***Inside Texas Instruments: Last Quarter's Progress***

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Three months ago, we ended our commentary of Texas Instrument's first quarter earnings with:

*This auto chip crisis will really test Texas Instrument's business model of offering many products to many customers, owning its manufacturing, creating close relationships with its customers, and building inventory to become the go-to supplier for customers. Every sign from this quarter points to great success, for the model. We think the next several quarters will show the same thing.*

Three months later, TI's second quarter results are indeed showing the same thing, with even more explosive revenue growth and greater profitability despite still dealing with pressures from the semiconductor chip shortage. Revenue increased 41%, with the automotive industry doubling revenue and the industrial segment showing 40% growth. Lead times for most products remain steady, but the list of "hot spots", or products where the supply is unable to meet the demand, grew this quarter, showing the strength of this upcycle. As TI's strategy during the pandemic was to stock up on inventory so that it would be prepared for a faster than expected recovery, we are fairly certain it is faring better than its competitors and picking up some market share.

Although no one knows when the chip shortage is going to end, there are no current signs showing weakness in the next quarter or two. Of course every semiconductor company is trying to add capacity and increase production to capitalize on the shortage. The majority of semiconductor companies outsource production to companies like Taiwan Semiconductor, which then has to figure out who gets any spare capacity in its factories. Texas Instruments has spent the last decade bringing most of its manufacturing and distribution in house, which is always more advantageous during problematic times for supply chains. Its plan for the past few years has always been to add a third 300 millimeter factory, which is on track to produce chips by mid-2022. It also just bought a fourth 300 millimeter factory from Micron (its canceled hybrid memory product factory), which should add production by 2023. These 2 new additions of low cost chip manufacturing will boost TI's future revenue, whether it happens this upcycle or the next one.

**Texas Instruments' Stock Price Last 5 Days**


An obvious reaction after reading the headline revenue growth numbers of the past quarter and viewing the stock's action (down 5%) would be "huh?" Management's revenue guidance for the next quarter was in a range that hit from slightly below this quarter's number to slightly above this quarter's number. As the third quarter seasonally is typically strong for TI, analysts really questioned this "soft" revenue guidance. As management points out, though, you can't really go by regular seasonal trends this year, since 2020 and the recovery from 2020 have been so unusual, and it sees nothing problematic in any of its end markets yet.

That downward plunge is a sign of the jitters among the market's daily speculators, which is a normal condition for them no matter how well a company is performing. But we expect strong results for the rest of the year, and across the ups and downs of the years to come.

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