Inside Texas Instruments: Last Quarter's Progress

Jan. 27, 2020

We remarked 3 months ago that Texas Instrument's 3rd quarter story was one of sharper declines in revenue than expected. That was the fourth consecutive quarter of year-on-year declines as part of the semiconductor down cycle, and the declines seemed to be accelerating. This past quarter's story is one of slightly softer declines, with revenue down 10% compared to last year. All end markets were down only 3-4% except for Communications Equipment, which was down 50% (very much expected by management, as it is a highly variable and choppy market). This is probably not the end of declining revenues for TI, <u>but it could mark the beginning of the bottom</u>.

Other notable highlights from the quarter include:

- Announcement of the closing of two 150mm factories that are more than 50 years old. The closing will be complete by 2023 to 2025, after TI's newest 300mm factory opens around 2022. Having more 300mm factory production means greater profitability.

- Gain of one percentage point in company revenue from the industrial sector. The industrial and automotive sectors are TI's 2 big focuses: they went from 56% of revenue in 2018 to 57% of revenue in 2019. While one percentage point may not seem like much, gaining revenue share in a down year is still an accomplishment.

- Generation of $5.8 billion in free cash flow for the year, <u>only 4% lower than 2018 despite revenue falling almost 9%</u>. TI returned more than 100% of free cash flow to investors in the form of $3 billion in dividends and $3 billion in share buybacks. In 15 years Texas Instruments has almost cut its outstanding shares in half—a major benefit to long-term owners.

- Finally, CEO Dave Pahl gave a telling answer, during the Earnings Call, to an analyst who asked if he was worried about China's plans to bring all chip production "in house" (made by Chinese companies) to protect itself from hostile trade actions by the U.S. Mr. Pahl's answer was, roughly, "Yes, we hear that kind of talk from our Chinese customers . . . but in the end they are very pragmatic. They want products with the highest performance, lowest cost and most dependable delivery. And we are very, very strong in all those areas."

Texas Instruments is navigating the current semiconductor downturn successfully by keeping focused on its priorities. It has been keeping up its Research and Development expense to remain at the forefront of technology innovation. It has continued its focus on making the best products for the best markets, which are the industrial and automotive sectors of its business. Finally, it has remained on track for growth of free cash flow per share, which the chart below shows. Texas Instruments is committed to returning that cash to its shareholders, which is the foundation for continuing outstanding investment returns.

Growth in Revenue and Free Cash Flow per Share, 2010-2019