

Inside Texas Instruments: Last Quarter's Progress

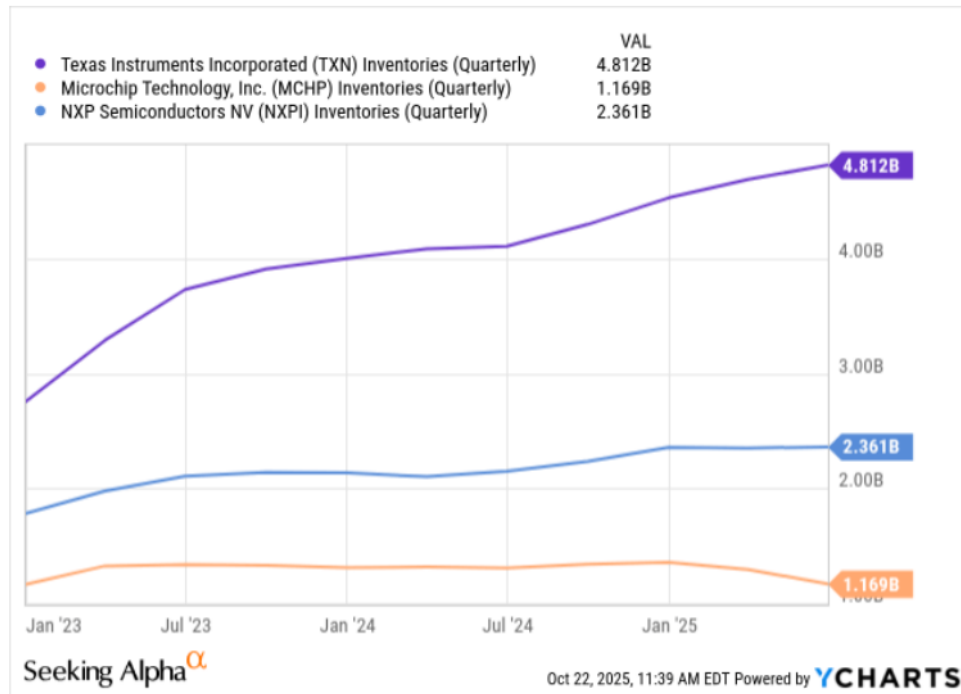
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It was another respectable quarter for Texas Instruments, with revenue up 14% overall and all business segments seeing revenue growth. Throughout the second quarter, the company saw its customers pull back a little on orders in the second half when tariff uncertainty was pretty high. That lumpiness in order activity disappeared in the third quarter. Orders were fairly strong across all geographies and end markets. Customer inventory remains low, an indicator of the recovery portion of the semiconductor cycle. However, as final tariff resolution has yet to come, customers just aren't buying massive quantities of semiconductors like they normally do during this point in the cycle. For example, if a manufacturing company doesn't yet know in what country it wants to build its next factory due to tariff uncertainty, it's going to hold off on those purchases associated with building that factory. Therefore, Texas Instruments is calling this market recovery "moderate", which happens to be the slowest sort of recovery in recent history.

That's the main reason for Texas Instruments' stock price lately just not being able to break out. Wall Street hasn't seen a semiconductor cycle upswing like this before. Typically, within a couple of quarters orders are soaring. This time, we've been hearing about the beginning of the recovery for a year, and sales still aren't back to the average trendline yet.

Even though Wall Street doesn't like this, TI's management is unconcerned. Their focus is on positioning the company to benefit once the upcycle really hits. They are doing this in a number of ways. First, building up its own inventory so that it can ship any product to any customer whenever they want it. It has reached its goal inventory at this point, which means it has to idle some factory space so that it doesn't overproduce next quarter. This will temporarily hurt profits. They are restructuring the business to focus on being as efficient as possible. This means it took a one-time hit to earnings this past quarter. Part of this restructuring was closing its older, more costly factories as it builds newer, low cost factories to replace those. Another part was focusing research and development costs on better projects, like those involved in the data center market, within which Texas Instruments hopes to grow.

TXN's high inventory compared to peers



Data by YCharts

Although Texas Instruments is being hated by the market lately, this is a great example of a strong company making itself stronger during “down” times to benefit even greater in “up” times. Even though its profitability is taking some hits right now, its free cash flow growth is improving. It raised its dividend another 4% last quarter. We just have to be patient a bit longer for the stock price to turn around.