Inside Texas Instruments: Last Quarter's Progress

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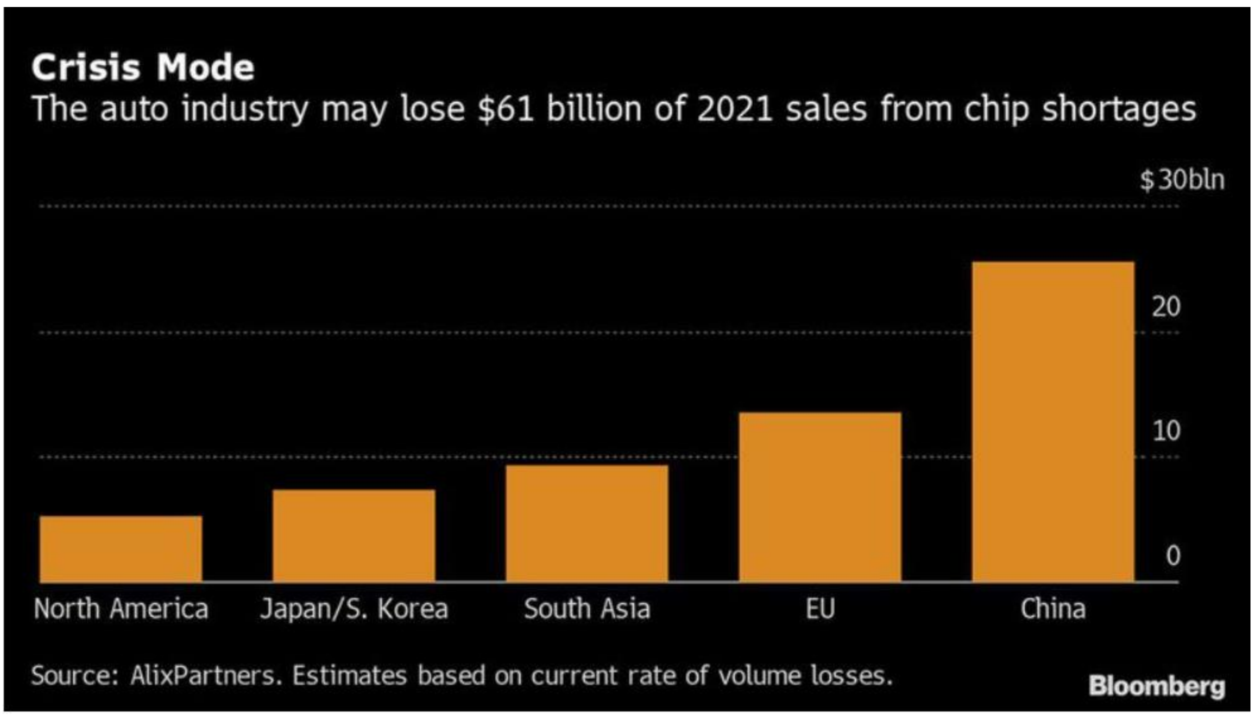
Texas Instruments first quarter revenue grew 29% from a year ago, with strength seen in nearly every single business segment. The two sectors the company emphasizes the most, industrial and automotive, had 30% and 25% growth, respectively.

It's hard to read a newspaper these days without seeing a headline about the semiconductor shortage, especially in the automotive industry. "Taiwan Races to Remedy Car Chip Shortage But No End in Sight!", "GM Warns of $2 Billion Hit to Earnings", and "Auto Chip Shortage Crisis Worsens with BMW, Ford Succumbing" are just a few of the more recent headlines, making it sound like the auto industry is entering into its own pandemic. When the lockdowns first hit over a year ago, the auto industry was one of the worst affected industries as whole factories had to shut down for 2 months or more. The big surprise was how fast demand for new cars picked up once the factories were able to operate again. With a lot of semiconductor companies also scaling back on production during the worst of the lockdown months, supply has been unable to keep up with demand, especially as demand is strong for many end markets that use semiconductors, so chip-makers can't just shift phone semiconductors to auto semiconductors, for example.



As we've noted before, Texas Instruments was unique in that it did not scale back production a year ago, but instead built up its inventory to be able to supply to its customers whenever demand might pick back up again. Well, this past quarter the intense demand for certain products, auto included, finally seems to have caught up with TI, using up a lot of the excess inventory the company stockpiled in 2020. But TI is still faring much better than most of its competitors. Management reports that over 80% of its products are not affected and have steady lead times, while the list of "hotspots" from growing demand expanded this quarter to include the remaining 20% of products. TI's confidence in its strategy is such that it's now working on adding production capacity, and is well underway in building a new factory that should be up and running in 2022.

One of TI's strengths is that it owns most of its manufacturing. This creates more of an opportunity to add capacity to help out those "hotspots" than its competitors, who mostly rely on third parties for manufacturing, like the Netherlands' ASML, Taiwan's TSMC, and South Korea's Samsung. Not only are these companies already at full capacity, recent setbacks like a power outage at TSMC and Samsung and a fire at Japanese chipmaker Renesas have further dented the ability for the chip industry as a whole to increase production. By owning most of its supply chain, Texas Instruments can both keep prices lower and ramp up production more than its competitors. TI is fairly sure this is leading to market share gains at the expense of the competition.

This auto chip crisis will really test Texas Instrument's business model of offering many products to many customers, owning its manufacturing, creating close relationships with its customers, and building inventory to become the go-to supplier for customers. Every sign from this quarter points to great success, for the model. We think the next several quarters will show the same thing.

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