Inside Texas Instruments: Last Quarter's Progress

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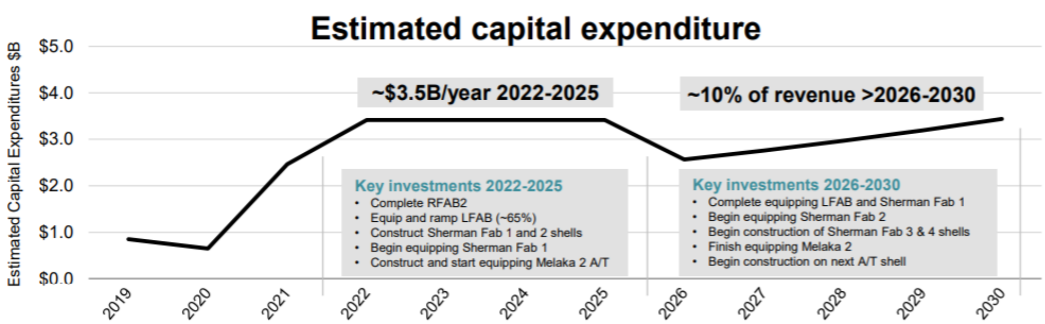
It was another strong quarter for Texas Instruments, with revenue increasing 19% from a year ago and 44% from two years ago, the last pre-COVID quarter. That 2-year revenue growth beats most of its other competitors. That means that TI's bold strategy (when the pandemic began) of increasing inventories to meet future demand really paid off. That future demand arrived, and it's continuing. Just like 3 months ago, TI saw strength in every end market and every geography. The two business segments it primarily focuses on, automotive and industrial, hit 62% of total revenue for the year. This is 5% higher than 2020 and a significant acceleration from prior years, where auto and industrial revenue was increasing by only a percentage or two. The long-term trends of more semiconductor content in those end markets will only continue.

Management believes so strongly in the long-term growth of the company's markets that it is committing to big capital spending over the next decade to be prepared for that growth. In addition to the 2 new factories beginning production within the next year (a Richardson, TX factory starting late 2022 and a Lehi, UT factory starting early 2023), TI announced its plans for a super complex of factories in Sherman, TX. It will hold up to 4 new factories, with construction on the first two beginning this year and the first products made in 2025. All of these new factories will use TI's 300 millimeter technology, which is 40% cheaper than the alternative, 200 millimeter wafer technology.

Capital expenditures support long-term growth



Key metrics	2021	2025	2030
Revenue supported	~$18 billion	~$24 billion	~$34 billion
% wafers internal	80%	85%	90%
% of internal wafers 300-mm	40%	65%	75%
% of Assembly internal	60%	75%	85%

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As the graph above shows, TI plans on increasing its capital spending to a level quite a bit higher than in recent years. The goal of this higher spending is to increase revenue, which management believes is the best way to increase cash flow per share, its top priority as a company. Each of the new factories initially costs around $6 billion to build but should bring in $5 to $6 billion in revenue for up to 40 or 50 years, making the initial investment more than worth it. The table above shows TI's expected revenue growth and plans to bring more production and assembly "in-house". As the past couple years have shown, the more a company controls its own production and doesn't rely on outside factories for production, the more flexibility it has during all aspects of the business cycle.

Texas Instruments' message is clear: "Semiconductor cycles will continue, sharply up and sharply down—but we will not let downcycles stop us from aggressively spending for our future." That happens to be exactly how Texas Instruments became the dominant "sensing chip" company in the world. It's making it very clear that it means to stay in that position for a long time to come.