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"That took guts!"

"*That* took guts." We don't say that too often in our daily lives, do we? When we do, it's because we know we've seen somebody do something special: something we genuinely understand, because we happen to know the people involved and the situation they were in. That happy combination of personal knowledge and people just doesn't come along very often—so we're downright impressed when it does.

It's too bad it's so rare, because in business as in everything else in life, old-fashioned virtues like patience, determination and courage are almost always the foundation of everything good; and when they're missing, the root cause of a lot of bad. In business especially, we never know what part the old virtues played for a couple of reasons: the media doesn't care, politics and disasters being so much more interesting; and businesspeople mostly talk in jargon. It's usually tough to wave away the fog and see what really happened.

Not this time, though. The headline last week was: "Taiwan Semiconductor Hikes Chip Prices 20%!" The story focused, of course, on the "Supply Line Chaos!" which is hobbling the world economy right now, and probably will for a good while to come. At Outlook, though, that headline made us think of Texas Instruments' CEO Rich Templeton, and once again say, with appreciation: "That took guts!" Let's glance at a picture.

Sales Plunge . . . but Mr. Templeton Stomps on the Gas Pedal, not the Brakes.

The plunging red arrow spotlights the double-whammy which hit Texas Instruments: a more-or-less "normal" cyclical plunge in sales in 2019; then the "Death Star:" the Virus and Lockdown Plunge of 2020, farther and deeper, just as the company had a right to hope for a sales upturn. In the green circle, naturally, we can see TXN's stock price taking its clobbering from the speculating crowd, which wouldn't recognize or care about "guts" in a CEO if it was standing in front of it.

A couple of weeks ago Texas Instruments' Chief Financial Officer, Rafael Lizardi, had a chance to remind an analyst what his boss had done:

> "Go back to the March of 2020 when the pandemic was starting. *Everybody*, <u>all</u> of our competitors, were cutting their inventory levels and slowing down their factories. We went the other way, right? We increased factory production. We increased inventories: they went from 140 days (of supply) to almost 170 days. That put us in position to take advantage of the sales upturn, when it came, and do significantly better than our competitors over the past 3 or 4 quarters."

Theresa Kroll made a big deal of this, back then, in her "Inside" report. She quoted Mr. Templeton, who said in essence, "We're strong enough to absorb the pain of unsold inventory. When the turnaround comes, we'll be the only ones with chips to sell our customers. We'll sell them, and we won't raise prices. That's the kind of behavior which wins new customers, permanently."

Taiwan Semiconductor's "We're Hiking Prices!" announcement means one thing: the company can't make enough chips to meet customers' needs; but it will reward itself with a steep price hike. Mr. Templeton knew, back in early 2020, that Taiwan Semi (and all TXN's competitors) would do exactly that. He knew they would "get away with it," because when customers are desperate for any product they'll pay more for it. And he knew that if his company chose a different path—accepting the short-term cost of stockpiling unwanted chips—the long-term payoff in new customers ("market share" in the jargon) would make those costs look trivial.

So that skyrocketing green arrow for TXN's stock—up almost 200% in 18 months—lets us know 2 things: "That took guts!" and "That paid off!"

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