Q2 2024 Financial Results
Texas Instruments Incorporated

Conference Call Prepared Remarks

Tuesday, July 23, 2024
3:30 p.m. Central time

Dave Pahl, vice president and head of Investor Relations

Welcome to the Texas Instruments second quarter 2024 earnings conference call. I'm Dave Pahl, head of Investor Relations, and I'm joined by our Chief Executive Officer Haviv Ilan and our Chief Financial Officer Rafael Lizardi.

For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through our website. In addition, today's call is being recorded and will be available via replay on our website.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the "Notice regarding forward-looking statements" contained in the earnings release published today, as well as TI's most recent SEC filings, for a more complete description.

Today, we'll provide the following updates:

- First, Haviv will start with a quick overview of the quarter.
- Next, he will provide insight into second quarter revenue results, with some details of what we are seeing with respect to our end markets.
- Lastly, Rafael will cover the financial results, give an update on capital management, as well as share the guidance for third quarter 2024.

With that, let me turn it over to Haviv.

Haviv Ilan, president and chief executive officer

Thanks Dave. Let me also start by welcoming everyone to the call. I'm looking forward to joining our quarterly earnings calls moving forward and sharing more details about our business strategy with the investment community. It is an opportunity for me to directly share more information about our results and our strategic progress.

With that, I'll start with a quick overview of the second quarter.

Revenue in the quarter came in about as expected at $3.8 billion, an increase of 4% sequentially and a decrease of 16% year over year. Analog revenue declined 11% year over year, and Embedded Processing declined 31%. Our "Other" segment declined 22% from the year-ago quarter.

Now I'll provide some insight into our second quarter revenue by end market. Our results continued to reflect the asynchronous behavior across our end markets that we've seen throughout this cycle. Similar to last quarter, I'll focus on sequential performance, as it is more informative at this time.

- First, the industrial market was down low-single digits.
- The automotive market was down mid-single digits.
- Personal electronics grew mid-teens, with broad-based growth, while demonstrating continued improvement compared to its low point in first quarter of 2023.
- Next, communications equipment was up mid-single digits.
- Finally, enterprise systems was up about 20%.

Lastly, before I pass it on to Rafael, I'd like to share a few comments regarding our capacity investments. We and our customers remain pleased with our progress of the expansion of our 300mm manufacturing capacity. These investments reflect our confidence in the opportunity ahead, which remains high for several reasons. First, we have a high level of confidence in the secular growth of semiconductor content, particularly in industrial and automotive, where we have greater exposure and strong product positions. Second, geopolitically dependable, low-cost 300mm capacity will be increasingly critical and valuable, and our investments enable us to support customer demand at scale.

To share more details on our progress, which we believe is helpful for all of our shareholders to understand, I plan to hold an off-cycle capital management call with Rafael and Dave on August 20. During the call, I will provide more granularity on our capacity investments along with a framework of revenue and free cash flow per share scenarios.

With that, let me turn it over to Rafael to review profitability, capital management and our outlook.

Rafael Lizardi, senior vice president and chief financial officer

Thanks Haviv, and good afternoon everyone.

As Haviv mentioned, second quarter revenue was $3.8 billion. Gross profit in the quarter was $2.2 billion, or 58% of revenue. Sequentially, gross profit margin increased 60 basis points, primarily due to higher revenue as well as lower manufacturing unit costs due to increased factory loadings and more manufacturing internally, with more wafers on 300mm.

Operating expenses in the quarter were $963 million, up 3% from a year ago and about as expected. On a trailing 12-month basis, operating expenses were $3.7 billion, or 23% of revenue.

Operating profit was $1.2 billion in the quarter, or 33% of revenue, and was down 37% from the year-ago quarter.

Net income in the second quarter was $1.1 billion, or $1.22 per share. Earnings per share included a 5-cent benefit for items that were not in our original guidance.

Let me now comment on our capital management results, starting with our cash generation. Cash flow from operations was $1.6 billion in the quarter and $6.4 billion on a trailing 12-month basis. Capital expenditures were $1.1 billion in the quarter and $5.0 billion over the last 12 months. Free cash flow on a trailing 12-month basis was $1.5 billion. As a reminder, free cash flow includes benefits from the CHIPS Act investment tax credit, which was $312 million for second quarter.

In the quarter, we paid $1.2 billion in dividends and repurchased $71 million of our stock. In total, we returned $4.9 billion to our owners in the past 12 months.

Our balance sheet remains strong with $9.7 billion of cash and short-term investments at the end of the second quarter. In the quarter, we repaid $300 million of debt. Total debt outstanding is now $14.0 billion with a weighted average coupon of 3.8%.

Inventory at the end of the quarter was $4.1 billion, up $23 million from the prior quarter, and days were 229, down 6 days sequentially.

For the third quarter we expect TI revenue in the range of $3.94 billion to $4.26 billion and earnings per share to be in the range of $1.24 to $1.48.

We continue to expect our effective tax rate to be about 13%.

In closing, we will stay focused in the areas that add value in the long term. We continue to invest in our competitive advantages, which are manufacturing and technology, a broad product portfolio, reach of our channels, and diverse and long-lived positions.

We will continue to strengthen these advantages through disciplined capital allocation and by focusing on the best opportunities, which we believe will enable us to continue to deliver free cash flow per share growth over the long term.

With that, let me turn it back to Dave.

Dave Pahl, vice president and head of Investor Relations

Thanks, Rafael. Operator, you can now open the lines for questions. In order to provide as many of you as possible an opportunity to ask your questions, please limit yourself to a single question. After our response, we'll provide you an opportunity for an additional follow-up. Operator...

[Q&A]