Inside Texas Instruments: Last Quarter's Progress

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Revenue increased nearly 17% last quarter as the semiconductor cycle continued to improve overall. Four out of the five business segments grew double digits from a year ago, ranging from 17% to 50% growth. The automotive segment was the only outlier. Though it grew 5% from last year, it's still not showing any real strength. However, the auto industry was the last segment to enter the semiconductor downcycle, so TI's management is not concerned that it is lagging behind in its recovery. Overall, the semiconductor up-cycle is playing out, with customer inventories remaining low and demand returning in almost every end market.

A pretty good quarter, all in all. But Wall Street hated it, and clobbered the stock. Let's look into it.

The ever-evolving tariff situation during the second quarter disrupted global supply chains. Most customers are carrying low inventories of TI's chips, so when there is a threat of future tariffs being put in place, those companies are naturally going to want to try to stock up a bit before those tariffs hit. TI saw some of those "tariff pull-in" orders in the beginning of the quarter but mentioned that activity has normalized and is back to cyclical recovery now. But mainly due to the effect of tariff uncertainty on customer demand, CEO Ilan said TI is ready for a range of outcomes in 2025—2026: from "accelerating strength" to "moderately weaker" (essentially.)

This forecast sent Wall Street analysts into a frenzy. Instead of a routine Earnings Call it was more like a Presidential Press Conference, with analyst after analyst asking the same question, because they didn't like the answer. That question was basically, "But you said things were going well, last quarter! How can you be changing your mind?" To which Mr. Ilan (who might have been thinking "This mob is getting out of hand!") replied, "We aren't changing our minds: just recognizing that tariff uncertainty <u>might weaken or strengthen</u> our customers' buying, quarter by quarter. So we're remaining flexible."

It's important to note that "remaining flexible" is still projecting increasing revenues. The semiconductor cycle will keep marching on, but the intensity and timing may vary more than usually this time from everything happening geopolitically. Texas Instruments has spent the last 5 years preparing itself for a situation like this by investing in US manufacturing sites, which will pay off if it becomes advantageous for companies to buy US chips. When TI began expanding its US factory footprint 5 years ago, it didn't know tariffs were coming, it was just trying to improve the company and make its customers happy. TI will continue to run its business according to this philosophy. The results will drive the stock right back up, no matter how frenzied Wall Street's analysts may feel.