

Inside Texas Instruments: Last Quarter's Progress

Aug. 2, 2022

As Outlook pointed out last week, Texas Instruments is another company whose earnings report said “Sky is falling? Not to us!”. Revenue grew 14%, led by its largest product category, analog chips, with 15% growth and its embedded processing category with 5% growth. All end markets grew, including its flagship auto and industrial markets, with the exception of personal electronics, mirroring Microsoft’s comments about weakness in the PC sector.

As expected, this quarter saw some missed revenue opportunities from China’s lockdowns, but by the end of the quarter, orders were back to levels expected before the lockdowns. Management specifically noted that customers aren’t canceling or rescheduling orders despite data that shows some companies may have built up inventory over the last year. This is a good indication that demand has not dropped off yet. Texas Instruments sells 70% of its products directly to customers, so its inventory levels are always a metric that analysts key in on. Inventory levels dropped this quarter from last and remain well below management’s goal level. TI has 3 new factories starting up over the next 4 years, and it remains on track for the first factory’s new production to hit markets at the end of this year. As of today, the demand for that added supply still exists. If the semiconductor downcycle hits before then, TI still looks forward to that new supply to build its inventory up to the desired level. The goal behind this is to create enough stored products at TI to be able to meet any customer’s needs given any market circumstance once the “boom” part of the cycle hits.

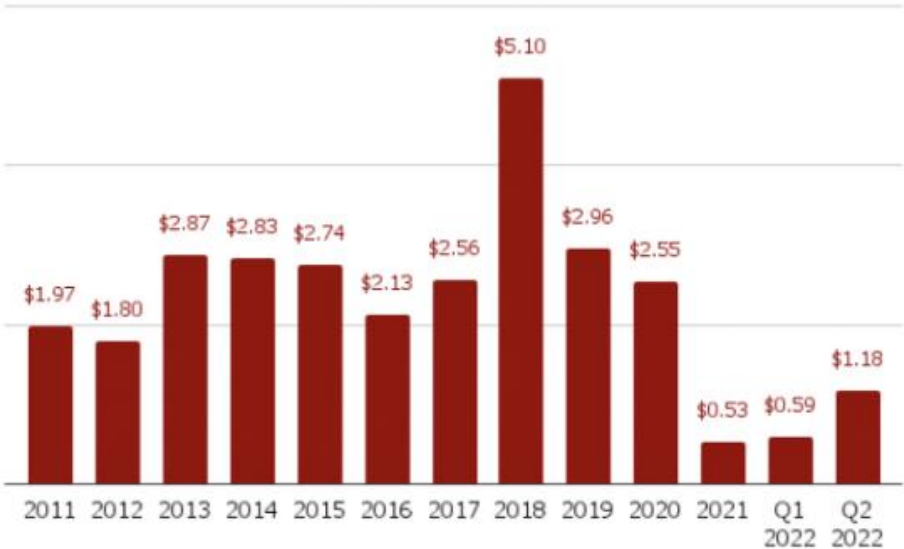
The reality of TI’s quarter reflects a strong business not yet in the throws of the next semiconductor downswing. The stock price shows differently. The chart below shows the stock’s action during the quarter, down 15%, although it has climbed back up almost that entire 15% in the past month.

Texas Instruments Stock Price April through June 2022



Management is known for taking advantage of an undervalued stock price by buying back its shares aggressively during those times. This was true this past quarter, where it bought back \$1.2 billion worth of shares, double that of the first quarter of 2022 and double that of the entire year of 2021. We think the stock is undervalued as well and remains well poised for long term growth.

TI share repurchases (In billions)



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