Inside Texas Instruments: Last Quarter's Progress

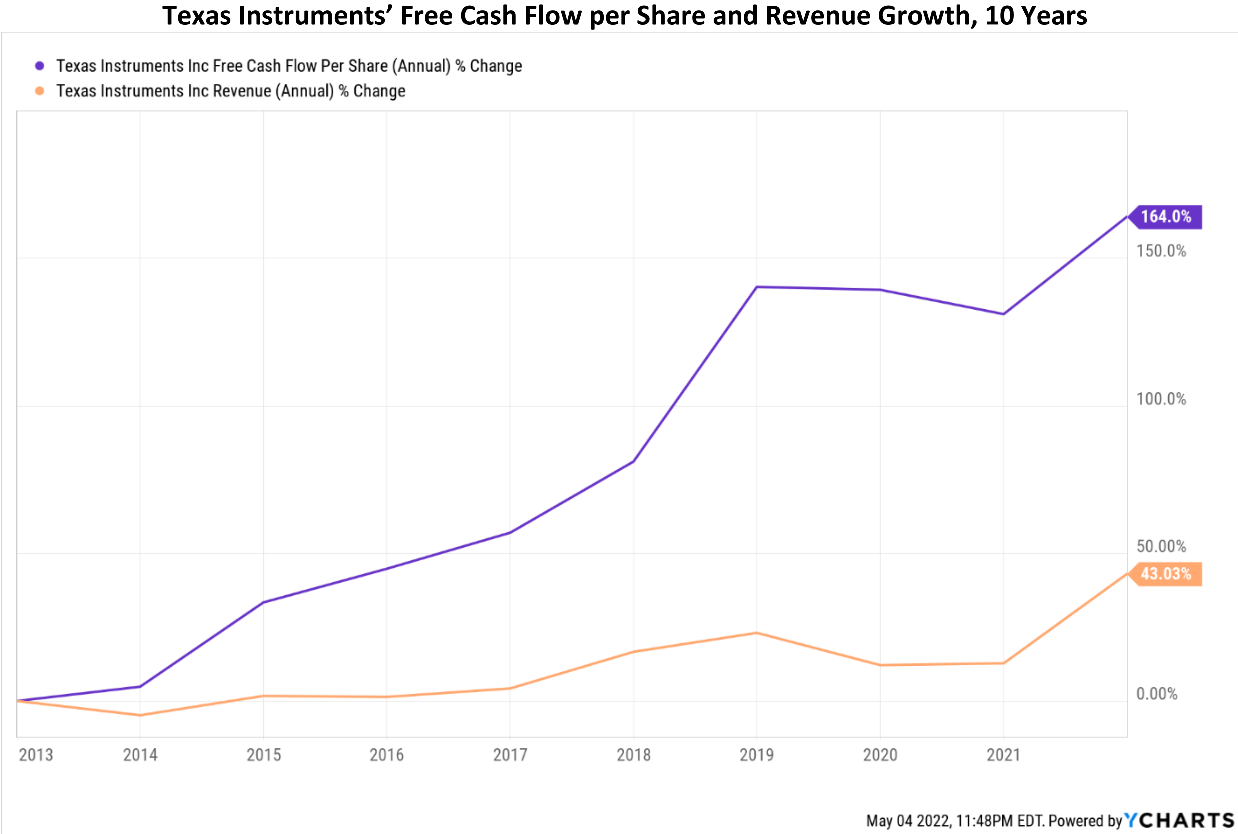
May 5, 2022

Management's goals at Texas Instruments over the past several years are clear as day: focus on key segments of industrial and automotive, bring more production and sales "in house" to strengthen its advantages over competitors, and grow free cash flow per share. The last quarter is a good example of the company meeting all these goals. Total company revenue grew 14%, and management sees strong demand in most business segments and geographies.

The auto and industrial segments grew 20%, the strongest of TI's business segments. The auto semiconductor market alone is projected for almost 20% growth annually through 2030 due to electrification, automation, and higher end sensory signals and "infotainment". TI has come a long way in growing its auto segment in the last 5 years, but still stands in fourth place in size of auto semiconductor manufacturers with 8% of market share.

Texas Instruments has spent the last few years cutting out third party distributors and instead mailing directly to its customer. It's also been increasing production at its own factories instead of relying on third parties for manufacturing. Both actions allow Texas Instruments more flexibility in its operations and greater cost efficiency. Its gross profit margin last quarter reached 70%, up from 65% a year ago, and its operating profit grew 32% from a year ago. This greater profitability leads into the final goal: growing free cash flow per share.

Texas Instruments' Free Cash Flow per Share and Revenue Growth, 10 Years



Free cash flow per share has grown significantly faster than revenue over the last 10 years. This is the dollar amount that management uses to invest back in the company and to return money to shareholders, so the more that purple line rises, the happier investors should be.

Texas Instruments is well on its way to its long term growth plan, and the metrics are showing up even in quarters with tough circumstances. TI expects a small hit to revenue next quarter due to COVID shutdowns at its customers in China, which makes it almost impossible for some customers to receive shipments right now. However, short term speedbumps shouldn't distract from the overall picture: a company hitting its goals to become stronger, both for customers and investors.