory obsolescence and improve manufacturing asset utilization. Will vary based on percent of direct revenue, market conditions and consignment levels.	115 – 145 days
Cash management	Provide necessary liquidity in all market conditions. Recognize there may be times for strategic build up or draw down of cash.	10% revenue (TTM) + dividends (NTM)
Pensions	Be fully funded on a tax-efficient basis. Have annual FCF reflect what is available to owners by minimizing one-shot calls for cash, unless there is a P&L or cash advantage.	Fully funded
Debt	Increase rates of return with some leverage on balance sheet when economics make sense. Avoid concentrated maturities and ensure strategic flexibility.	When economics make sense
Cash return	Return all free cash flow cash via repurchases and dividends. Recognize there may be times for strategic build up or draw down of cash.	All free cash flow
Dividends	Provide a sustainable and growing dividend to appeal to a broader set of owners.	40 – 60% of current year FCF
Repurchases	Accretive capture of future free cash flow for long-term owners.	Free cash flow – dividends (TTM)

Ten-year view of our **capital allocation**

Where and why we've allocated our capital



Purpose
Organic growth of business
Accretive capture of future free cash flow for long-term investors
Appeal to broader set of investors
Inorganic growth

R&D investments are targeted at the best opportunities

Disciplined allocation of R&D strengthens portfolio

Market segment	R&D investments	% of TI revenue				
		2013	2014	2015	2016	2017
Industrial	Up broadly	30%	31%	31%	33%	35%
Automotive	Up broadly	12%	13%	15%	18%	19%
Personal electronics	Down, and more selective	32%	29%	30%	26%	25%
Communications equipment	Analog up slightly, Embedded down	15%	17%	13%	13%	12%
Enterprise systems	Flat, at low levels	6%	6%	6%	6%	6%
Other	Flat, at low levels	5%	4%	5%	4%	3%

...and is driving growth in best markets

Market segment	R&D investments	% of TI revenue				
		2013	2014	2015	2016	2017
Industrial	Up broadly	30%	31%	31%	33%	35%
Automotive	Up broadly	12%	13%	15%	18%	19%
Personal electronics	Down, and more selective	32%	29%	30%	26%	25%
Communications equipment	Analog up slightly, Embedded down	15%	17%	13%	13%	12%
Enterprise systems	Flat, at low levels	6%	6%	6%	6%	6%
Other	Flat, at low levels	5%	4%	5%	4%	3%

Note: A red arrow points from the 2013 column to the 2017 column, indicating a trend. The 2013 value for Automotive (12%) is circled in red, and the 2017 value for Automotive (19%) is circled in red. A red arrow also points from the 2013 value for Automotive to the 2017 value for Automotive, with the text '42%' written in red above the arrow. Another red arrow points from the 2013 value for Automotive to the 2017 value for Automotive, with the text '54%' written in red below the arrow.

**300mm Analog manufacturing
is an advantage**

Continue to ramp **300mm Analog**

RFAB



DMOS6



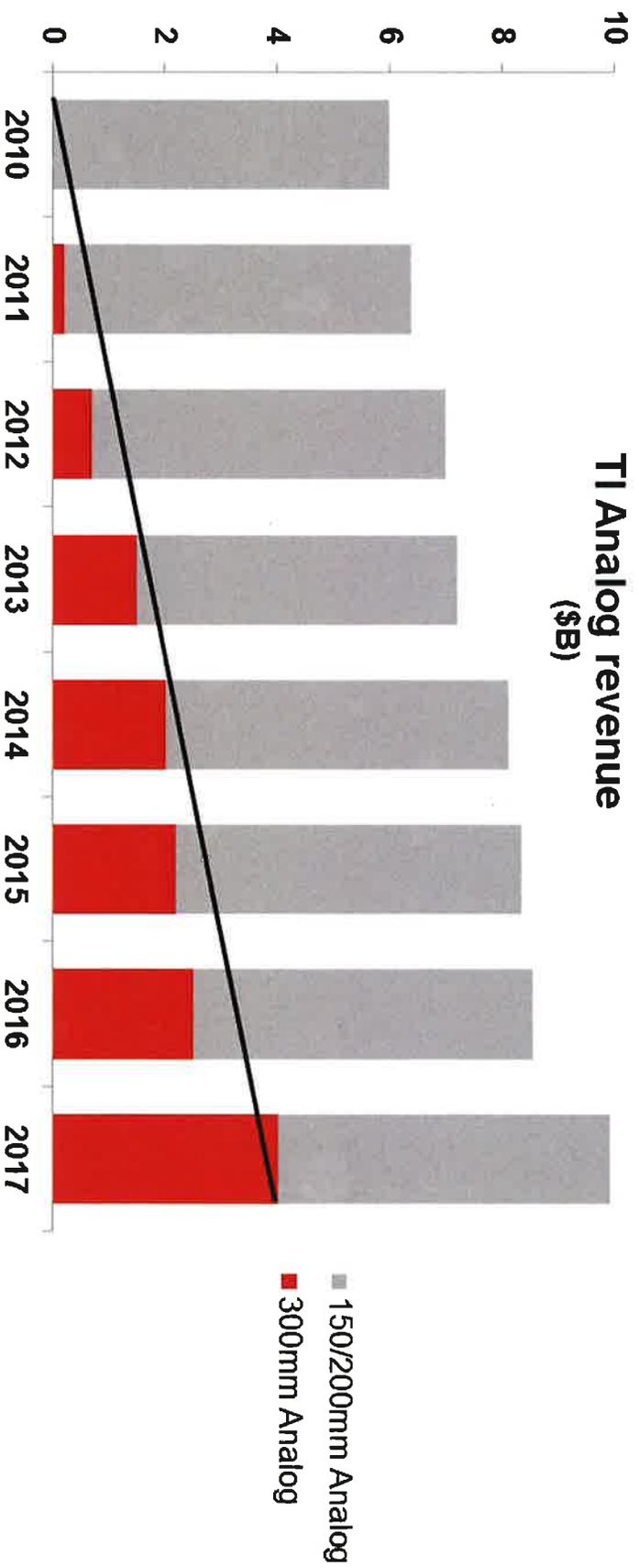
RFAB + DMOS6	2016	2017
Utilization % (combined)	~30%	~50%
300mm Analog revenue	~\$2.5B	~\$4B

Chip cost is ~40% less on 300mm

Illustration of the GPM impact from 300mm

		Built on 200mm wafer	Built on 300mm wafer
Sales price of example part		\$1.00	\$1.00
Cost of goods:	Chip cost	\$0.20	\$0.12
	Assembly, test, other	\$0.20	\$0.20
	Total	\$0.40	\$0.32
Gross margin %		60%	68%

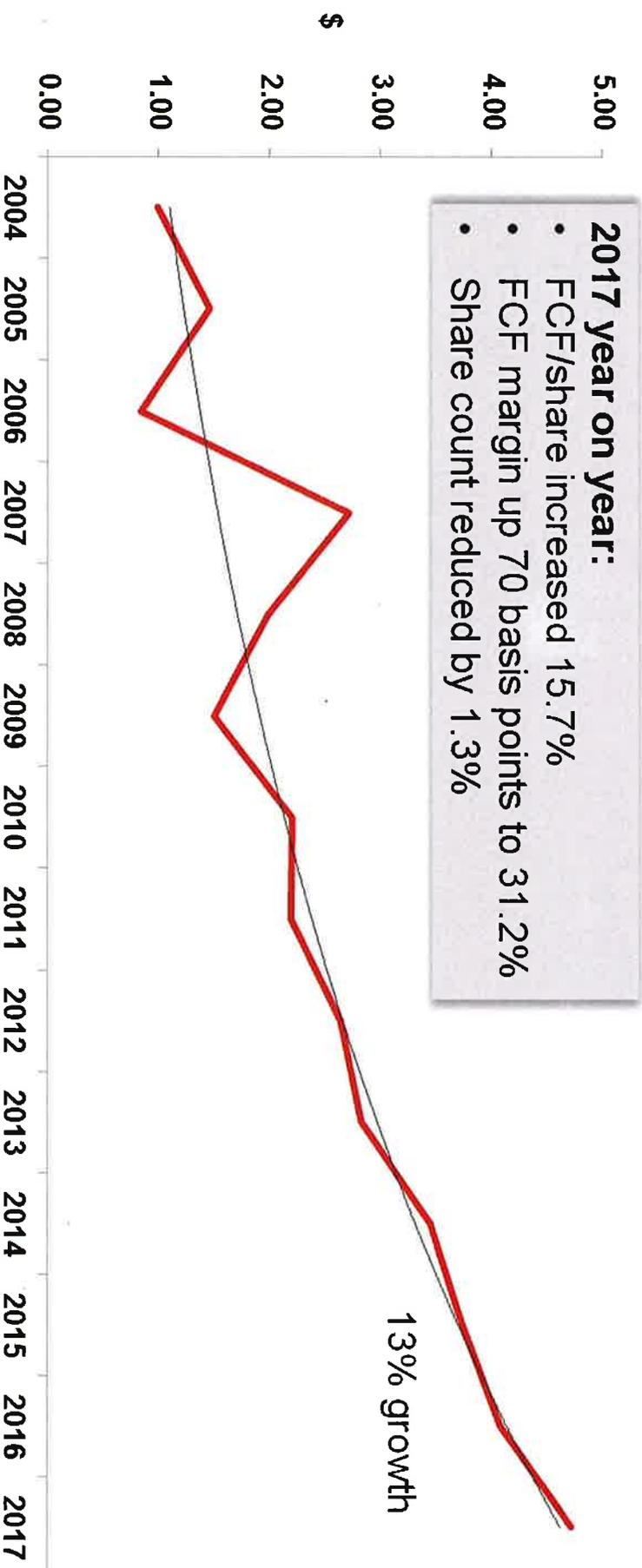
Impact of 300mm Analog is just beginning



- 300mm Analog off to a good start but only ~40% of Analog
- Incremental Analog revenue mostly on 300mm

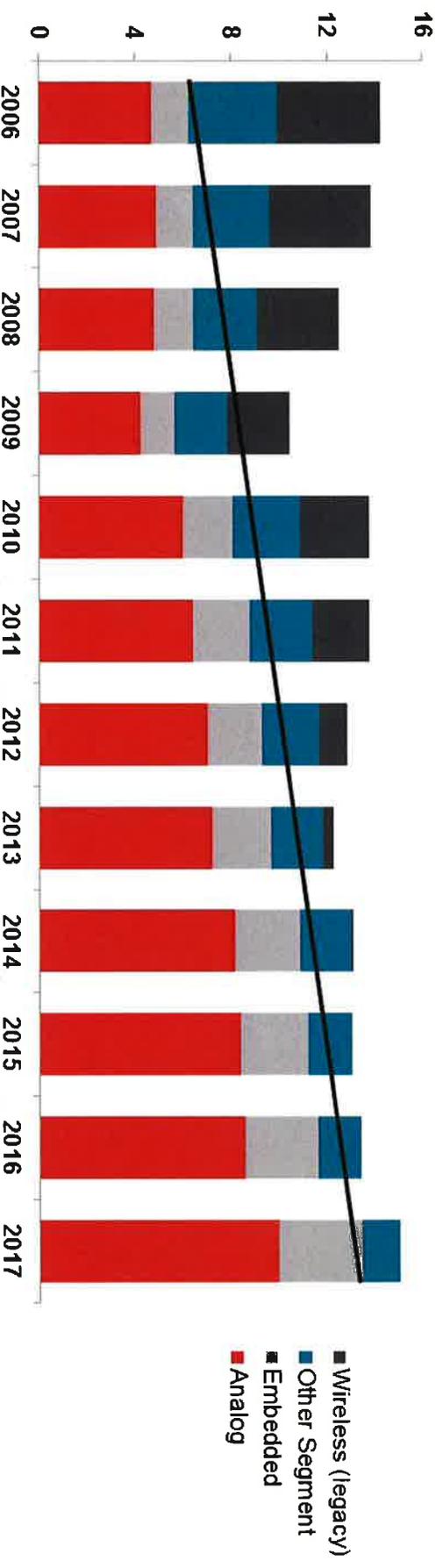
Free cash flow **growth** and **outlook**

Double-digit growth continues in FCF/share



Analog and Embedded have **proven growth record**

Transition to Analog and Embedded
(Revenue \$B)

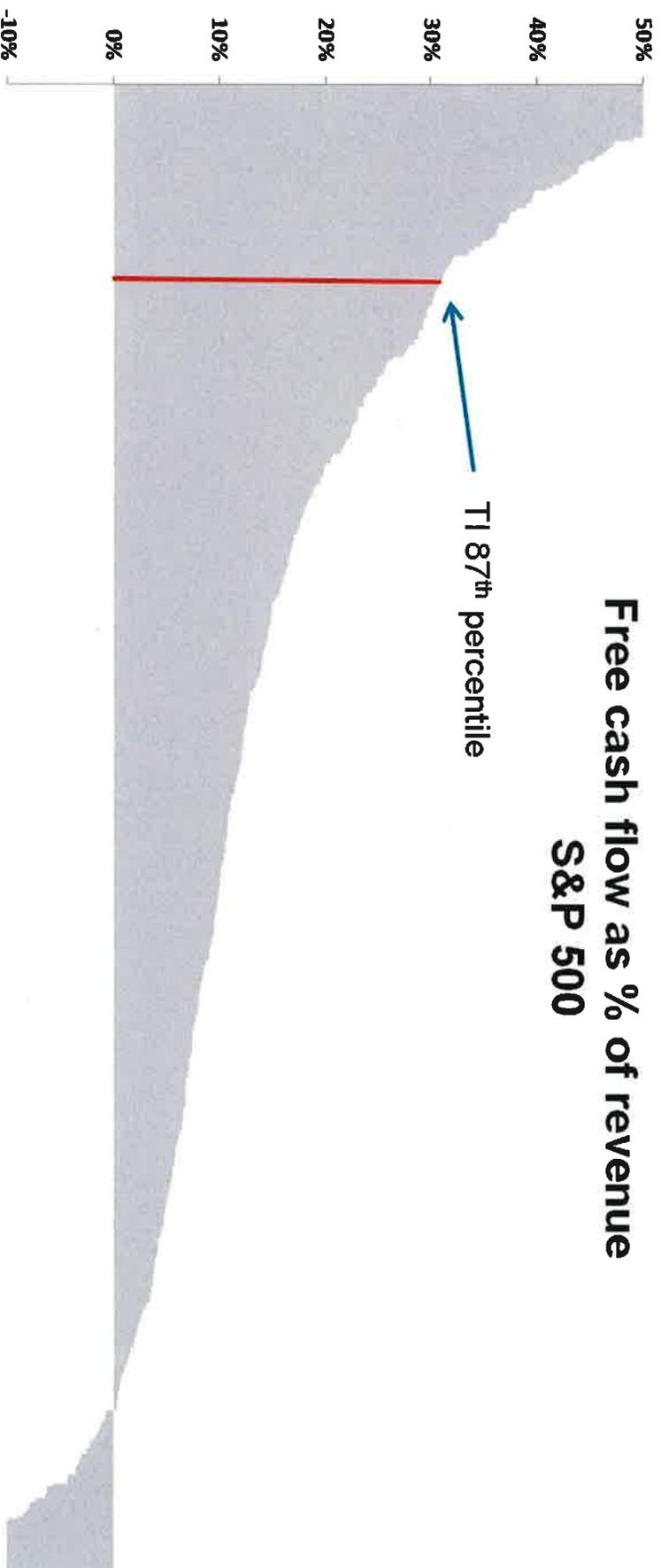


Analog and Embedded:

- 5- & 10-year growth of 8% CAGR
- Gaining on average ~30 – 40bps of marketshare annually
- Now 90% of revenue, driving top-line growth

Cash returns

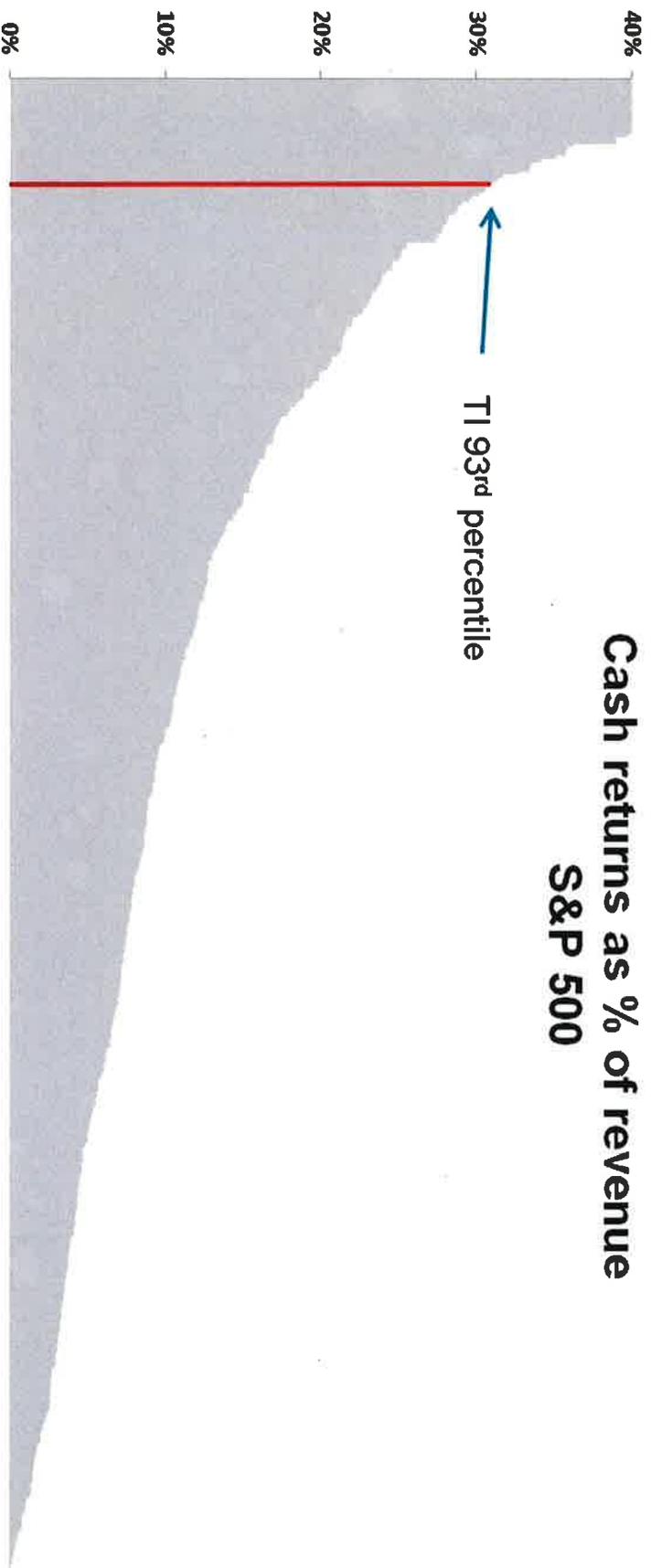
Free cash flow generation in **top 15%**



Source: S&P Capital IQ, TTM as of 1/16/2018

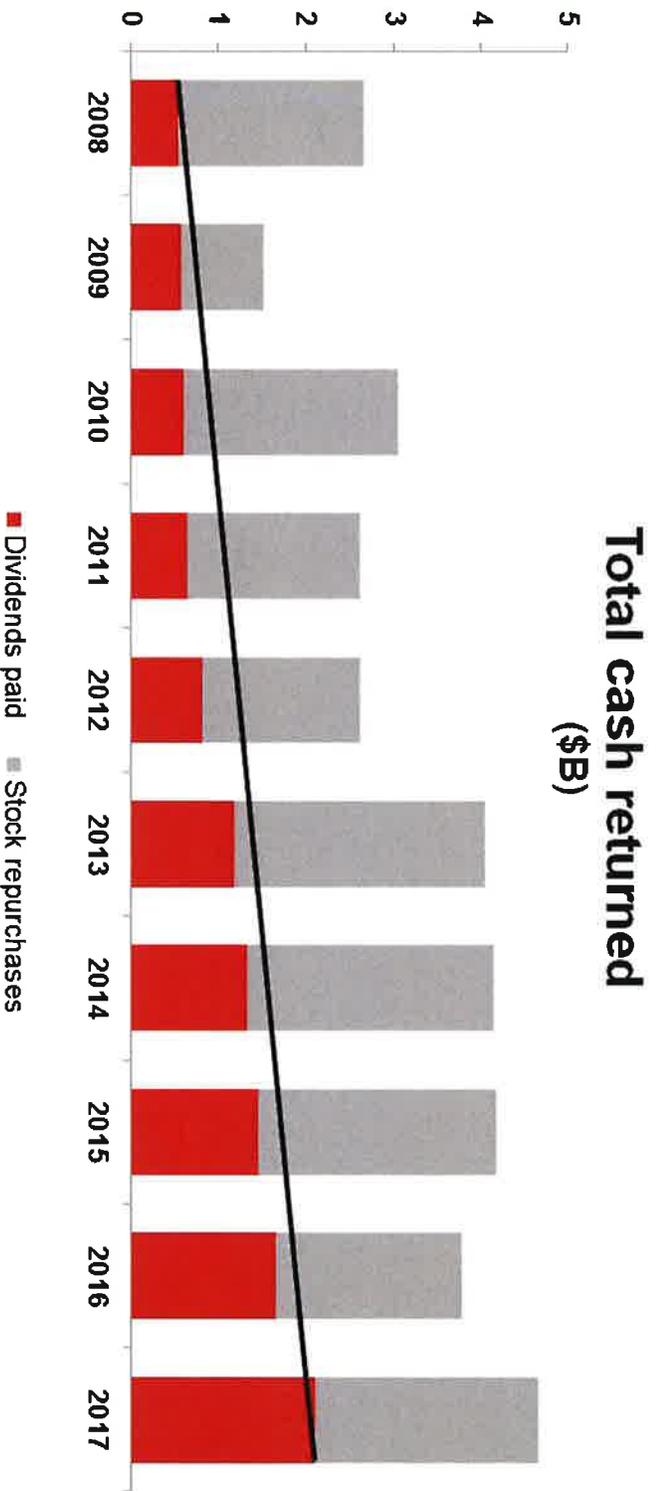
Cash return in top 10%

Cash returns as % of revenue
S&P 500



Source: S&P Capital IQ, TTM as of 1/16/2018 Cash returns = dividends + share repurchases

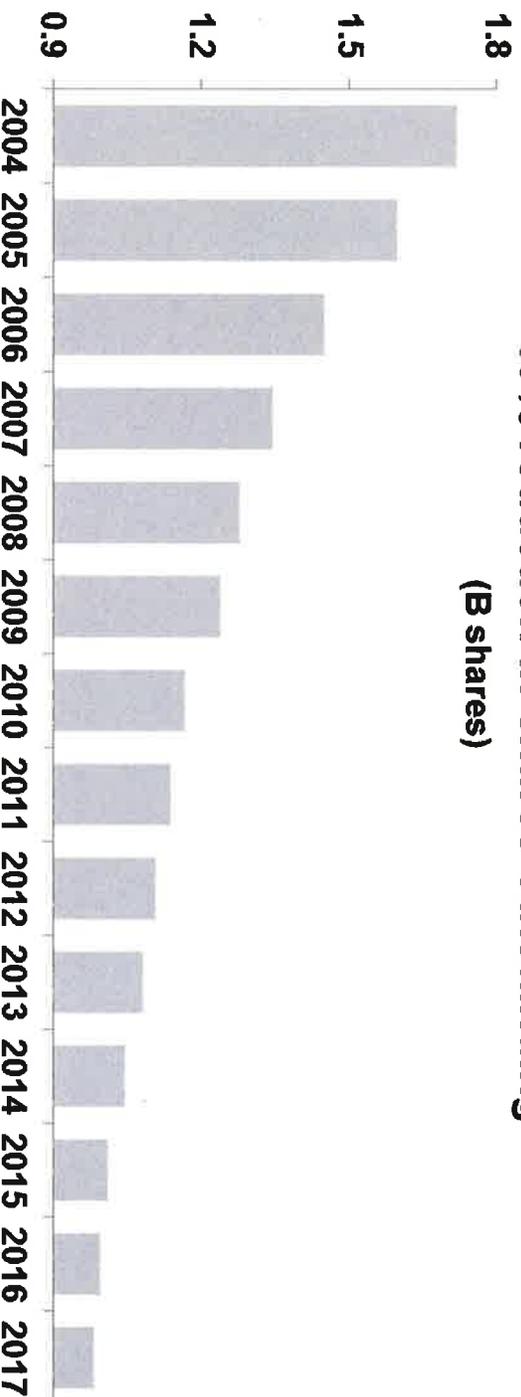
Cash returned to owners **continues to grow**



Dividends growing as a % of cash returned

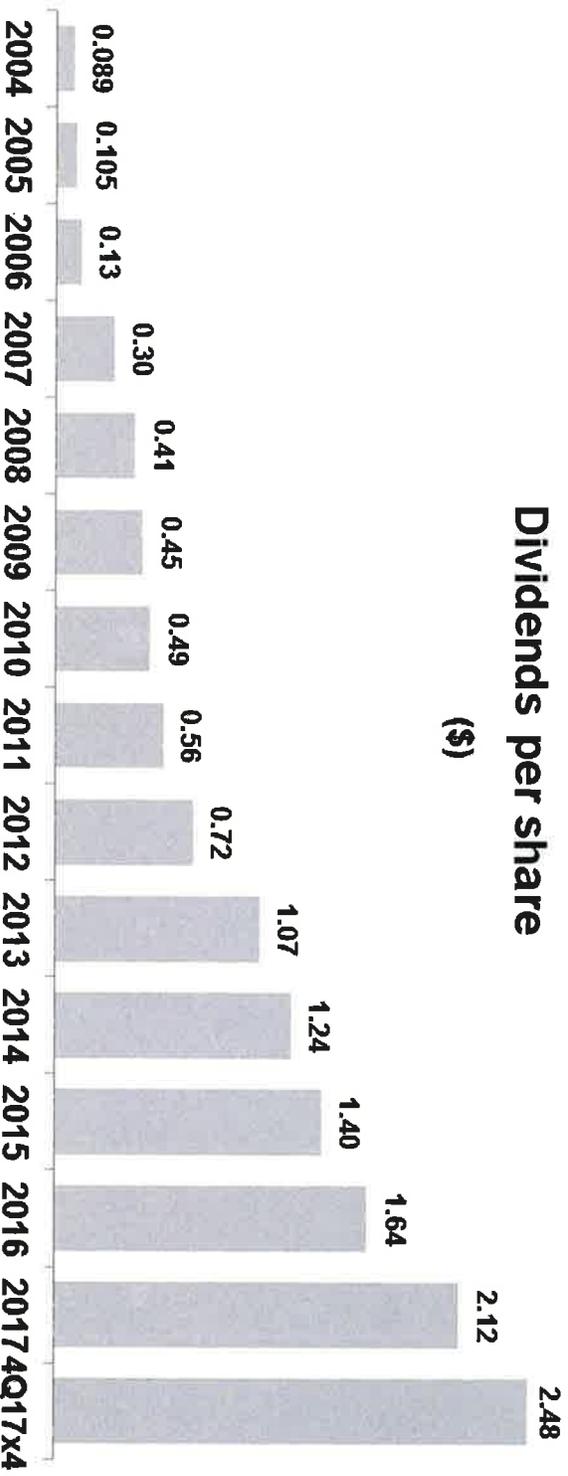
Accretive capture of future free cash flow for long-term investors

43% reduction in shares outstanding
(B shares)



- Repurchase steadily when discounted cash flow value exceeds stock price
- Disciplined with stock-based compensation
- Shares outstanding reduced by 1.3% in 2017, 43% reduction since 2004
- \$9.2B of authorization remaining as of end of 4Q17

Sustainability and growth of dividends



- Increased dividend 14 consecutive years, including 24% increase in 4Q17
- 24% CAGR over last 5 years
- 2017 dividend payments used 45% of 2017 free cash flow
- Yield is 2.3%*

* As of 1/31/2018

Summary

- TI is in a unique class of companies able to **grow, generate and return cash** to shareholders for a long time to come
- Our business model is designed around **four competitive advantages**
 - Manufacturing and technology
 - Broadest portfolio of analog and embedded products
 - Reach of market channels
 - Diverse and long-lived positions (high terminal value)
- Looking forward: continued **growth of free cash flow per share** drives returns
 - Top-line growth driven by the best products (analog and embedded), and the best markets (industrial and automotive)
 - 300mm Analog manufacturing strategy will provide benefits for a long time
 - Continued returns through share repurchases and dividends

Risk factors and non-GAAP measures

This presentation is a statement of management's intentions and describes a strategy that TI intends to pursue as management, in its judgment, deems appropriate. The application of this strategy during any given period may vary depending on market conditions and other factors that management deems relevant. This presentation includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. See Item 1A of TI's most recent Form 10-K for a detailed discussion of risk factors that may cause results to differ materially from the forward-looking statements. TI undertakes no obligation to update forward-looking statements to reflect subsequent events or circumstances.

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How Texas Instruments Can Expand Its Gross Margins



Trefis Team | Contributor Great Speculations | Contributor Group

Over the past few years, [Texas Instruments](#) has been focusing on the industrial and automotive markets, which are seeing increasing semiconductor demand. The company is also extensively focusing on the 300-millimeter analog fabrication vertical as 300 mm wafers cost about 40% less than an unpackaged chip built on 200-millimeter wafers, the size used by many of TI's competitors.

This strategy has helped Texas Instruments to improve its gross margins from under 50% in 2012 to 61.6% in 2017. The trend has continued in 2017, with margins expanding further to 64.3% in Q2 and 64.5% in Q3.

Margins Set To Grow Further

We believe that Texas Instruments' margins will continue to improve in the next couple of years due to the following reasons:

- *Increasing revenues from Analog vertical*: The revenue contribution from the Analog vertical, which employs 300 mm fabs, has gone up from 55% in 2012 to

over 64% in 2016. In the past nine months, Analog's contribution has increased to around 66%. We expect TI to increase its Analog product revenues further due to its focus on the industrial and automotive markets. This can help the company to improve its gross margins from the low 60% range currently to 68% by the end of our forecast period, as 300mm production can help drive down the company's production costs.

- *Increasing investment in 300mm Fabs:* The company is increasing its manufacturing footprint for 300mm wafers, so the company will be able to support about \$8 billion of annual Analog revenue on 300-millimeter wafers. TI pointed out in its [presentation about its capital management strategy](#) that it can achieve 68% gross margins for analog chips manufactured on a 300mm wafer. As Analog sales increase, the company should post higher margins in the future.
- *Utilization set to grow in the coming years:* The proportion of TI's revenues from 300mm production is likely to increase in the coming years, driving the company's margins higher. To increase its 300mm production, the company is likely to ramp up its production from RFAB and DMOS6 facilities, which cater to 300mm production, and were largely under-utilized until 2016. TI's RFAB and DMOS6 production facilities were operating at [45% and 25% of their full production capacity](#), respectively.
- In addition to a favorable revenue mix and improved manufacturing efficiency, the company's gross margin will also benefit from lower depreciation in the future. At present, depreciation is ahead of TI's capital expenditures. The company expects its capital expenditures to remain at relatively [low levels \(4% of revenue\)](#) for the next few years. As depreciation starts to come down over the next couple of years, it will boost gross margins.

We currently have an [\\$80 price estimate](#) for Texas Instrument's stock, which is nearly 20% below the current market price.

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Comptroller Questions (via email on December 6, 2018):

- I. *Could you please confirm that TI currently only operates two 300mm fabrication facilities-- “RFab” in Richardson, and “DMOS6” in Dallas? If there are any additional 300mm facilities please provide their locations.*

Applicant Response (via email on December 6, 2018):

With respect to your request that we confirm Texas Instruments only operates two 300mm fabrication facilities-- “RFab” in Richardson, and “DMOS6” in Dallas, TI provided the following:

Confirmed that TI currently only operates two 300mm fabrication facilities-- “RFab” in Richardson, and “DMOS6” in Dallas.

[W]e purchased a wafer fab in Japan several years back that had 300mm tools in it. However, we removed all the tools and re-deployed them. Today, the fab is only a shell.