Inside Texas Instruments: Last Quarter's Progress

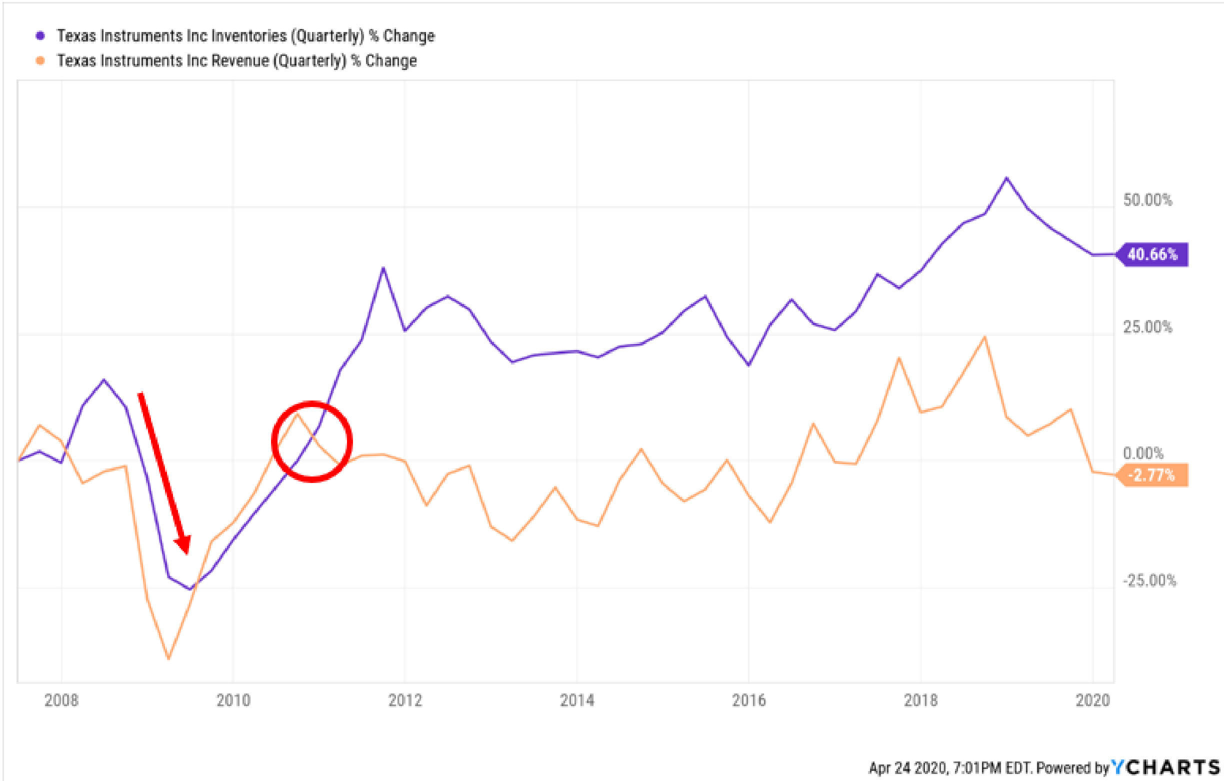
Apr. 29, 2020

Texas Instruments began this past quarter somewhere towards the bottom of another normal semiconductor cycle, posting roughly 6 quarters of declining revenue. This past quarter's 7% decline was actually the best results the company has posted in a year, so in normal circumstances, it might look like the semiconductor cycle is turning around again. Then the Virus Shutdown happened, affecting most of TI's customers, but especially the automotive industry, as the big car manufacturers in the US have been forced to close operations.

Most companies' reactions to the lack of demand caused by the Shutdowns are to minimize costs and spending, furlough employees, and lower production levels. Especially since TI is at the bottom of its cycle and its second largest business sector (the automotive industry) effectively ceased operations, we might have expected to hear the same from TI's management. Instead, management's reaction to the pandemic is quite surprising and bold. They are maintaining spending on both research and development and on construction for the new factory, maintaining the policy of returning all free cash flow to investors, and maintaining production of semiconductors, despite falling orders from customers. <u>Pretty much, "business as usual" in very unusual times.</u>

By keeping production at the same rate as pre-COVID-19, Texas Instruments will build up inventory as sales drops. By doing this, it is hoping to be ready for whenever demand picks up again, since it will have products ready and able to be shipped to customers at a moment's notice. The main reason it is choosing this path is because during the '08-'09 recession, customers drastically overshot the lack of demand, and then spent a longer time getting back to normal because companies like TI cut production too much.

The chart below shows inventory and revenue for Texas Instruments over the past 12 years. In September of 2008, orders "shut off overnight". TI cut production and inventory levels (red arrow). The drop in orders lasted for only 2 quarters, but it wasn't until September of 2010 (red circle) that TI was able to return to normal revenue levels due to its production cuts. By keeping "business as usual" throughout this pandemic, TI is betting on that same quicker-than-expected recovery that happened during the Financial Crisis. It will be the company that is most ready for customers and benefits the most from the recovery. It's a bold move.


Texas Instruments Inc Inventories (Quarterly) % Change
Texas Instruments Inc Revenue (Quarterly) % Change
50.00%
40.66%
25.00%
0.00%
-2.77%
-25.00%
2008
2010
2012
2014
2016
2018
2020
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