

## *Inside Texas Instruments: Last Quarter's Progress*

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Texas Instruments reported a second consecutive quarter of revenue growth, but this time the growth was 22% higher than a year ago versus 1% in the third quarter. The result of 22% sales growth was 59% profit growth, which is pretty spectacular for a company regarded as more “stodgy” than “celebrity” in the Tech sector. Its 3 largest business segments of industrial, automotive, and personal electronics all experienced high demand, growing between 16% and 39%.

The story of Texas Instruments throughout 2020 was one of “business as usual during unusual times”. When COVID hit, the company didn’t halt production or spending. It built up its inventory of long-lasting semiconductors so that it could immediately meet customer needs, whenever business conditions improved. That action deliberately sacrificed earnings and cash flow during the downturn, so it called for both financial strength and nerve. The pressure peaked as demand for TI’s products fell by 40% during the second quarter—but then exploded with a 75% rise in the third quarter and another 25% last quarter.

Sure enough, TI’s competitors are now reporting shortages of product to meet demand, thus delivery times are extending and they are looking to raise prices. When asked specifically if TI was experiencing the same delivery delays and potential price increases, management simply said “no”. “We’re giving all customers what they need without raising prices, which is exactly what we planned to do by building inventory during the downturn,” was management’s remark, roughly. The result will be customer gains for Texas Instruments and losses for its competitors.

In addition to holding on to inventory last year, TI also transitioned most of its selling away from third party distributors. By bringing sales efforts “in house”, it is forming closer, more direct relationships with customers. The goal is to have better insight into customers’ needs and a better ability to win more business.

In 2020, TI generated \$5.5 billion in free cash flow and returned \$6 billion to investors through dividends and share repurchases, fulfilling its commitment to return all free cash flow. Its profitability remains the best in its industry, as seen by the comparison below of profit margins of TI and its peers. Demand looks very likely to remain strong throughout 2021 as economies recover. Texas Instruments has been one of the best-run companies in the world for a long time, and has proven that fact again through the extreme challenges of 2020.

- Texas Instruments Inc Profit Margin
- Intel Corp Profit Margin
- Advanced Micro Devices Inc Profit Margin
- NXP Semiconductors NV Profit Margin
- Qualcomm Inc Profit Margin
- NVIDIA Corp Profit Margin

