

TI Meets 2Q Expectations but Guidance Disappoints

TXN	27 est.	Texas Instruments	CY24rev:	-10%
Qtr:	2Q	Grade:	D	Growth (qtr-qtr)
Rev:	3,822	Rev:	+	Rev: 4.4%
GM:	57.8%	EPS:	o	Fcst: +3+12%
EPS:	\$1.22	Fcst:	-	Div: \$1.30

Texas Instruments (TXN \$197.15 -1.13 close 7/25/24)

2Q Earnings: TXN announced 2Q results consistent with expectations and guidance late Tuesday, although 3Q guidance is lower than expected. EPS included an un-forecasted benefit of 5-cents. Product availability is from stock and stable with decreasing customer cancellations, albeit with limited order visibility.

2Q Results: Analog products (including power and signal chain devices) accounted for 76.6% of revenue and grew by +3.2% sequentially at an operating margin of 35.8% up from 35.5%, while Embedded (microcontrollers) was at 16.1% and declined by -5.7% at a margin of 13.0% down from 16.1%, and Other (DLP, calculators, ASICs) was at 7.3% up by +61% on seasonal calculator and DLP strength with a margin of 43.4% down from 100% that included restructuring and other items. On a sequential basis: industrial markets fell in the low single-digit percentage of sales; automotive was down in the mid-single digits; personal electronics (PCs, cell phones) grew in the mid-teens and was broad-based; communications equipment was up mid-single digits; and enterprise systems gained +20%. Embedded products mostly serve industrial and automotive markets. Geopolitically Dependable Capacity is a general strength for the company and provides Chinese customer automotive exporters access to competitive US-based supply. China overall was up +20% sequentially across all markets after seven quarters of sequential declines.

Operating cash flow was \$1.57B, capital expenditures were \$1.06B, \$1.2B was paid in dividends, \$71M of stock was repurchased, and free cash flow benefited by \$312M from CHIPS investment tax credits. Gross margin of 57.8% was up by +60 basis points sequentially due to higher sales and factory utilization, inventory was up by +\$23M to \$4.1B but down by six days to 229. Operating margin was 32.7% down from 35.1%. The company repaid \$300M in debt that totals \$14B with a weighted average coupon of 3.8% while cash/equivalents total \$9.7B.

3Q Guidance: 3Q revenue is expected at \$3.94B-\$4.26B including seasonal consumer pre-holiday strength, with EPS of \$1.24-1.48 at a tax rate for the year of 13%. Gross margin will edge up on flat to slightly increasing utilization. Longer term gross margin will fall through incremental revenue at 75-85%, excluding depreciation. Annual capital expenditures remain around \$5B through 2026 that includes expanding capacity for Embedded/MCU products currently contracted out to foundries, and depreciation is now expected at \$1.5-\$1.6B for 2024 and at \$2-\$2.3B for 2025. A CHIPS grant request for Texas and Utah remains in process, although the company has accrued a 25% investment tax credit (ITC) of \$1.8B of which \$200M will be recognized 3Q 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. 2024 will be a down year, but 2025 is expected to grow double digits. The shares are currently trading at 14.1-times tangible book value, 10.1-times sales and 30.8-times earnings based on 2025 expectations.

—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				2022	2023				2023	2024	
		1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		1Q	2Q
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	2,928
Embedded	3,049	782	821	821	837	3,261	832	894	890	752	3,368	652	615
Other	1,245	307	399	427	275	1,408	258	359	289	205	1,111	173	279
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	3,822
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	2,211
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%	57.8%
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	1,248
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%	32.7%
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	\$1.22
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	\$1.30
Share Repurchase \$						3,615	103	79	46	65	293	3	71
Revenue 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%	76.6%
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%	16.1%
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%	7.3%
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%	100.0%
Revenue Growth													
Analog			4.6%	0.0%	-10.9%	9.3%	-7.6%	-0.3%	2.3%	-6.9%	-15.1%	-9.1%	3.2%
Embedded			5.0%	0.0%	1.9%	7.0%	-0.6%	7.5%	-0.4%	-15.5%	3.3%	-13.3%	-5.7%
Other			30.0%	7.0%	-35.6%	13.1%	-6.2%	39.1%	-19.5%	-29.1%	-21.1%	-15.6%	61.3%
Total			6.3%	0.6%	-10.9%	9.2%	-6.2%	3.5%	0.0%	-10.0%	-12.5%	-10.2%	4.4%
Operating 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	1,047
Embedded	1,174	315	324	321	293	1,253	237	318	258	195	1,008	105	80
Other	393	98	173	172	85	528	123	191	130	58	502	173	121
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	1,248
Operating 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%	35.8%
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%	13.0%
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%	43.4%
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%	32.7%
Market 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%		
Market 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%		

Copyright © 2024 Tokeneke Research LLC. All rights reserved. This report is for information purposes only and does not constitute a solicitation or an offer to buy or sell any security or to participate in any investment or trading strategy. Opinions expressed in this report reflect the judgment of Tokeneke Research LLC on the topics addressed as of the date of the report and are subject to change without notice. Tokeneke Research LLC makes every effort to use reliable and comprehensive information but makes no representation that the information in this report is accurate or complete, nor does it undertake to update or revise this report at any time or for any reason. This report contains forward-looking statements that involve risks and uncertainties, both known and unknown, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors. This report does not provide individually tailored investment advice and has been prepared without regard to the specific individual financial situation, objectives and needs of those who receive it. Securities discussed in this report may not be suitable for the reader. Tokeneke Research LLC and/or Dan Scovel may have a long or short position in the securities of a company or companies mentioned in this report and, at any time, may change that position. Tokeneke Research LLC accepts no liability whatsoever for any loss or damage of any kind arising out of the use of any part, or all, of this report. All company and product names mentioned in this report may be trademarks or registered trademarks of their respective holders and are used for identification purposes only. Reproduction or distribution of this report, even for internal distribution, is strictly prohibited unless specifically authorized by Tokeneke Research LLC.