



# Texas Instruments (TXN)

Updated November 1<sup>st</sup>, 2023 by Jonathan Weber

## Key Metrics

|                             |       |  |       |                                  |          |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$141 | <b>5 Year CAGR Estimate:</b>               | 9.6%  | <b>Market Cap:</b>               | \$125B   |
| <b>Fair Value Price:</b>    | \$135 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 10/30/23 |
| <b>% Fair Value:</b>        | 105%  | <b>5 Year Valuation Multiple Estimate:</b> | -0.9% | <b>Dividend Payment Date:</b>    | 11/14/23 |
| <b>Dividend Yield:</b>      | 3.7%  | <b>5 Year Price Target</b>                 | \$189 | <b>Years Of Dividend Growth:</b> | 20       |
| <b>Dividend Risk Score:</b> | C     | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Hold     |

## Overview & Current Events

Texas Instruments is a semiconductor company that operates two business units: Analog and Embedded Processing. Its products include semiconductors that measure sound, temperature and other physical data and convert them to digital signals, as well as semiconductors that are designed to handle specific tasks and applications. Texas Instruments was founded in 1930, is headquartered in Dallas, TX.

Texas Instruments reported its third quarter earnings results on October 24. During the quarter Texas Instruments generated revenues of \$4.53 billion, which represents a decline of 14% versus the previous year's quarter. This missed analyst estimates by \$60 million, as the analyst community had forecasted a better sales performance. Texas Instruments managed to keep its gross profit margin at an attractive level of 62%, while the company's operating profit margin of 42% remained strong as well.

Texas Instruments generated earnings-per-share of \$1.85 during the third quarter, which was better than the consensus estimate, coming in \$0.03 ahead of the analyst community's forecast. Texas Instruments generated solid cash flows over the last year, although less than during the previous period. Thanks to its cash generation, Texas Instruments was able to finance shareholder returns of \$5.6 billion during the last four quarters. Spending on buybacks was lowered during recent quarters, relative to the last couple of years. Texas Instruments guides for revenues of \$4.10 billion and for earnings-per-share of around \$1.45 for the fourth quarter of 2023. 2022 was a year during which the company hit new record profits, but the company will generate lower profits in 2023, on the back of the ongoing economic slowdown that hurts semiconductor companies and their profit potential.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.75 | \$2.57 | \$2.82 | \$3.48 | \$4.35 | \$5.42 | \$5.24 | \$6.23 | \$8.26 | \$9.41 | <b>\$7.10</b> | <b>\$9.96</b> |
| <b>DPS</b>                | \$1.07 | \$1.24 | \$1.40 | \$1.64 | \$2.12 | \$2.63 | \$3.21 | \$3.72 | \$4.21 | \$4.96 | <b>\$5.20</b> | <b>\$8.00</b> |
| <b>Shares<sup>1</sup></b> | 1100   | 1070   | 1010   | 990    | 980    | 970    | 948    | 932    | 924    | 906    | <b>890</b>    | <b>820</b>    |

Texas Instruments' results can be relatively cyclical, which is not a surprise, as demand for semiconductors usually depends on the strength of the economy. From 2008 to 2020 Texas Instruments grew its earnings-per-share by ~12% annually, which includes the earnings decline during the last financial crisis. Despite a big hit to its earnings Texas Instruments remained profitable during the financial crisis, and its dividend remained well-covered.

During the last eight quarters, Texas Instruments was not able to grow its revenues by a lot. It is, however, likely that Texas Instruments' revenues start to grow more meaningfully again in the future, as the company should be able to benefit from rising demand for processors, as favorable trends such as industry 4.0 and automation pose long-term tailwinds. Texas Instruments' policy of returning all free cash flows to the company's shareholders in the form of dividends and share repurchases affects its earnings-per-share growth, as a declining share count increases each remaining share's portion of all profits. Texas Instruments has bought back nearly 50% of all shares since 2004. Stock repurchases could remain a relevant growth driver for earnings-per-share in the future, too.

<sup>1</sup> In Millions

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## Valuation Analysis

| Year      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 21.6 | 18.5 | 19.1 | 18.1 | 19.4 | 17.5 | 24.4 | 26.3 | 22.8 | 17.5 | 19.9 | 19.0 |
| Avg. Yld. | 2.8% | 2.6% | 2.6% | 2.6% | 2.5% | 3.2% | 2.8% | 2.3% | 2.2% | 3.0% | 3.7% | 4.2% |

Texas Instruments has been a high-quality growth stock during the last decade, which explains why the company's shares were never especially cheap. Texas Instruments was valued at a price to earnings multiple of slightly below 20 throughout many of those years. Today, shares are trading at 20x this year's earnings, which is why we think that multiple normalization will pose a small headwind to Texas Instrument's total returns over the coming years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2028  |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 61.1% | 48.2% | 49.6% | 47.1% | 48.7% | 48.5% | 61.3% | 59.7% | 51.0% | 52.7% | 73.2% | 80.3% |

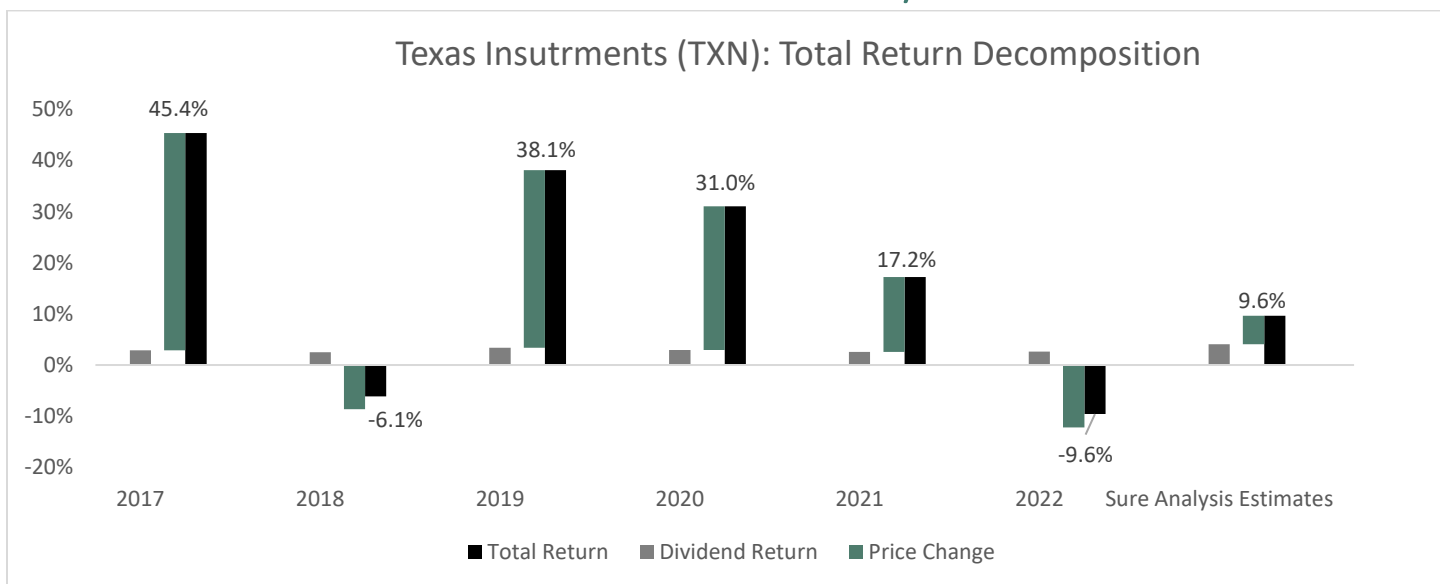
Texas Instruments' dividend payout ratio has risen over the last decade, but the dividend still looks relatively safe, as Texas Instruments generates vast free cash flows, of which it pays out roughly half in dividends. During the last financial crisis, the dividend remained well-covered, even though Texas Instruments' profits took a hit.

The semiconductor industry is large, competitive, and specialized. Texas Instruments has, over the decades, become a top player in the segments it addresses. Thanks to more than 100,000 products and 40,000 patents, as well as huge R&D efforts, we believe it is unlikely that Texas Instruments loses market share in the foreseeable future. The company is dependent on the global economy. During the last financial crisis its earnings declined considerably, but during the current pandemic Texas Instruments has fared very well so far, which should remain the case going forward.

## Final Thoughts & Recommendation

Texas Instruments has been a strong growth investment in the past, both when it comes to earnings-per-share growth and when it comes to dividend increases. During 2022, Texas Instruments hit new record profits, but it looks like the current year will be weaker again. Shares trade slightly above fair value today. We rate shares a hold at current prices as we forecast solid but not overly attractive total returns over the coming years.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue          | 12,205 | 13,045 | 13,000 | 13,370 | 14,961 | 15,784 | 14,383 | 14,461 | 18,344 | 20,028 |
| Gross Profit     | 6,364  | 7,427  | 7,575  | 8,257  | 9,614  | 10,277 | 9,164  | 9,269  | 12,376 | 13,771 |
| Gross Margin     | 52.1%  | 56.9%  | 58.3%  | 61.8%  | 64.3%  | 65.1%  | 63.7%  | 64.1%  | 67.5%  | 68.8%  |
| SG&A Exp.        | 1,858  | 1,843  | 1,728  | 1,742  | 1,694  | 1,684  | 1,645  | 1,623  | 1,666  | 1,704  |
| D&A Exp.         | 1,297  | 1,230  | 1,133  | 955    | 904    | 954    | 1,050  | 992    | 954    | 979    |
| Operating Profit | 2,984  | 4,226  | 4,580  | 5,159  | 6,412  | 7,034  | 5,975  | 6,116  | 9,156  | 10,397 |
| Op. Margin       | 24.4%  | 32.4%  | 35.2%  | 38.6%  | 42.9%  | 44.6%  | 41.5%  | 42.3%  | 49.9%  | 51.9%  |
| Net Profit       | 2,162  | 2,821  | 2,986  | 3,595  | 3,682  | 5,580  | 5,017  | 5,595  | 7,769  | 8,749  |
| Net Margin       | 17.7%  | 21.6%  | 23.0%  | 26.9%  | 24.6%  | 35.4%  | 34.9%  | 38.7%  | 42.4%  | 43.7%  |
| Free Cash Flow   | 2,972  | 3,669  | 3,846  | 4,083  | 4,668  | 6,058  | 5,802  | 5,490  | 6,294  | 5,923  |
| Income Tax       | 592    | 1,053  | 1,230  | 1,335  | 2,398  | 1,106  | 711    | 422    | 1,150  | 1,283  |

## Balance Sheet Metrics

| Year               | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets       | 18,938 | 17,372 | 16,230 | 16,431 | 17,642 | 17,137 | 18,018 | 19,351 | 24,676 | 27,207 |
| Cash & Equivalents | 1,627  | 1,199  | 1,000  | 1,154  | 1,656  | 2,438  | 2,437  | 3,107  | 4,631  | 3,050  |
| Acc. Receivable    | 1,203  | 1,246  | 1,165  | 1,267  | 1,278  | 1,207  | 1,074  | 1,414  | 1,701  | 1,895  |
| Inventories        | 1,731  | 1,784  | 1,691  | 1,790  | 1,957  | 2,217  | 2,001  | 1,955  | 1,910  | 2,757  |
| Goodwill & Int.    | 6,703  | 6,347  | 5,991  | 5,678  | 5,418  | 5,079  | 4,771  | 4,636  | 4,447  | 4,514  |
| Total Liabilities  | 8,131  | 6,982  | 6,284  | 5,958  | 7,305  | 8,143  | 9,111  | 10,164 | 11,343 | 12,630 |
| Accounts Payable   | 422    | 437    | 386    | 396    | 466    | 478    | 388    | 415    | 653    | 851    |
| Long-Term Debt     | 5,158  | 4,631  | 4,120  | 3,609  | 4,077  | 5,068  | 5,803  | 6,798  | 7,741  | 8,735  |
| Total Equity       | 10,807 | 10,390 | 9,946  | 10,473 | 10,337 | 8,994  | 8,907  | 9,187  | 13,333 | 14,577 |
| LTD/E Ratio        | 0.48   | 0.45   | 0.41   | 0.34   | 0.39   | 0.56   | 0.65   | 0.74   | 0.58   | 0.60   |

## Profitability & Per Share Metrics

| Year             | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 11.1% | 15.5% | 17.8% | 22.0% | 21.6% | 32.1% | 28.5% | 29.9% | 35.3% | 33.7% |
| Return on Equity | 19.9% | 26.6% | 29.4% | 35.2% | 35.4% | 57.7% | 56.1% | 61.8% | 69.0% | 62.7% |
| ROIC             | 13.3% | 18.2% | 20.5% | 25.5% | 25.8% | 39.2% | 34.9% | 36.5% | 41.9% | 39.4% |
| Shares Out.      | 1100  | 1070  | 1010  | 990   | 980   | 970   | 948   | 932   | 924   | 906   |
| Revenue/Share    | 10.97 | 12.08 | 12.46 | 13.10 | 14.78 | 15.94 | 15.11 | 15.50 | 19.60 | 21.63 |
| FCF/Share        | 2.67  | 3.40  | 3.69  | 4.00  | 4.61  | 6.12  | 6.09  | 5.88  | 6.72  | 6.40  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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