

TI Exceeds 1Q Expectations as All End-Markets Decline

TXN	26 est.	Texas Instruments	CY24rev:	-11%
Qtr:	1Q	Grade:	B	Growth (qtr-qtr)
Rev:	3,661	Rev:	+	Rev: -10.2%
GM:	57.2%	EPS:	+	Fcst: +0+8%
EPS:	\$1.20	Fcst:	+	Div: \$1.30

Texas Instruments (TXN \$165.47 +2.04 close 4/23/24)

1Q Earnings: TXN announced 1Q results and 2Q guidance somewhat above expectations and the mid-point of guidance. EPS included an un-forecasted benefit of 10-cents due to a property sale, and the sequential revenue decline was across all end-markets as customers continued to reduce inventories. 2Q guidance for growth is characterized as ‘seasonal.’ My new favorite phrase is ‘Geopolitically Dependable Capacity’ used by management to describe automotive customer supply requirements.

1Q Results: Analog products (including power and signal chain devices) accounted for 77.5% of revenue and declined by -9% sequentially at an operating margin of 35.5% down from 41.0%, while Embedded (microcontrollers) was at 18% and declined by -13% at a margin of 16.1% down from 25.9%, and Other (DLP, calculators, ASICs) was at 5% down by -16% with a margin of 100% up from 28.3% that includes restructuring and other items. On a sequential basis: industrial markets fell in the upper single-digit percentage of sales; automotive was down in the mid-single digits; personal electronics (PCs, cell phones) was down in the mid-teens; communications equipment was down about -25%; and enterprise systems dropped in the mid-teens although longer-term investment is up a bit in this sector due to increasing expected growth.

Operating cash flow was \$1.02B, capital expenditures were \$1.25B, \$1.2B was paid in dividends and only \$3M of stock was repurchased. Gross margin of 57.2% was down by another -240 basis points sequentially due to lower sales and factory underutilization to optimize inventory, which was up by +\$84M and 16 days to \$4.1B and 235 days. Operating margin was 35.1% down from 37.6%. The company issued \$3B in debt that now totals \$14.3B with a weighted average coupon of 3.8%, while cash and short-term investments total \$10.4B.

Guidance: 2Q revenue is expected at \$3.65B-\$3.95B with EPS of \$1.05-1.25 at a tax rate for the year of 13%. Op ex includes a full 3-months of annual salary raises. Bookings increased each month last quarter and that—and the expected 2Q revenue increase—is characterized as ‘typically seasonal.’ Annual capital expenditures are expected to remain around \$5B through 2026 that includes expanding capacity for Embedded/MCU products currently contracted out to foundries, and depreciation is now expected at the low end of \$1.5-\$1.8B for 2024 and remains at \$2-\$2.5B for 2025. A CHIPS grant request for Texas and Utah remains in process, although the company has acquired an investment tax credit (ITC) of \$1.5B of which \$300M will be recognized 2Q and \$1B during 2024.

Premium Justified: TXN wrote the book on Shareholder Friendliness for the semiconductor industry with its objective to maximize long-term free cash flow per share to drive shareholder value by building analog and embedded products in 300mm wafer fabs for industrial and automotive markets. Unfortunately, much of a well-justified premium is already priced into the shares at the current price level, in my opinion—especially amid current business weakness. The shares are trading at 12-times tangible book value, 9.7-times expected 2024 (declining) sales, and 32.7-times 2024 earnings (ditto). Also, debt issuance and minimal share repurchases are not encouraging.

—Dan K. Scovel
Semiconductor Analyst

Tokeneke Research LLC
Rowayton, CT 06853
dscovel@tokenekeresearch.com
www.tokenekeresearch.com
203-554-4621

LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -/o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

TXN Financials

\$ in millions

FYE Dec

	2021	2022					2023					2024
		1Q	2Q	3Q	4Q	2022	1Q	2Q	3Q	4Q	2023	1Q
Revenue												
Analog	14,050	3,816	3,992	3,993	3,558	15,359	3,289	3,278	3,353	3,120	13,040	2,836
Embedded	3,049	782	821	821	837	3,261	832	894	890	752	3,368	652
Other	1,245	307	399	427	275	1,408	258	359	289	205	1,111	173
Total	18,344	4,905	5,212	5,241	4,670	20,028	4,379	4,531	4,532	4,077	17,519	3,661
Gross Profit	12,376	3,442	3,625	3,617	3,087	13,771	2,863	2,910	2,815	2,431	11,019	2,095
Gross Margin	67.5%	70.2%	69.6%	69.0%	66.1%	68.8%	65.4%	64.2%	62.1%	59.6%	62.9%	57.2%
Operating Profit	8,960	2,563	2,723	2,678	2,176	10,140	1,934	1,972	1,892	1,533	7,331	1,286
Operating Margin	48.8%	52.3%	52.2%	51.1%	46.6%	50.6%	44.2%	43.5%	41.7%	37.6%	41.8%	35.1%
EPS	\$8.26	\$2.35	\$2.45	\$2.47	\$2.13	\$9.41	\$1.85	\$1.87	\$1.85	\$1.49	\$7.07	\$1.20
Dividend per Share	\$4.21	\$1.15	\$1.15	\$1.15	\$1.24	\$4.69	\$1.24	\$1.24	\$1.24	\$1.30	\$5.02	\$1.30
Share Repurchase \$						3,615	103	79	46	65	293	3
Rev Percent												
Analog	76.6%	77.8%	76.6%	76.2%	76.2%	76.7%	75.1%	72.3%	74.0%	76.5%	74.4%	77.5%
Embedded	16.6%	15.9%	15.8%	15.7%	17.9%	16.3%	19.0%	19.7%	19.6%	18.4%	19.2%	17.8%
Other	6.8%	6.3%	7.7%	8.1%	5.9%	7.0%	5.9%	7.9%	6.4%	5.0%	6.3%	4.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rev Growth												
Analog			4.6%	0.0%	-10.9%	9.3%	-7.6%	-0.3%	2.3%	-6.9%	-15.1%	-9.1%
Embedded			5.0%	0.0%	1.9%	7.0%	-0.6%	7.5%	-0.4%	-15.5%	3.3%	-13.3%
Other			30.0%	7.0%	-35.6%	13.1%	-6.2%	39.1%	-19.5%	-29.1%	-21.1%	-15.6%
Total			6.3%	0.6%	-10.9%	9.2%	-6.2%	3.5%	0.0%	-10.0%	-12.5%	-10.2%
Op Profit												
Analog	7,393	2,150	2,226	2,185	1,798	8,359	1,574	1,463	1,504	1,280	5,821	1,008
Embedded	1,174	315	324	321	293	1,253	237	318	258	195	1,008	105
Other	393	98	173	172	85	528	123	191	130	58	502	173
Total	8,960	2,563	2,723	2,678	2,176	10,140	1,934	1,972	1,892	1,533	7,331	1,286
Op Margin												
Analog	52.6%	56.3%	55.8%	54.7%	50.5%	54.4%	47.9%	44.6%	44.9%	41.0%	44.6%	35.5%
Embedded	38.5%	40.3%	39.5%	39.1%	35.0%	38.4%	28.5%	35.6%	29.0%	25.9%	29.9%	16.1%
Other	31.6%	31.9%	43.4%	40.3%	30.9%	37.5%	47.7%	53.2%	45.0%	28.3%	45.2%	100.0%
Total	48.8%	52.3%	52.2%	51.1%	46.6%	50.6%	44.2%	43.5%	41.7%	37.6%	41.8%	35.1%
Mkt Percent												
Industrial	41%					40%					40%	
Automotive	21%					25%					34%	
Personal Electronics	24%					20%					15%	
Comm Eqt	6%					7%					5%	
Enterprise Sys	6%					6%					4%	
Other (calculators)	2%					2%					2%	
	100.0%					100.0%					100.0%	
Mkt Growth												
Industrial						6.5%					-12.5%	
Automotive						30.0%					19.0%	
Personal Electronics						-9.0%					-34.4%	
Comm Eqt						27.4%					-37.5%	
Enterprise Sys						9.2%					-41.7%	
Other (calculators)						9.2%					-12.5%	
						9.2%					-12.5%	

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