

***Inside Texas Instruments: major goals, and last quarter's progress.***

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This past quarter marked quarter number 3 of the current semiconductor downcycle for Texas Instruments. Revenue declined 8% from last year but was very much in line with the company's expectations.

Texas Instruments' leaders have been very unworried throughout this downturn. CFO Rafael Lizardi's recent comments really capture the company's attitude. They were the most interesting thing about the company's Earnings Conference Call with Wall Street analysts. His first topic was the normalcy of cyclical downturns.

"Starting in October or so we talked about . . . entering into what we characterize as a semiconductor downturn. And what really was driving the industry trends down was your normal semiconductor cycle, so draining off of customers' (excess) inventory.

"Historically, those lasted about a year, four, five, six quarters. And that's because we've had two years of running above trend. So we've got to have a year or so running below trend and that's just how the industry has worked and will continue to work. And then we took necessary steps to manage through that. And in the long-term frankly it doesn't matter. It doesn't matter. End markets are going to grow, the semiconductor content is going to grow and we're well positioned for that."

Then an analyst asked Mr. Lizardi two questions about China. First was "Has the U.S./China trade war impacted your business?" His answer was very direct: "No. Not at all." The next question was, "Are you worried about China's policy of eliminating dependence on the U.S., when it comes to high-technology products like Texas Instruments' chips?" Here is his reply:

"Yes, they want to lessen their dependence on The United States. But the same competitive advantages that help us against our traditional competitors are the ones that will continue to help us against any effort by China to go after our analog business.

"In analog chips, you need at least several thousand different parts just to get started, right? And really to be able to go against us where we have 100,000 different parts ourselves is pretty daunting even if you had a few thousand parts. You don't just need one technology to go out, you need dozens of process technologies and then you need thousands of different products which each have their own idiosyncrasies and IPs and different things. So it's not a take IP (intellectual property) from wherever and go deploy it. You got to build a whole library of different things. And even then -- even if somebody had all that, it would be very difficult to deploy, right? So we think we have some inherent advantages in that. That doesn't mean they're impregnable. If somebody really wants to go at it, they could make a dent at that, but that would take decades. And our job is not to just stand still, which we're not, we always continue to strengthen our advantage."

Texas Instruments is always crystal clear on its priorities: grow and return cash flow per share and focus on the best industries in its semiconductor market—automotive and industrial. During this downturn, its

priorities are the same. It continues to invest in the automotive and industrial sectors, as those are where the most growth is expected long term. CFO Rafael Lizardi recently asked the following about the future:

“Are we going to have more electric vehicles as a proportion of cars than before? Are we going to have more automation in factories? Are we going to have more automation in the grid and the need for more electric content in all vehicles? Even in a world with periods of economic uncertainty or a temporary recession, the answer is a resounding “Yes!”. So even though those 2 sectors are also experiencing normal cyclical decline, Texas Instruments continues to gear up for the future.”

Through 3 quarters of this downcycle, Texas Instruments has shown just how well a strong company can perform, even in a weak environment. It generated about \$6 billion of free cash flow over the last 12 months, a 3% increase from a year ago, despite 3 straight quarters of cyclical weakness in sales. And here’s how the market has treated our company—proving that the market is only silly sometimes, not always.

#### TXN: An All-Time High in the Middle of a Downcycle



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