Texas Instruments (TXN)

$134.25 (As of 01/23/20)

Price Target (6-12 Months): **$141.00**

Long Term: 6-12 Months	**Zacks Recommendation:** **Neutral**
	(Since: 12/23/19)
	Prior Recommendation: Underperform
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **3-Hold**
	Zacks Style Scores: VGM:B
	Value: D | Growth: B | Momentum: A

Summary

Texas Instruments reported fourth quarter results wherein both earnings and revenues topped estimates but declined on a year-over-year basis due to weakening end-market conditions which impacted the Analog and Embedded Processing segments. Nevertheless, the company's focus on innovation of product lines across both the segments is a positive. Further, Texas Instruments continues to increase investments in the automotive and industrial markets, which are likely to yield good returns. Moreover, the company remains confident on efficient manufacturing strategies and optimized capital allocation in growth areas. However, sluggishness across end-markets and weakening customer momentum are major headwinds. Further, high debt level and rising competitive pressure are headwinds. The stock has underperformed its industry over a year.
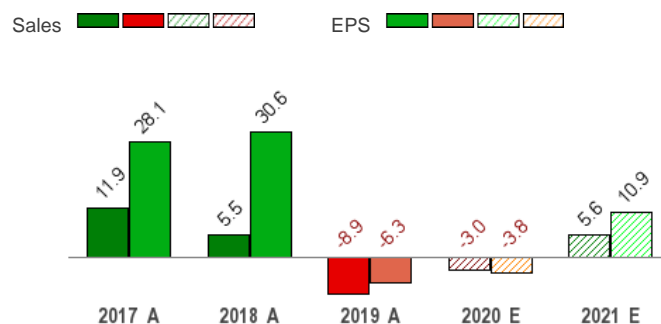
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$135.70 - $100.17**
20 Day Average Volume (sh)	**4,326,696**
Market Cap	**$125.5 B**
YTD Price Change	**4.7%**
Beta	**1.21**
Dividend / Div Yld	**$3.60 / 2.7%**
Industry	**Semiconductor - General**
Zacks Industry Rank	**Top 15% (37 out of 255)**
Last EPS Surprise	**9.8%**
Last Sales Surprise	**3.9%**
EPS F1 Est- 4 week change	**1.2%**
Expected Report Date	**04/28/2020**
Earnings ESP	**2.0%**
P/E TTM	**26.2**
P/E F1	**26.6**
PEG F1	**2.6**
P/S TTM	**8.7**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,505 E	3,685 E	3,931 E	3,717 E	14,741 E
2020	3,271 E	3,518 E	3,848 E	3,628 E	13,953 E
2019	3,594 A	3,668 A	3,771 A	3,350 A	14,383 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.26 E	$1.39 E	$1.58 E	$1.43 E	$5.59 E
2020	$1.06 E	$1.23 E	$1.47 E	$1.35 E	$5.04 E
2019	$1.22 A	$1.29 A	$1.49 A	$1.12 A	$5.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

Overview

Headquartered in Dallas, Texas, Texas Instruments, Inc. is an original equipment manufacturer of analog, mixed signal and digital signal processing (DSP) integrated circuits.

TI has manufacturing and design facilities, including wafer fabrication and assembly/test operations in North America, Asia and Europe.

Management's strategy has been to build assets that would be fully utilized through their lifetimes and outsource any excess demand in peak situations to outside foundries.

The company's Analog segment generated 71% of revenue in 2019 (up from 68% in 2018). Analog products have been categorized into three—high performance analog, high volume analog and logic, and power management.

The Embedded Processing segment generated 20.5% of revenue (down from 22% in 2018). This segment includes TI's OMAP, connectivity solutions, non-wireless DSPs and microprocessors.

The Other segment generated the remaining 8.5%. The segment includes smaller semiconductor product lines, such as DLP products, RISC microprocessors and ASICs, calculators and other schoolroom tools, and royalties.

EPS Hist. and Est.

Sales Hist. and Est.

Products are sold in industrial, personal electronics, automotive, communications, enterprise and other markets, which accounted for 36%, 23%, 21%, 11%, 6%, and 3%, respectively, of 2019 sales.

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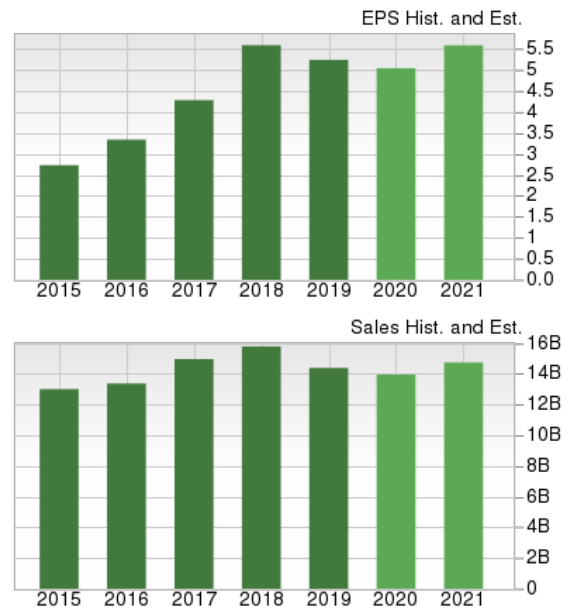
Reasons To Buy:

▲ TI serves **diverse end markets** that balance individual ups and downs in multiple ways. For instance, the seasonality in the personal electronics business is balanced out by the industrial, communications and automotive segments. The company serves individuals and corporations (personal communications, calculators), industrial customers (industrial, which includes a large number of customers across many markets and automotive manufacturers) and also infrastructure providers (communications segment). Further, the emergence of 5G technology is aiding the performance of the company's analog products in the communication equipment market. All these are making its revenue stream relatively steady despite the dynamism in each of the markets served. This is very important for a company like TI because it has huge facilities of its own that come along with high fixed costs.

Demand remains strong, particularly in high-margin auto and industrial verticals, given higher mix of analog and embedded processing products, and 300mm manufacturing strategy strengthening margins.

▲ The company is seeing particular success in certain fast-growing segments of the **automotive market**. Texas Instruments focuses on infotainment, safety and ADAS, body electronics (including lighting), hybrid electric vehicle and powertrain segments of the automotive market. The company has made significant progress on the ADAS side, shipping millions of chips into this market. The strength is expected to continue as the electronic content in cars continues to increase at a nice pace.

▲ Texas Instruments is focused on the **Internet of Things (IoT)**. Much of the recent growth in the embedded business comes from microcontrollers, which are some of the enabling products. The scope of IoT is tremendous for semiconductor companies, since it connects every conceivable electronic device. Independent research firms Gartner and IDC are projecting steady growth in IoT-related spending through 2020. Success is however dependent on the ability to lower power consumption and cost, so the company is in the process of refreshing its product line. It has also launched a partner program that it is calling its IoT Cloud ecosystem, which is a partnership with companies like 2lemetry, ARM, Arrayent, Exosite, IBM, LogMeIn, Spark, and Thingsquare to provide software, hardware or cloud-based services to facilitate platforms based on TI technology.

Reasons To Sell:

▼ Texas Instruments operates in an **intensely competitive industry.** First, there are many competitors of all sizes, such as Broadcom, NXP, Analog Devices and Intel. Second, the fragmented nature of the industry allows firms to find niches where they can concentrate their efforts. Third, the pace of technological change is rapid; therefore, product life cycles in some target markets are shorter than in most industries. So as one of the largest semiconductor firms in the world, TI faces the challenge of maintaining enough flexibility to respond swiftly to new market opportunities and at the same time protecting the existing customer base. TI is reducing focus on some of the very short life cycle products, which we think is the correct strategy.

> We remain concerned about risks associated with competition in the auto chip space. Alo, sluggishness in the embedded processing unit, uncertain macro environment and high debt level remain concerns.

▼ The balance sheet remains **highly leveraged**. At the end of 2019, the long term debt was $5.3 billion. However, since the debt cap is just 29%, the risk is not really that high. It's just that the company holds more of its assets in the form of solid assets, patents and so forth. However, it does have a relatively high goodwill (24.2% of total assets), which could increase further if the company makes some acquisitions. Since goodwill is not a real asset, it is something to keep an eye on, especially since TI maintains relatively low cash balances.

▼ Texas Instruments' business segments experience **seasonality**. They experience stronger demand in the second and third quarters and weaker demand in the first and fourth quarters. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.

Last Earnings Report

Texas Instruments Beats on Q4 Earnings

Texas Instruments reported fourth-quarter 2019 earnings of $1.12 per share, which surpassed the Zacks Consensus Estimate by 9.8%. Further, the figure came within management's guided range of 91 cents to $1.09 per share.

However, the reported figure declined 11.8% and 24.8% year over year and sequentially, respectively.

The company reported revenues of $3.35 billion, which beat the Zacks Consensus Estimate by 3.9%. The top line also came above management's guided range of $3.07-$3.33 billion.

However, the figure declined 10% from the year-ago quarter and 11.2% from the previous quarter.

Persistent weakening in end-market conditions led to sluggishness in the company's Analog and Embedded Processing segments. This, in turn, hurt the top line.

Nevertheless, the company's focus on innovation of product portfolio across both the segments is evident from growing research and development (R&D) spending. This continues to be a key catalyst. Further, Texas Instruments continues to increase investments in the automotive and industrial markets, which are anticipated to bode well in the long run.

Moreover, the company remains confident on portfolio strength, efficient manufacturing strategies and optimized capital allocation in growth areas.

Additionally, continuous returns to shareholders are likely to help the stock rebound in the near term.

Quarter Ending	12/2019
Report Date	**Jan 22, 2020**
Sales Surprise	**3.93%**
EPS Surprise	**9.80%**
Quarterly EPS	**1.12**
Annual EPS (TTM)	**5.12**

End-Market in Detail

Texas Instrument's revenues were down 3% to 4% from the year-ago quarter in the industrial, automotive, enterprise systems and personal electronics markets.

Further, revenues were down 50% year over year in the communications equipment market during the reported quarter. Texas Instruments witnessed weak momentum across all its major customers and geographies.

Segments in Detail

Analog: The company generated $2.497 billion from this segment (74.5% of total revenues), which decreased 5% from the year-ago quarter. This can be attributed to weak performance of high-volume, signal chain and power product lines.

Embedded Processing: This segment generated $633 million revenues (18.9% of total revenues), down 20% year over year. This was primarily owing to weak performance of processors and connected microcontrollers.

Other: Revenues in this segment were $220 million (6.6% of total revenues). The figure was down 24% from the year-ago quarter.

Operating Details

Texas Instruments' gross margin of 62.6% contracted 210 bps from the year-ago quarter.

Although selling, general and administrative (SG&A) expenses contracted 120 bps year over year to $412 million in the reported quarter, research and development expenses expanded 70 bps from the year-ago quarter to $414 million.

Operating margin was 37.3%, contracting 350 bps from the prior-year quarter.

Balance Sheet and Cash Flow

As of Dec 31, 2019, cash and short-term investments balance came in $5.4 billion, which increased from $5.1 billion as of Sep 30, 2019.

At the end of the reported quarter, the company had long-term debt of $5.303 billion, up from $5.302 billion in the prior quarter.

The company generated $1.8 billion of cash from operations, down from $1.9 billion in the previous quarter.

Capex was $163 million in the fourth quarter. Further, free cash flow stood at $1.6 billion.

Additionally, Texas Instruments paid out dividends worth $841 million during the reported quarter. Further, it repurchased shares worth $489 million.

Guidance

For first-quarter 2020, the company expects revenues between $3.12 billion and $3.38 billion.

Earnings are expected in the range of 96 cents to $1.14 per share. The guidance includes an estimated $20 million discrete tax benefit.

Recent News

On **Jan 7, 2020**, Texas Instruments unveiled the new Jacinto 7 processor platform which offers innovative deep learning capabilities and advanced networking. This will help in solving design challenges in advanced driver assistance systems (ADAS) and automotive gateway applications.

Valuation

Texas Instruments' shares are up 5.5% in the six-month period and 28.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 24.7% and 16.3% in the six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 40.8% and 32.1%, respectively.

The S&P 500 index is up 11.5% in the six-month period and up 24% in the past year.

The stock is currently trading at 26.76X forward 12-month earnings, which compares to 19.33X for the Zacks sub-industry, 23.17X for the Zacks sector and 19.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.76X and as low as 15.44X, with a 5-year median of 20.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $141 price target reflects 27.65X forward 12-month earnings.

The table below shows summary valuation data for TXN

Valuation Multiples - TXN		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	26.76	19.33	23.17	19.15
	5-Year High	26.76	19.73	23.17	19.34
	5-Year Low	15.44	12.86	16.87	15.17
	5-Year Median	20.08	16.2	19.24	17.44
P/S F12M	Current	8.96	5.25	3.75	3.56
	5-Year High	8.96	5.25	3.75	3.56
	5-Year Low	3.41	2.4	2.3	2.54
	5-Year Median	5.58	3.64	3.01	3
EV/EBITDA TTM	Current	18.09	11.45	12.71	12.38
	5-Year High	18.09	11.84	12.71	12.86
	5-Year Low	9.2	5.56	7.68	8.48
	5-Year Median	13.34	9.03	10.52	10.69

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 15% (37 out of 255)

Top Peers

STMicroelectronics N.V. (STM)	Outperform
Cirrus Logic, Inc. (CRUS)	Neutral
Infineon Technologies AG (IFNNY)	Neutral
Maxim Integrated Products, Inc. (MXIM)	Neutral
NXP Semiconductors N.V. (NXPI)	Neutral
QUALCOMM Incorporated (QCOM)	Neutral
Analog Devices, Inc. (ADI)	Underperform
Amtech Systems, Inc. (ASYS)	Underperform

Industry Comparison Industry: Semiconductor - General — Industry Peers

	TXN Neutral	X Industry	S&P 500	CRUS Neutral	MXIM Neutral	NXPI Neutral
VGM Score	B	-	-	B	F	B
Market Cap	125.49 B	15.94 B	24.46 B	4.97 B	17.21 B	38.13 B
# of Analysts	12	6	13	6	10	11
Dividend Yield	2.68%	0.92%	1.75%	0.00%	3.02%	1.10%
Value Score	D	-	-	C	D	B
Cash/Price	0.04	0.10	0.04	0.05	0.11	0.09
EV/EBITDA	16.19	10.37	14.11	27.84	18.96	9.62
PEG Ratio	2.57	2.63	2.04	1.81	2.46	1.29
Price/Book (P/B)	13.97	3.71	3.40	4.22	9.66	4.06
Price/Cash Flow (P/CF)	20.26	14.53	13.66	24.67	22.06	11.39
P/E (F1)	26.05	21.02	19.10	25.37	28.71	16.15
Price/Sales (P/S)	8.73	3.33	2.67	4.17	7.79	4.25
Earnings Yield	3.75%	4.76%	5.23%	3.94%	3.48%	6.19%
Debt/Equity	0.59	0.30	0.72	0.11	0.56	0.78
Cash Flow ($/share)	6.62	5.28	6.94	3.49	2.88	11.98
Growth Score	B	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	21.02%	34.22%	10.60%	2.84%	15.13%	13.04%
Proj. EPS Growth (F1/F0)	-3.80%	-4.75%	7.59%	28.47%	-8.85%	11.08%
Curr. Cash Flow Growth	20.88%	26.37%	13.90%	-36.48%	-14.31%	-15.36%
Hist. Cash Flow Growth (3-5 yrs)	13.94%	20.49%	9.00%	4.16%	2.00%	25.48%
Current Ratio	4.34	3.48	1.22	3.38	7.08	1.90
Debt/Capital	37.11%	23.02%	42.99%	10.15%	35.79%	44.63%
Net Margin	34.83%	20.31%	11.35%	9.81%	34.87%	4.51%
Return on Equity	56.61%	19.17%	17.10%	13.04%	34.55%	23.37%
Sales/Assets	0.82	0.69	0.55	0.82	0.58	0.42
Proj. Sales Growth (F1/F0)	-2.99%	-1.42%	4.03%	2.30%	-4.20%	6.22%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	0.68%	0.81%	0.26%	3.43%	1.74%	1.31%
1 Week Price Chg	1.31%	1.59%	2.29%	-0.65%	-0.13%	3.24%
4 Week Price Chg	4.49%	5.10%	2.24%	3.88%	3.08%	6.01%
12 Week Price Chg	13.78%	19.74%	7.79%	26.60%	8.40%	20.00%
52 Week Price Chg	31.50%	35.07%	21.61%	136.18%	16.59%	61.91%
20 Day Average Volume	4,326,696	974,308	1,536,379	551,909	1,636,174	1,826,117
(F1) EPS Est 1 week change	1.19%	0.00%	0.00%	0.00%	-0.05%	0.00%
(F1) EPS Est 4 week change	1.19%	0.00%	0.00%	0.00%	-0.05%	0.04%
(F1) EPS Est 12 week change	1.19%	0.51%	-0.23%	30.83%	1.65%	-4.48%
(Q1) EPS Est Mthly Chg	1.63%	0.00%	0.00%	0.00%	0.00%	-0.23%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	D
Growth Score	B
Momentum Score	A
VGM Score	B

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures