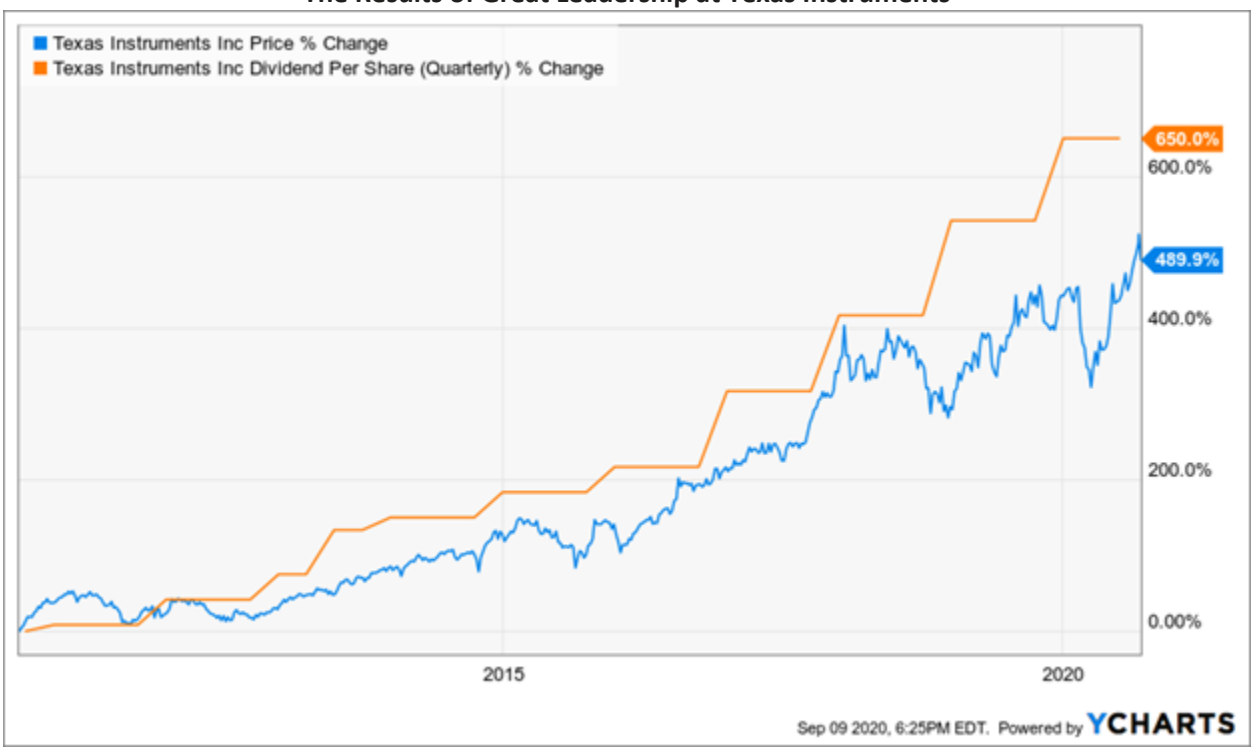
The Outlook: Sept. 9, 2020

Texas Instruments: creating value the hard way . . . and the only way.

Just last week we talked about how much "great leaders matter," and how the investing crowd generally acts as if it doesn't really believe that. Rich Templeton, CEO of Texas Instruments, gave a talk today; and reminded us how wrong that crowd of cynics really is. Let's set the stage with TXN's 10-year chart:

The Results of Great Leadership at Texas Instruments



TXN's dividend is up 650% and its stock is up 500% . . . and it set an all-time high only last week. That's pretty good for a Big Tech company in 2020 which, like Micron, is the polar opposite of a "Celebrity Tech:" selling truckloads of low-cost sensing chips to sharply-cyclical industries like autos, which celebrities (and market speculators) usually avoid like the plague.

How has this happened? Let's listen to Mr. Templeton answering that question as follows, roughly:

> It's really just simple math. When you own your own manufacturing plants, and you run them at world-class competitive levels, you end up with a cost advantage <u>and</u> better control of your supply chain. To me that's the only way to operate a $10 billion semiconductor company . . . and COVID-19 has been a perfect example. We performed better than most of our competitors who were outsourced around the world. We can afford to do things our competitors can't do: like carrying a better and bigger sales force and holding enough inventory to satisfy our customers' needs, whenever those needs show up. I believe that in the end, constantly improving our manufacturing and internal processes is what determines success over the years. Because we've insisted on that focus, we have a pretty big lead over our competition and we mean to keep it.

It does sound simple when a CEO says it, doesn't it? One of the wonderful things about "experience" is that some of those simple-sounding remarks eventually start ringing personal bells . . . or aching like old scars in a cold rain. A good while ago a bank executive decided to take a big business risk: bringing a people-intensive operation in-house to save money. This was a reversal of the "outsource everything" trend of that time (which is still going strong today, but not at Texas Instruments), but the bank was struggling through a bad-loan swamp and badly needed to create more earning power, anywhere it could get it. Almost a million dollars of annual cost savings (from firing the outsourcing firm and building inhouse) was too much to pass up.

The story didn't have a happy ending. The process of change was a nightmare, with unforeseen problems popping up like weeds . . . or more like grizzly bears. Among the lessons the executive learned was the extreme scarcity of really good people . . . but also the extreme good the really good people delivered. Like the legendary home-construction project, the change cost twice as much as expected upfront, and took twice as long to get to the finish line. Just for good measure, more pain arrived when the bank was sold, not long after the "insourcing" project kicked off. Old scars in a cold rain, indeed.

But through it all, one thing was clear. The insourcing and its big savings were do-able and real, not imaginary. It was just a great deal harder than reading about it in a business magazine.

So when someone like Texas Instruments' Mr. Templeton says, roughly, "We've been doing that kind of intensely hard work for 15 years. We've done it a lot better than our competitors. So we have a lead on them which they will not close . . . and which will benefit our shareholders for a long time to come" . . . we are inclined to believe him. That chart up there is pretty spectacular, for us investors; but the story is not over at Texas Instruments—not by a long shot.

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