Inside Texas Instruments: Last Quarter's Progress

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This quarter marked the beginning of the next cyclical downturn in semiconductors for Texas Instruments. Sales grew 13% over the past year, but only 1% over the past 3 months. The company began to see weakness in its industrial business segment and expects that weakness to expand into all other business segments except for the automotive market next quarter. Despite this anticipated weakness, it's business as usual for Texas Instruments. It started production at its newest 300 mm fab in Texas this quarter, expects production to begin at its newest Idaho fab later this year, and has begun construction for up to 4 more fabs in Texas scheduled to produce in 2025. Its inventory remains on the low end of comfort for management, so they will use this cycle to build back up that inventory to be ready for customers whenever orders ramp up again.

When asked if and when the remarkably strong automotive market may weaken, TI says:

> *"It will. That's just what happens. We're not trying to predict when that will happen, we will just continue to ship product to customers as they request it. We are really focused on making sure we have capacity in place for the long term and are not going to worry about when the auto market may weaken".*

This "What? Me, worry?" philosophy is only possible because of the financial strength and well-run business operations of Texas Instruments. No doubt every company in a cyclical industry would like to only focus on the long term trends of its products and be able to weather any short term storm. TI's cash on its balance sheet outweighs its debt by over $1 billion. Management uses weaker market periods to snatch up its own shares, increasing profitability over the cycles (bottom line earnings grew 20% this quarter versus a 13% revenue growth). The majority of its chips in inventory don't have a shelf life that will make them obsolete if not bought in the next 6 months or so.

There were questions this quarter on a couple of the US government's recent actions and how they might affect Texas Instruments. The first, the restrictions on the sale of some semiconductor related products to certain Chinese companies, has no meaningful impact to TI, since over 99% of its products fall on the lowest category of restrictions. The second, the CHIPS Act, will have a positive effect on TI over the next 5-10 years as it offers tax breaks for its manufacturing expansion in the US and may be able to help fund future research and development as well. Both the US government and Texas Instruments know that the need for semiconductors will only grow from today's levels. TI is acting emphatically, right now, to capitalize on that growth throughout the next decade.