

## TI 3Q Update Raises the Bar Broad-Based Growth Lead by Analog, Raising Est. and Price Target

Diluted Shares(mil) :	1,272	<u>Closing Price 9/9/09</u>	<u>fye Dec</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Market Cap(\$mil) :	\$31,978	\$25.14	Revenue(\$mil)	\$12,501	\$10,101	\$10,877
Avg Volume(,000) :	16,213		EPS	\$1.58	\$1.09	\$1.48
Net Cash/Share:	\$2.51	<u>Recommendation/Target</u>	Price/Sales	2.6	3.2	2.9
Quarter Dividend	\$0.11	Buy/\$27 from \$26. Trade from \$14 to \$27.	Price/EPS	15.9	23.1	17.0

*Texas Instruments is the worlds leading supplier of analog and DSP semiconductor products primarily to cell phone and computation markets. It also supplies microcontrollers, wireless, RISC, ASIC, DLP and standard logic semiconductor devices, as well as handheld calculators.*

**Summary:** TXN provided a previously scheduled mid-quarter update yesterday after the close where it raised and narrowed the range of guidance for revenue and earnings primarily due to analog product strength. I am raising my estimates, reiterating my Buy recommendation, and boosting my 12-month target price to \$27 from \$26, although emphasizing my trading range of \$14 to \$27 due to the lack of compelling potential upside.

**3Q Upside:** Management raised 3Q guidance for revenue to \$2.73-\$2.87B from \$2.5-\$2.8B, and for EPS to \$0.37-\$0.41 from \$0.29-\$0.39. The mid-point of revenue guidance was raised by \$150M primarily due to analog product strength, and EPS upside is due to increasing sales and factory utilization.

Management believes it is gaining share from its major competitors with its analog product offerings: high-performance analog (HPA) strength is broad-based; power management strength is also fairly broad and includes notebook PCs, consumer electronics and mobile applications; and its high-volume analog and logic (HVAL) resurgence is taking hold as expected in hard disk drives, video games, and PNDs. Embedded products are experiencing good growth driven mostly by catalog sales, as well as some automotive MCUs. Catalog embedded product strength is primarily due to microcontrollers into e-metering and glucose monitors to mostly China and India, but also includes DSP sales into digital media applications. Other products growth is lead by seasonal calculator strength as well as DLP sales into front projector applications. Wireless growth is the slowest of the company's four product areas and is lead by connectivity products into mostly smart phone applications, and the sunset baseband products may grow somewhat despite the longer-term phasing out of that offering.

ASPs overall are stable, although are increasing for its limited commodity-oriented offerings. No difference was noted between strength from distribution and OEM customers, with distribution strongest in Asia, and US and European resales expanding for the first time in over a year. Shipments into distribution are expected to approximate sell-through this quarter: management does not expect distribution to refill its inventory, but rather use current end-demand strength to accelerate its distribution consignment inventory program.

TXN is experiencing some product delivery constraints due to back-end package and assembly operations associated with better than expected customer demand, and expects to announce upside to annual capital expenditures of \$300M this year in those areas. TXN would prefer to accumulate some inventory amid current demand growth, but its ability to do so will depend on its manufacturing response to upside. TXN is also bidding on equipment from bankrupt DRAM maker Qimonda as part of a plan to build the world's first 300mm-sized wafer analog fab offering a significant competitive cost advantage, although it would probably take 9-12 months to install and ramp.

**The Nokia Broadband Shuffle:** The legacy Nokia broadband business in wireless products totaled \$410M last quarter and will fall to zero in a fairly linear profile by 1Q of 2013. Broadband profitability will increase as resources are shifted to other areas. 70% of wireless is Nokia broadband with the balance split fairly evenly between connectivity and application processors.

Recall that TXN has long-term business shifts that it hopes to outgrow over the next couple of years with strength from high-performance analog market leadership, as well as embedded products that include microcontrollers and DSPs to automotive and communications infrastructure markets, respectively. It is hoping to offset expected baseband losses at Nokia due to supplier diversification with application processor gains in the handset space, and has lost the Ericsson Mobile Platforms (EMP) infrastructure business to an in-house joint-venture supplier.

Relatively mature markets in calculators, high-volume analog and standard logic, DLPs, RISC processors and ASICs are unlikely to offer significant growth.

**Management Guidance:** Management raised 3Q guidance for revenue to \$2.73-\$2.87B from \$2.5-\$2.8B, and for EPS to \$0.37-\$0.41 from \$0.29-\$0.39. Management also noted traditional 4Q seasonality results in sequentially flat semiconductor sales and total company revenue down by 3% due to slack calculator seasonality. Previous 2009 guidance called for R&D at \$1.5B, capital expenditures at \$300M, depreciation at \$900M, and a tax rate of 27%. The 2010 tax rate will reflect incremental profitability taxed at the US corporate rate of 35% on top of a base of 27%. Long-term guidance remains: 55% gross margin on a richer mix of analog and embedded products; 25% operating expense; and 30% operating margin. R&D and SG&A will total \$660M by 4Q and remain there until subsequent revenue growth renders it consistent with the 25% operating expense goal. 3Q earnings on October 19.

**Raising Estimates:** My revised 3Q estimate is slightly above the mid-point of guidance and increasing estimates in subsequent periods are primarily due to the trickle-through of higher revenue, although I did bump up my gross margin estimates for the next two quarters by 50 basis points, and initiated operating expense growth under that of sales next year. My year-end operating expense level remains consistent with previously communicated restructuring goals and I continue to undershoot targeted year-end gross margin levels. In other words, there is upside potential to my revenue and gross margin estimate, and accelerated restructuring could lead to slightly lower operating expenses.

<i>in millions</i>	3Q09		2009		2010	
	Previous	Update	Previous	Update	Previous	Update
Revenue	\$2,650	\$2,850	\$9,711	\$10,101	\$10,114	\$10,877
Revenue Growth	7.9%	16.0%	-22.3%	-19.2%	4.2%	7.7%
Gross Margin	46.0%	48.0%	44.6%	45.4%	49.4%	49.5%
Operating Expenses	\$675	\$660	\$2,722	\$2,707	\$2,640	\$2,802
Restruct/Impairment	\$20	\$20	\$230	\$230	\$0	\$0
Interest/Other	\$10	\$10	\$38	\$38	\$40	\$40
Tax Rate	27.0%	27.0%	26.6%	26.6%	28.0%	28.0%
EPS (GAAP)	\$0.31	\$0.40	\$0.82	\$0.97	\$1.35	\$1.48
EPS ( <i>pro forma</i> )	\$0.32	\$0.41	\$0.94	\$1.09	\$1.35	\$1.48

**Target Price Nudge:** Relative valuation compared to peers and current fundamental valuation levels compared to historical averages are specified on page 7 of this report. I am raising my 12-month target price to \$27 from \$26 based on slightly less than 20-times next year's earnings and slightly more than 3-times next year's sales. I am retaining my Buy recommendation due to business strength and earnings model conservatism despite limited upside potential, but emphasizing a trading range between technical support around \$14 and my target price of \$27.

While I am not convinced that some kind of macroeconomic recovery is likely to support revenue growth near term, I am comfortable with my conservative revenue estimate as well as the potential for gross margin upside and operating expense downside specifically at TXN—even without upside revenue support—due to a richer mix of higher-margin analog product and/or accelerated restructuring activities.

<i>GAAP EPS</i>	3Q09	2009	2010
<i>Tokeneke-revised</i>	\$0.40	\$0.97	\$1.48
<i>Tokeneke-previous</i>	\$0.31	\$0.82	\$1.35
<i>Consensus-previous</i>	\$0.35	\$0.91	\$1.41
<i>Highest Est-previous</i>	\$0.37	\$1.00	\$1.62
<i>Lowest Est-previous</i>	\$0.30	\$0.78	\$0.99
<i>Revenue</i>			
<i>Tokeneke-revised</i>	\$2,850	\$10,101	\$10,877
<i>Tokeneke-previous</i>	\$2,650	\$9,711	\$10,114
<i>Consensus-previous</i>	\$2,670	\$9,840	\$10,440
<i>Highest Est-previous</i>	\$2,750	\$10,150	\$11,690
<i>Lowest Est-previous</i>	\$2,590	\$9,670	\$9,250

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Income Statement

www.ti.com

dollars in millions, except per share data  
fiscal year ends December

	2006	2007	2008 act				2008	2009 est					2010				2010
			Q1	Q2	Q3	Q4		Q1A	Q2A	Q3	Q4	2009	Q1	Q2	Q3	Q4	
Total Revenue	14,255	13,834	3,272	3,351	3,387	2,491	12,501	2,086	2,457	2,850	2,708	10,101	2,491	2,615	2,929	2,841	10,877
COGS	6,996	6,498	1,516	1,602	1,744	1,394	6,256	1,280	1,333	1,482	1,421	5,516	1,333	1,360	1,406	1,392	5,491
Gross Profit	7,259	7,336	1,756	1,749	1,643	1,097	6,245	806	1,124	1,368	1,286	4,584	1,158	1,255	1,523	1,449	5,386
R&D	2,195	2,152	514	488	507	431	1,940	386	369	354	354	1,463	354	368	390	390	1,503
SG&A	1,697	1,680	435	428	390	361	1,614	305	327	306	306	1,244	306	318	337	337	1,299
Restructuring		6				254	254	105	85	20	20	230	-	-	-	-	-
Operating Expenses	3,892	3,838	949	916	897	1,046	3,808	796	781	680	680	2,937	660	686	728	728	2,802
Operating Income	3,367	3,498	807	833	746	51	2,437	10	343	688	606	1,647	498	569	796	722	2,584
Interest/Other	258	194	33	17	10	(15)	45	5	13	10	10	38	10	10	10	10	40
Pre-tax Income	3,625	3,692	840	850	756	36	2,482	15	356	698	616	1,685	508	579	806	732	2,624
Taxes	987	1,051	178	262	193	(71)	562	(2)	96	188	166	449	142	162	226	205	735
Net Income	2,638	2,641	662	588	563	107	1,920	17	260	510	450	1,236	366	417	580	527	1,890
EPS-basic	\$1.73	\$1.86	\$0.50	\$0.45	\$0.43	\$0.08	\$1.47	\$0.01	\$0.21	\$0.40	\$0.35	\$0.97	\$0.29	\$0.33	\$0.46	\$0.42	\$1.49
Shares-basic	1,528	1,417	1,327	1,320	1,304	1,283	1,308	1,275	1,267	1,267	1,267	1,269	1,267	1,267	1,267	1,267	1,267
EPS-diluted	\$1.69	\$1.83	\$0.49	\$0.44	\$0.43	\$0.08	\$1.45	\$0.01	\$0.20	\$0.40	\$0.35	\$0.97	\$0.29	\$0.33	\$0.45	\$0.41	\$1.48
Shares-diluted	1,560	1,446	1,347	1,341	1,318	1,289	1,324	1,277	1,272	1,277	1,277	1,276	1,277	1,277	1,277	1,277	1,277
EPS-pro forma						\$0.21	\$1.58	\$0.07	\$0.25	\$0.41	\$0.36	\$1.09					
<b>Margin Analysis</b>																	
Gross Margin	50.9%	53.0%	53.7%	52.2%	48.5%	44.0%	50.0%	38.6%	45.7%	48.0%	47.5%	45.4%	46.5%	48.0%	52.0%	51.0%	49.5%
R&D	15.4%	15.6%	15.7%	14.6%	15.0%	17.3%	15.5%	18.5%	15.0%	12.4%	13.1%	14.5%	14.2%	14.1%	13.3%	13.7%	13.8%
SG&A	11.9%	12.1%	13.3%	12.8%	11.5%	14.5%	12.9%	14.6%	13.3%	10.7%	11.3%	12.3%	12.3%	12.2%	11.5%	11.9%	11.9%
Operating Income	23.6%	25.3%	24.7%	24.9%	22.0%	2.0%	19.5%	0.5%	14.0%	24.1%	22.4%	16.3%	20.0%	21.8%	27.2%	25.4%	23.8%
Pre-tax Income	25.4%	26.7%	25.7%	25.4%	22.3%	1.4%	19.9%	0.7%	14.5%	24.5%	22.8%	16.7%	20.4%	22.1%	27.5%	25.7%	24.1%
Tax Rate	27.2%	28.5%	21.2%	30.8%	25.5%	-197.2%	22.6%	-13.3%	27.0%	27.0%	27.0%	26.6%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Income	18.5%	19.1%	20.2%	17.5%	16.6%	4.3%	15.4%	0.8%	10.6%	17.9%	16.6%	12.2%	14.7%	15.9%	19.8%	18.5%	17.4%
<b>Qtr-to-Qtr Growth</b>																	
Revenue			-8.0%	2.4%	1.1%	-26.5%		-16.3%	17.8%	16.0%	-5.0%		-8.0%	5.0%	12.0%	-3.0%	
Operating Expenses			1.5%	-3.5%	-2.1%	16.6%		-23.9%	-1.9%	-12.9%	0.0%		-2.9%	4.0%	6.0%	0.0%	
Operating Income			-19.0%	3.2%	-10.4%	-93.2%		-80.4%	3330%	100.6%	-11.9%		-17.8%	14.2%	39.8%	-9.3%	
Pre-tax Income			-19.4%	1.2%	-11.1%	-95.2%		-58.3%	2273%	96.1%	-11.7%		-17.5%	13.9%	39.1%	-9.2%	
Net Income			-12.1%	-11.2%	-4.3%	-81.0%		-84.1%	1429%	96.0%	-11.7%		-18.6%	13.9%	39.1%	-9.2%	
EPS			-8.7%	-10.8%	-2.6%	-80.6%		-84.0%	1435%	95.2%	-11.7%		-18.6%	13.9%	39.1%	-9.2%	
<b>Year-to-Year Growth</b>																	
Revenue	15.6%	-3.0%	2.5%	-2.1%	-7.5%	-29.9%	-9.6%	-36.2%	-26.7%	-15.9%	8.7%	-19.2%	19.4%	6.4%	2.8%	4.9%	7.7%
Operating Expenses	12.6%	-1.4%	-0.8%	-6.1%	-7.6%	11.9%	-0.8%	-16.1%	-14.7%	-24.2%	-35.0%	-22.9%	-17.1%	-12.1%	7.0%	7.0%	-4.6%
Operating Income	31.6%	3.9%	18.7%	3.0%	-26.4%	-94.9%	-30.3%	-98.8%	-58.8%	-7.8%	1088%	-32.4%	4883%	65.9%	15.6%	19.1%	56.9%
Pre-tax Income	31.6%	1.8%	16.8%	-1.7%	-29.1%	-96.5%	-32.8%	-98.2%	-58.1%	-7.7%	1611%	-32.1%	3288%	62.6%	15.4%	18.7%	55.7%
Net Income	21.4%	0.1%	28.3%	-4.2%	-25.7%	-85.8%	-27.3%	-97.4%	-55.8%	-9.5%	320.3%	-35.6%	2053%	60.3%	13.8%	17.1%	52.8%
EPS	30.0%	8.0%	40.0%	4.9%	-18.4%	-84.6%	-20.6%	-97.3%	-53.4%	-6.6%	324.3%	-33.2%	2053%	59.7%	13.8%	17.1%	52.7%

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Balance Sheet

dollars in millions

Fiscal year ends December

	2005	2006	2007	2008	2Q08	3Q08	4Q08	1Q09	2Q09
<b>Assets</b>									
Cash and equivalents	1,214	1,183	1,328	1,046	1,317	1,715	1,046	1,436	1,765
Short-term investments	4,116	2,534	1,596	1,494	331	278	1,494	990	792
Net accounts receivable	<u>1,648</u>	<u>1,774</u>	<u>1,742</u>	<u>913</u>	<u>1,811</u>	<u>1,774</u>	<u>913</u>	<u>1,125</u>	<u>1,244</u>
<b>Quick Assets</b>	6,978	5,491	4,666	3,453	3,459	3,767	3,453	3,551	3,801
Inventory	1,185	1,437	1,418	1,375	1,651	1,575	1,375	1,098	1,063
Other	<u>1,249</u>	<u>926</u>	<u>834</u>	<u>962</u>	<u>900</u>	<u>870</u>	<u>962</u>	<u>883</u>	<u>876</u>
<b>Current Assets</b>	9,412	7,854	6,918	5,790	6,010	6,212	5,790	5,532	5,740
Property, plant and eqt, net	3,730	3,950	3,609	3,304	3,604	3,517	3,304	3,115	2,940
Goodwill and intangibles	737	910	953	931	948	939	931	1,032	1,076
Long-term investments	236	287	267	653	766	717	653	645	632
Other	<u>948</u>	<u>929</u>	<u>920</u>	<u>1,245</u>	<u>1,054</u>	<u>1,081</u>	<u>1,245</u>	<u>1,196</u>	<u>1,122</u>
<b>Total Assets</b>	15,063	13,930	12,667	11,923	12,382	12,466	11,923	11,520	11,510
<b>Liabilities and Shareholders Equity</b>									
Current portion lt. debt	301	43	0	0	0	0	0	0	0
Accounts payable	702	560	657	324	677	601	324	326	421
Accrued comp and other	948	1,029	1,117	1,034	955	976	1,034	907	931
Income taxes payable	154	284	53	40	26	35	40	21	56
Underfunded retirement	<u>272</u>	<u>162</u>	<u>198</u>	<u>134</u>	<u>102</u>	<u>126</u>	<u>134</u>	<u>33</u>	<u>60</u>
<b>Current Liabilities</b>	2,377	2,078	2,025	1,532	1,760	1,738	1,532	1,287	1,468
Underfunded retirement	329	208	184	640	187	186	640	608	502
Other	<u>420</u>	<u>284</u>	<u>483</u>	<u>425</u>	<u>451</u>	<u>448</u>	<u>425</u>	<u>415</u>	<u>327</u>
<b>Total Liabilities</b>	3,126	2,570	2,692	2,597	2,398	2,372	2,597	2,310	2,297
Common stock	2,481	2,624	2,671	2,762	2,680	2,713	2,762	2,760	2,785
Retained earnings	13,394	17,529	19,788	21,168	20,773	21,204	21,168	21,043	21,163
Treasury stock	(3,856)	(8,430)	(12,160)	(13,814)	(13,138)	(13,481)	(13,814)	(13,852)	(14,061)
Other	<u>(82)</u>	<u>(363)</u>	<u>(324)</u>	<u>(790)</u>	<u>(331)</u>	<u>(342)</u>	<u>(790)</u>	<u>(741)</u>	<u>(674)</u>
<b>Total Shareholders Equity</b>	<u>11,937</u>	<u>11,360</u>	<u>9,975</u>	<u>9,326</u>	<u>9,984</u>	<u>10,094</u>	<u>9,326</u>	<u>9,210</u>	<u>9,213</u>
<b>Total Liabilities and Equity</b>	15,063	13,930	12,667	11,923	12,382	12,466	11,923	11,520	11,510
<b>Sales and Income</b>									
Revenue	12,335	14,255	13,835	12,501	3,351	3,387	2,491	2,086	2,457
COGS	6,319	6,996	6,466	6,256	1,602	1,744	1,394	1,280	1,333
Net income	2,173	2,638	7,369	1,920	588	563	107	17	260
<b>Other</b>									
Capital Expenditures	1,288	1,272	686	763	271	197	76	43	47
Depreciation and Amortization	1,401	1,111	1,070	1,059	255	261	291	240	237
Shares (weighted average diluted)	1,671	1,560	1,446	1,324	1,341	1,318	1,289	1,277	1,272
Employees (units)	30,068	27,976	30,175	29,537			29,537		
Dividends Paid	173	199	425	537	132	131	141	141	139
Dividend per Share	\$0.105	\$0.13	\$0.30	\$0.41	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11
Stock Repurchased	4,151	5,302	4,886	2,128	433	429	386	101	251
Number of Shares Repurchased (mil)				80.2	14.1	17.1	20.3	6.6	13.4
Cash Flow from Operations	3,614	2,456	4,407	3,330	520	1,046	1,113	251	557
<b>Ratios</b>									
<b>Liquidity</b>									
Quick Ratio		2.64	2.30	2.25	1.97	2.17	2.25	2.76	2.59
Current Ratio		3.78	3.42	3.78	3.41	3.57	3.78	4.30	3.91
<b>Leverage</b>									
Debt Ratio		0.18	0.21	0.22	0.19	0.19	0.22	0.20	0.20
Long-term Debt/Capital		0.04	0.05	0.09	0.05	0.05	0.09	0.09	0.07
<b>Asset Management</b>									
Fixed Asset Turnover		3.6	3.7	3.6	3.73	3.81	2.92	2.60	3.25
Total Asset Turnover		1.0	1.0	1.0	1.08	1.09	0.82	0.71	0.85
Receivables DSO		45	45	26	49	47	33	49	46
Inventory Days		74	79	79	93	81	89	77	72
Inventory Turnover		4.9	4.5	4.5	3.97	4.32	3.78	4.14	4.93
Revenue/Employee		0.491	0.476	0.419					
<b>Profitability</b>									
Gross Margin		50.9%	53.3%	50.0%	52.2%	48.5%	44.0%	38.6%	45.7%
Net Margin		18.5%	53.3%	15.4%	17.5%	16.6%	4.3%	0.8%	10.6%
Return on Assets		18.9%	55.4%	15.6%	19.0%	18.1%	3.5%	0.6%	9.0%
Return on Equity		23.2%	69.1%	19.9%	23.7%	22.4%	4.4%	0.7%	11.3%
<b>Per Share Data</b>									
Book Value/Share		\$7.28	\$6.90	\$7.04	\$7.45	\$7.66	\$7.24	\$7.21	\$7.24
Tangible Book Value/Share		\$6.70	\$6.24	\$6.34	\$6.74	\$6.95	\$6.51	\$6.40	\$6.40
Cash/Share (gross)		\$2.57	\$2.21	\$2.41	\$1.80	\$2.06	\$2.48	\$2.40	\$2.51
Cash/Share (net)		\$2.54	\$2.21	\$2.41	\$1.80	\$2.06	\$2.48	\$2.40	\$2.51
Earnings/Share		\$1.69	\$5.10	\$1.45	\$0.44	\$0.43	\$0.08	\$0.01	\$0.20

Texas Instruments

Sales Analysis

dollars in millions, operating profit excludes restructuring charges  
Fiscal year ends December

	2004	2005	2007				2008				2009				
			2006	1Q	2Q	3Q	4Q	2007	1Q	2Q	3Q	4Q	2008	1Q	2Q
<b>Revenue by Product</b>															
Analog			4,746	1,140	1,176	1,308	1,303	4,927	1,265	1,287	1,289	1,015	4,856	814	983
Power Mgmt									25%			254	1,215	30%	
HPA									30%				1,458	30%	
HVAL									45%				2,187	40%	
Embedded			1,554	378	389	390	431	1,588	425	439	427	340	1,631	316	350
DSP and MCU Catalog													814		
Automotive (MCU)			713					692					326		
Comm Infr (DSP)													488		
Wireless			4,308	954	1,024	1,094	1,123	4,195	921	902	915	646	3,384	551	601
Baseband/Nokia			2,138					2,628	720	681	673	464	2,538	400	410
Other			3,647	719	835	871	699	3,124	661	723	756	490	2,630	405	523
DLP													>424		
RISC, ASIC	518	506	525		167	202		526	81	174	182		500		
Calculators															
Royalties															
<b>Total</b>			14,255	3,191	3,424	3,663	3,556	13,834	3,272	3,351	3,387	2,491	12,501	2,086	2,457
<b>Growth</b>															
Analog					3.2%	11.2%	-0.4%	3.8%	-2.9%	1.7%	0.2%	-21.3%	-1.4%	-19.8%	20.8%
Embedded					2.9%	0.3%	10.5%	2.2%	-1.4%	3.3%	-2.7%	-20.4%	2.7%	-7.1%	10.8%
Wireless					7.3%	6.8%	2.7%	-2.6%	-18.0%	-2.1%	1.4%	-29.4%	-19.3%	-14.7%	9.1%
Other					16.1%	4.3%	-19.7%	-14.3%	-5.4%	9.4%	4.6%	-35.2%	-15.8%	-17.3%	29.1%
<b>Total</b>					7.3%	7.0%	-2.9%	-3.0%	-8.0%	2.4%	1.1%	-26.5%	-9.6%	-16.3%	17.8%
<b>Revenue Percent</b>															
Analog			33.3%	35.7%	34.3%	35.7%	36.6%	35.6%	38.7%	38.4%	38.1%	40.7%	38.8%	39.0%	40.0%
Embedded			10.9%	11.8%	11.4%	10.6%	12.1%	11.5%	13.0%	13.1%	12.6%	13.6%	13.0%	15.1%	14.2%
Wireless			30.2%	29.9%	29.9%	29.9%	31.6%	30.3%	28.1%	26.9%	27.0%	25.9%	27.1%	26.4%	24.5%
Other			25.6%	22.5%	24.4%	23.8%	19.7%	22.6%	20.2%	21.6%	22.3%	19.7%	21.0%	19.4%	21.3%
<b>Total</b>			100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Operating Profit</b>															
Analog			1,455	359	348	434	435	1,566	372	326	274	138	1,110	7	131
Embedded			253	57	61	73	104	294	96	101	73	22	292	21	46
Wireless			635	131	184	212	256	783	153	123	155	43	474	19	81
Other			1,024	147	243	309	207	906	186	280	244	102	812	68	170
<b>Total</b>			3,367	694	836	1,028	1,002	3,549	807	830	746	305	2,688	115	428
<b>Operating Margin</b>															
Analog			30.7%	31.5%	29.6%	33.2%	33.4%	31.8%	29.4%	25.3%	21.3%	13.6%	22.9%	0.9%	13.3%
Embedded			16.3%	15.1%	15.7%	18.7%	24.1%	18.5%	22.6%	23.0%	17.1%	6.5%	17.9%	6.6%	13.1%
Wireless			14.7%	13.7%	18.0%	19.4%	22.8%	18.7%	16.6%	13.6%	16.9%	6.7%	14.0%	3.4%	13.5%
Other			28.1%	20.4%	29.1%	35.5%	29.6%	29.0%	28.1%	38.7%	32.3%	20.8%	30.9%	16.8%	32.5%
<b>Total</b>			23.6%	21.7%	24.4%	28.1%	28.2%	25.7%	24.7%	24.8%	22.0%	12.2%	21.5%	5.5%	17.4%
<b>Revenue by Region</b>															
US	1,601	1,679	1,868					1,758					1,551		
Asia	5,584	6,277	7,568					8,013					7,387		
Europe	1,991	2,060	2,286					2,258					1,875		
Japan	1,934	1,821	2,008					1,423					1,268		
ROW	442	498	525					383					420		
<b>Total</b>	11,552	12,335	14,255					13,835					12,501		
<b>Revenue Percent</b>															
US	13.9%	13.6%	13.1%					12.7%					12.4%		
Asia	48.3%	50.9%	53.1%					57.9%					59.1%		
Europe	17.2%	16.7%	16.0%					16.3%					15.0%		
Japan	16.7%	14.8%	14.1%					10.3%					10.1%		
ROW	3.8%	4.0%	3.7%					2.8%					3.4%		
<b>Total</b>	100.0%	100.0%	100.0%					100.0%					100.0%		
<b>Revenue by Market</b>															
Communications	48%	48%	48%					48%					48%		
Computation	29%	29%	24%					24%					22%		
Industrial	5%	5%	10%					10%					10%		
Consumer	10%	10%	10%					10%					10%		
Automotive	5%	5%	5%					5%					6%		
Education (Calc.)	4%	4%	4%					4%					4%		
<b>Total</b>	100%	100%	100%					100%					100%		
<b>Other</b>															
Orders				3,209			3,484	1,500	3,320	3,460	3,230	1,860	860	2,190	2,800
Backlog		1,880	1,640												
Book:Bill ratio														1.05	1.14
Utilization											67%	48%			
Nokia (incl. CMs)	13%	16%	15%					19%					20%		

**Texas Instruments**

**Company Summary**

Products	Markets and Applications	Competitors	Locations	Acquisitions
<p><b>Analog</b>                      Power Management                      High-Performance Analog (HPA)  <i>amplifiers, data converters, RF, interface</i>                      High-Volume Analog (HVA)  <i>custom for comm, auto, computer, CE</i>                      Logic (MVAL includes HVA) standard logic</p> <p><b>Embedded (DSPs and microcontrollers)</b>                      Catalog DSP and MCU standard products                      Automotive market products (MCUs)                      Communications Infrastructure products (DSPs)</p> <p><b>Wireless (for handsets--no infrastructure)</b>                      Digital Basebands                      Application Processors (OMAP)                      Mobile Connectivity (Bluetooth, GPS, WiFi)</p> <p><b>Other</b>                      Digital Light Processors (DLP)                      Educational Products (calculator business)                      RISC processors                      ASICs                      Royalties</p>	<p><b>Communications</b>                      cell phone handsets (Nokia)                      cell phone infrastructure (Ericsson Mobile Platforms)                      mobile connectivity (WLAN, GPS, Bluetooth)                      broadband (WLAN, cable modems)                      high-frequency radio/telecom (hands-free, voice enhancement)                      navigation systems</p> <p><b>Computation</b>                      printers                      hard disk drives                      monitors                      projectors                      PCs (notebook and desktop)</p> <p><b>Industrial</b>                      digital power controls (switch-mode, uninterruptible)                      motor controls (HVAC, industrial, power tools, printers/copiers)                      security (biometric, sensing, surveillance)</p> <p><b>Consumer</b>                      medical (monitoring, digital hearing aids, imaging, portable)                      DSC, MP3, PMP, auto radio/CD, DVD/rec, HDTV, home theater</p> <p><b>Automotive</b>                      body, chassis, telemetrics, entertainment, powertrain, safety, security</p> <p><b>Education</b>                      hand-held graphing/scientific calculators, educational software</p>	<p><b>Analog</b>                      Analog Devices                      Freescale                      Infineon                      Intersil                      Linear Tech                      Maxim                      National Semi                      NXP                      STMicro</p> <p><b>Embedded</b>                      Freescale                      Infineon                      NEC                      Renesas</p> <p><b>Wireless</b>                      Broadcom                      Freescale                      Infineon                      Marvell                      Qualcomm                      STMicro</p>	<p>Texas (3)                      Japan (3)                      Philippines (2)                      Malaysia                      Germany                      Taiwan                      Arizona                      India                      France                      Mexico</p>	<p>Benchmark                      Burr-Brown                      Chipcon                      Unitrode</p>

Texas Instruments

Valuation

Relative Valuation

Company	Ticker	Price 9/9/09	52-Week		CY EPS				CY P/E				Diluted shs (mil)	Cap (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield	
			Low	High	2007	2008	2009	2010	2007	2008	2009	2010			TTM	Cur FY	Nxt FY				
Texas Instruments *	TXN	25.14	13.38	25.33	1.80	1.51	1.09	1.48	14.0	16.6	23.1	17.0	1,272	31,978	3.1	3.2	2.9	Dec	\$0.11	1.8%	
Analog Devices	ADI	29.28	15.29	30.68	1.51	1.55	0.97	1.40	19.4	18.9	30.2	20.9	293	8,582	4.1	4.4	3.9	Oct	\$0.20	2.7%	
Intel *	INTC	19.93	12.05	20.72	1.16	0.92	0.93	1.12	17.2	21.7	21.4	17.8	5,678	113,163	3.4	3.3	2.9	Dec	\$0.14	2.8%	
Linear Technology	LLTC	27.50	17.69	32.70	1.70	2.01	1.12	1.21	16.2	13.7	24.6	22.7	222	6,116	6.3	6.7	5.9	Jun	\$0.22	3.2%	
Maxim Integrated Products	MXIM	19.03	10.72	19.95	0.86	0.48	0.32	0.65	22.1	39.6	59.5	29.3	308	5,869	3.6	3.3	3.1	Jun	\$0.20	4.2%	
National Semiconductor *	NSM	15.72	9.02	18.65	1.13	1.12	-0.05	0.34	13.9	14.0	NM	46.2	230	3,617	2.5	3.1	3.0	May	\$0.08	2.0%	
STMicroelectronics	STM	9.32	3.73	12.55	0.44	0.44	-0.76	0.15	21.2	21.2	NM	62.1	877	8,170	0.9	1.0	0.9	Dec-ADR	\$0.03	1.3%	
Average									18.3	21.5	33.9	33.2				3.5	3.6	3.3			

\* Tokeneke estimate  
Source: consensus as of 9/9/09

Historical Valuation

Company	Ticker	Price 9/9/09	Trailing 12-month								
			Price/Earnings		Price/Sales		Price/Book				
			Current	Historical*	Current	Historical*	Current	Historical*			
Texas Instruments	TXN	\$25.14	26.2		3.1		3.5				
			Average	43.2	Average	3.2	Average	3.8			
			High	298.0	High	15.9	High	16.7			
			Low	8.1	Low	0.3	Low	1.0			

\* weekly since 1990

### The Company

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

### The Offering

- *Monthly Newsletter:* A summarized review of noteworthy industry business developments, sales statistics, and sector equity market performance, as well as a near-term and annual outlook for sector business fundamentals and share prices. This report typically includes two pages of text and a handful of recurring charts and tables. It is intended for relatively broad-based distribution.
- *Industry Reports:* A semi-annual publication offering insight and perspective to industry-wide, multi-year forecast updates; periodic sub-sector product type and/or end-market reviews; fundamental and valuation perspectives on sector equity relationships; and an industry introduction and overview. These are more detailed reports with varying shelf-lives, and are intended for narrow distribution to interested clients.
- *Company Reports:* Fundamental equity research including earnings estimates and customized valuation analysis.
- *Consulting:* Special projects of limited or extended duration, as well as periodic access of varying frequency.

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### My Background

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnestock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

—**Dan K. Scovel**  
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