

Inside Texas Instruments: Last Quarter's Progress

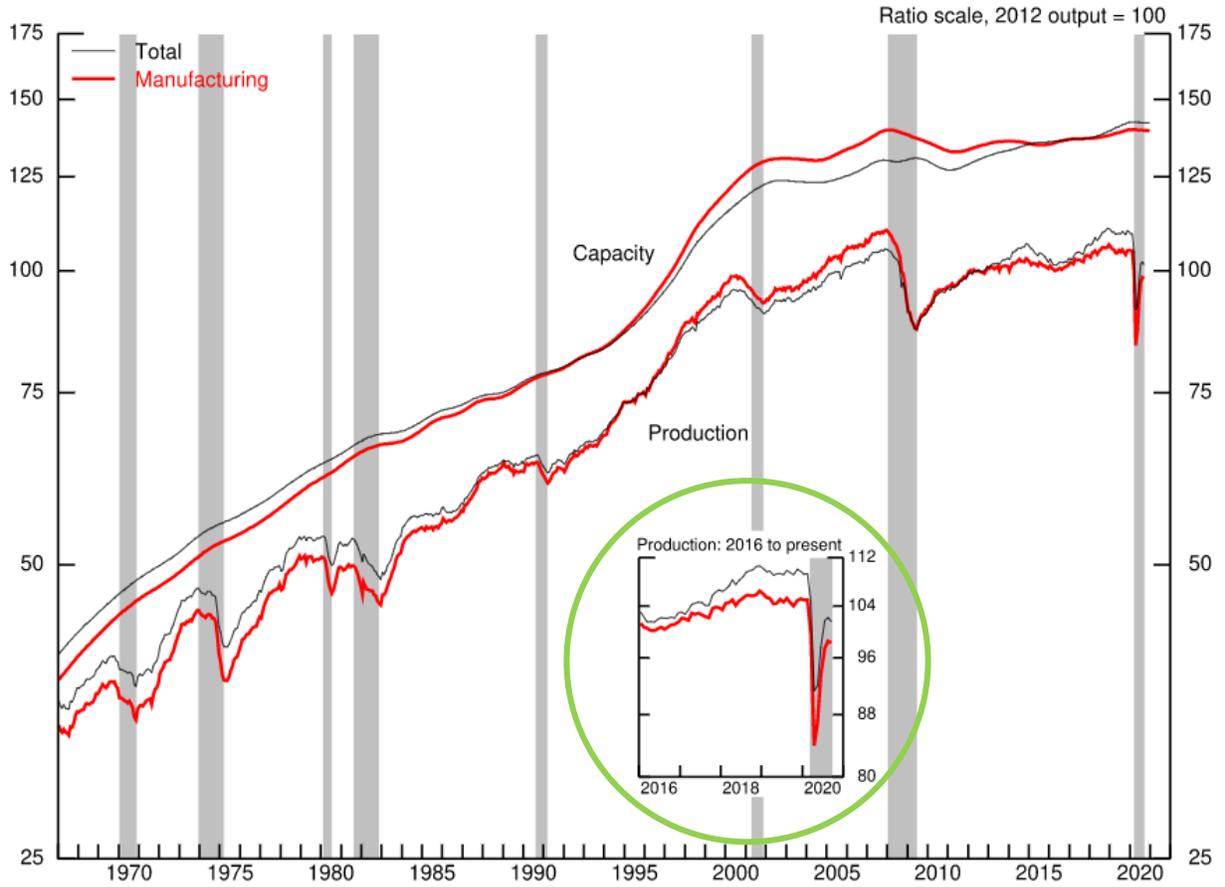
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Texas Instruments may finally be entering the start of its next upcycle, posting year-over-year revenue growth for the first time in 2 years (even though that growth was only 1%.) The return of chip demand from automakers, this last quarter, was a big part of TI's return to growth. After dropping 40% due to factory shutdowns last quarter, the auto sector's revenue grew 75% this quarter. Sales in personal electronics were also strong, while industrial sales, TI's largest sector, remained flat.

This upcycle looks promising. Although the auto market has gotten stronger over the past quarter, it is still below normal production growth. Through August, car sales were down 23% in the US. In China, although August saw higher car sales than in 2019, overall 2020 sales are still down 10%. The fact that Texas Instruments auto revenue increased 75%, more than the market did, suggests a gain in market share. TI's unusual strategy of holding inventory to be ready for recovery in demand seems to be paying off.

The industrial sector also has not returned to pre-COVID levels. The chart below, provided by the Federal Reserve, shows industrial production over the last 50 years. Focus on the circled zoomed-in portion of the graph from 2016-2020: production is still roughly 8% below pre-COVID levels. That means that TI's "only 1%" revenue growth from 2019 confirms that more semiconductor content is being used in each unit of industrial production. We are in the age of "The Internet of Connected Things." When production starts growing again, TI will benefit even more strongly.

1. Industrial production, capacity, and utilization



Just like Lockheed Martin, Texas Instruments has a long history of dividend increases. It also increased its dividend this quarter by 13%, an increase for the 17th year in a row. Since 2004, share count has halved. Management has returned over 100% of free cash flow to investors over the past year, ranking it among the top stocks in the S&P 500. Our summary is: "Texas Instruments has run its business so well, for so many years, that it is a financial powerhouse." We're happy to see the semiconductor recovery beginning, and our company will show a strong, long-lived benefit from that recovery.