

TI Exceeds 3Q Expectations but 4Q Guidance Disappoints

TXN	27 est.	Texas Instruments	CY24rev:	-10%
Qtr:	3Q	Grade:	D	Growth (qtr-qtr)
Rev:	4,151	Rev:	++	Rev: 8.6%
GM:	59.6%	EPS:	++	Fcst: -11-4%
EPS:	\$1.47	Fcst:	--	Div: \$1.36

Texas Instruments (TXN \$201.74 +7.77 close 10/23/24)

3Q Earnings: TXN announced 3Q results at the higher-end of expectations and guidance late yesterday, although 4Q guidance is significantly lower than expected and characterized as seasonal. EPS included an un-forecasted benefit of 3-cents. Product is readily available, order visibility is limited, and company continues to build inventory.

3Q Results: Analog products (including power and signal chain devices) accounted for 77.6% of revenue and grew by +10% sequentially at an operating margin of 40.8% up from 35.8%, while Embedded (microcontrollers) was at 15.7% and grew by +6% at a margin of 16.7% up from 13.0%, and Other (DLP, calculators, ASICs) was at 6.6% down by -1.4% after seasonal strength last quarter with a margin of 46.9% up from 43.4%. On a sequential basis: industrial markets fell in the low single-digit percentage of sales once again; automotive rebounded in the upper-single-digits on strength from China (only); personal electronics (PCs, cell phones) grew around +30%; communications equipment was up about +25%; and enterprise systems gained approximately +20% as the cyclical recovery persisted in these last three markets. Embedded products predominantly 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 for the second straight quarter after seven quarters of sequential declines. Industrial and automotive ex-China remain weak.

Operating cash flow was \$1.7B, capital expenditures were \$1.3B, \$1.2B was paid in dividends, \$318M of stock was repurchased, and free cash flow benefited by \$220M from CHIPs investment tax credits. Gross margin of 59.6% was up by +180 basis points sequentially due to higher sales, inventory was up by +\$190M to \$4.3B or by two days to 331, and operating margin was 37.4% up from 32.7%. Debt totals \$14B with a weighted average coupon of 3.8% while cash/equivalents total \$8.8B.

4Q Guidance: 4Q revenue is expected to fall to \$3.7B-\$4.0B on seasonal weakness with EPS of \$1.07-1.29 at a tax rate of 13%. Gross margin will drop on lower sales and increasing depreciation with op ex flat to slightly up. Annual cap ex will stay around \$5B through 2025 that includes expanding capacity for Embedded/MCU products currently contracted out to foundries.

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 14.4-times tangible book value, 10.4-times sales and 32.1-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					2024		
		1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q	2023	1Q	2Q	3Q
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	3,223
Embedded	3,049	782	821	821	837	3,261	832	894	890	752	3,368	652	615	653
Other	1,245	307	399	427	275	1,408	258	359	289	205	1,111	173	279	275
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	4,151
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	2,474
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%	59.6%
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	1,554
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%	37.4%
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	\$1.47
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	\$1.30
Share Repurchase \$						3,615	103	79	46	65	293	3	71	318
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%	77.6%
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%	15.7%
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%	6.6%
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%	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%	10.1%
Embedded			5.0%	0.0%	1.9%	7.0%	-0.6%	7.5%	-0.4%	-15.5%	3.3%	-13.3%	-5.7%	6.2%
Other			30.0%	7.0%	-35.6%	13.1%	-6.2%	39.1%	-19.5%	-29.1%	-21.1%	-15.6%	61.3%	-1.4%
Total			6.3%	0.6%	-10.9%	9.2%	-6.2%	3.5%	0.0%	-10.0%	-12.5%	-10.2%	4.4%	8.6%
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	1,316
Embedded	1,174	315	324	321	293	1,253	237	318	258	195	1,008	105	80	109
Other	393	98	173	172	85	528	123	191	130	58	502	173	121	129
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	1,554
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%	40.8%
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%	16.7%
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%	46.9%
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%	37.4%
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.