Inside Texas Instruments: Last Quarter's Progress

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Texas Instruments hit record revenue this quarter, coming in just slightly higher than last quarter and 21% higher than a year ago. Most of its end markets continue to experience robust demand and sales, with the industrial and automotive sectors leading the way with 40% and 20% growth. The well-documented semiconductor shortage continued throughout all the sectors, although management noted that customers' behavior changed over the last 3 months. Whereas for most of the pandemic, customers were placing orders for all semiconductor needs, this past quarter they began to only place orders for specific semiconductors that could complete a finished product. That might signal that chip-using manufacturers all over the world are hunkering down for a long, slow recovery from the global supply-chain mess, rather than a quick recovery.

As we've discussed in prior Inside Reports, Texas Instruments differentiated itself from other semiconductor companies once the pandemic hit by increasing production in anticipation of demand returning sooner than expected. Its inventory was well stocked going into the summer of 2020, and it was able to meet customers' orders better than most. This strategy aimed to pay off by taking customers away from competitors, and it did. TI gained 1% market share in 2020. 1% is actually a significant share gain and is really difficult to do, as evidenced by TI remaining stuck at 18% share for the better half of the last decade.

Leading Analog IC Suppliers ($M)

2020 Rank	Company	2019	2020	% Change	% Marketshare
1	Texas Instruments	10,223	10,886	6%	19%
2	Analog Devices	5,169	5,132	-1%	9%
3	Skyworks Solutions	3,205	3,970	24%	7%
4	Infineon	3,755	3,820	2%	7%
5	ST	3,283	3,259	-1%	6%
6	NXP	2,564	2,466	-4%	4%
7	Maxim	1,850	2,000	8%	4%
8	ON Semi	1,740	1,606	-8%	3%
9	Microchip	1,527	1,420	-7%	2%
10	Renesas	860	890	3%	2%

Figures include sales from acquired companies in 2019 and 2020.

Source: IC Insights, company reports

As high demand continued in 2021, Texas Instruments ran through its extra inventory quickly. It mentioned last quarter that it was running at very low levels and wanted to try to raise them. This quarter, it was only able to raise inventory levels by a small fraction. This speaks to the intensity of unmet demand. TI's 2 new factories coming online in 2022 and 2023 should help them take advantage of this situation.

Of course, no one knows if and when the cycle will turn again. How long is this level of demand going to last? Will companies finally start bringing on new factories all at once in 2022-2023 and have too much supply? TI's management doesn't even try to guess the timing of the cycles because no one can ever know for sure. But it does have enough experience to know that the key to success is to invest for the long term, no matter how many cycles occur in the meantime. The long term semiconductor demand trend absolutely points upward, as TI's rising revenues show. The company commits to growing free cash flow as its number one priority so that it can grow its returns to shareholders. So far, it has succeeded in this goal, announcing a 13% dividend increase: the 18th year in a row that has seen an increase. We'll keep enjoying those dividends no matter what happens in the short term.