Inside Texas Instruments: Last Quarter's Progress

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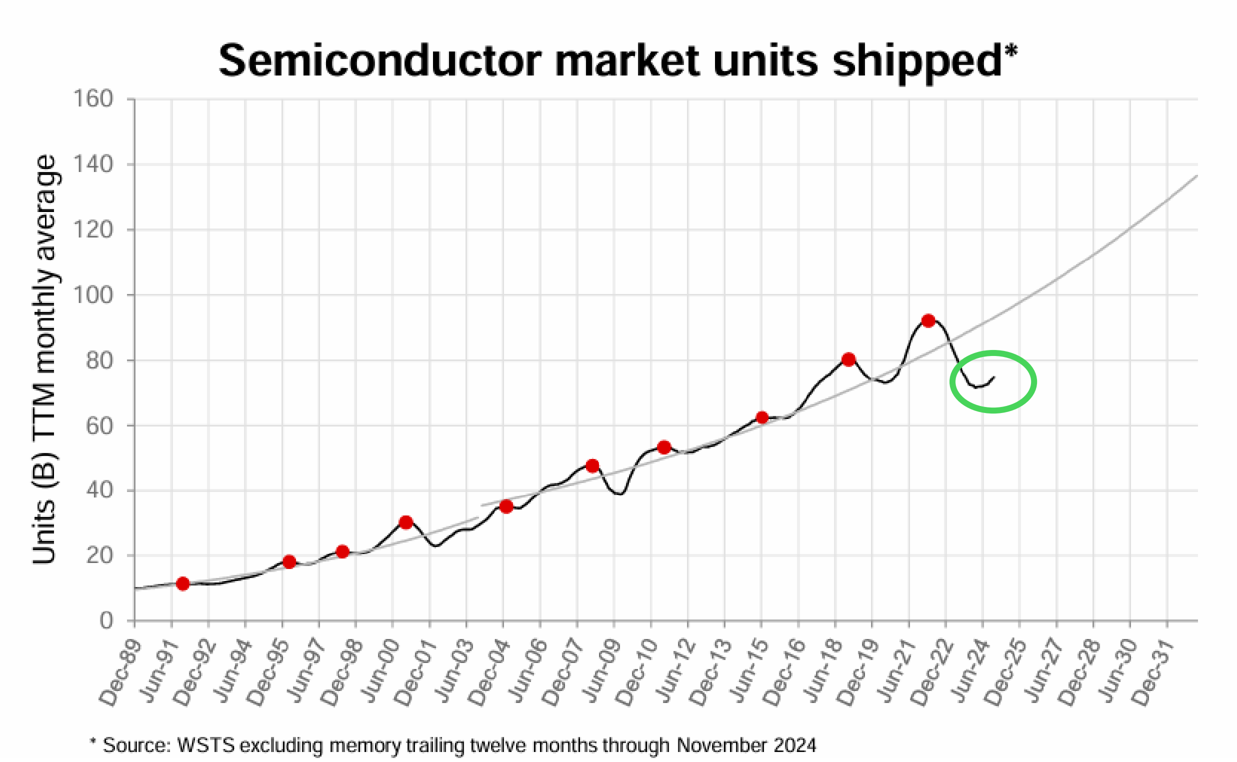
Last quarter marked the official end of Texas Instruments' semiconductor downcycle. It reported the first rise in revenue in 10 quarters at an 11% gain over last year's first quarter. Its analog chips, which represent the majority of its chip output, grew 13% while its embedded chips, which entered the downcycle after analog, had flat revenue versus a year ago. Both segments grew from last quarter. All its end markets grew except for personal electronics, which always has a seasonal decline in the first quarter of the year after the holiday spending season. Management remarked that the recovery the first quarter saw was broad, across all geographies, and that customer inventory is now at a low across many end markets, meaning customers are ready to place orders.

Semiconductor cycle finally turning



Of course the largest topic of conversation in the earnings call from Wall Street analysts was the impact of Liberation Day and future tariffs. Management recognized the fact that things are changing almost daily, and there is a lot of uncertainty as to how the rest of the year is going to play out currently, but they haven't noticed any impact yet, either from a slow down of orders or from an increase in orders from customers wanting to buy before tariffs take effect. That's not to say that those prebuys won't happen in the future, either in the current quarter or the next, but the current increase in demand seems to be solely from normal market conditions and cycle turnaround.

TI is focusing on two things during these tumultuous times: where it is in the semiconductor cycle and providing geopolitically dependable capacity in an ever changing world. Management looked at past disruptive events like Y2K, the global financial crisis, and COVID to help inform decisions. History has shown that it is important to build up inventory during these times, and TI is well positioned to do so.

Furthermore, given its size and factory footprint, it has a unique ability to adapt its supply chain to minimize tariff impact.

It has four to five factories in the US (some under construction), one in China, two in Japan, and one in Germany. For China-based customers, who are looking at the biggest potential tariff impact, Texas Instruments already has "dual flow capability" for those customers. Over a decade ago, an earthquake in Japan forced TI to create a disaster recovery framework that included multiple sources of products for customers. For example, parts that are made in its US factories currently can also be shifted to be made in its China factory rather easily. With TI's current footprint in the US, Europe, and Asia, and its ability to still use third party foundries, it feels confident that it is well positioned to navigate whatever the year brings.