

## Texas Instruments Inc.

# Capital management update: no material change to plans, maintain Neutral, \$175 PO

Maintain Rating: NEUTRAL | PO: 175.00 USD | Price: 160.12 USD

## Maintain Neutral, \$175 PO on high capital spend medium term

We reiterate our Neutral rating and PO of \$175 on 41x CY25E EV/FCF (at the high end of TXN's historical 15x-42x range) following TXN's annual Capital Management call earlier today. Management reiterated key targets, remaining steadfast on lofty capex plans (\$5bn annually through CY26E), despite slightly underspending run rate in Q4'23 (\$1.1bn versus \$1.25 trendline). This slight underspending trend could persist in 1H24E to adjust for a weaker sales environment, yet overall spending is unlikely to change near term until CHIPS Act grants are confirmed. We still see the long-term benefits of TXN's strategy, with (1) large capacity investments fueling revenue growth to reach ~\$45bn by 2030; (2) GM benefits from transition to 300mm production (800bps+ tailwind versus 200mm); and (3) geopolitically dependable supply making TXN more attractive to customers looking to diversify supply outside of China/Taiwan. However, we still see GM falling below 60% to about 56.9% in FY24E and 54.5% in FY25E/26E, >1200bps below analog peer ADI. Our \$175 PO excludes potential CHIPS Act grant benefits (although it does include ITC benefit), which could provide an uplift to FCF when announced.

## Major takeaways from Capital Management Day call

Key takeaways from the call include the following: (1) Management maintained the FY23-26E capex target at \$5bn annual spend, which is expected to normalize after FY26E to 10-15% of sales. (2) The inventory days target remains 130 to >200 days, reflecting increased focus on TI.com direct sales (75% of sales through direct channel in FY23 versus 70% in FY22). (3) The CHIPS Act incremental ITC is still expected to provide a 25% credit toward US-based investments from FY23 to FY26E and beyond, resulting in a cumulative cash benefit and lower depreciation expense of \$4bn over that period, with TXN recognizing a \$500mn credit for CY23 later this year. (4) Management reported that CHIPS Act grants applications have been submitted, with benefit amount and timing still uncertain (\$39bn available, including \$10bn for mature tech benefitting auto/industrial). Notably, in FY23, TXN's FCF margin at just under 8% of sales came in substantially below the target set at last year's capital update call (25-35% margin, same for FY24E), underscoring challenges meeting the company's most important performance metric, a trend likely to continue as the macro remains weak (auto sales declined for the 1st time this cycle in the December quarter, industrial continued to deteriorate).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.41	7.07	4.89	5.54	6.31
EPS Change (YoY)	13.9%	-24.9%	-30.8%	13.3%	13.9%
Consensus EPS (Bloomberg)			5.78	6.94	7.65
DPS	4.69	5.02	5.27	5.60	6.16
Valuation (Dec)					
P/E	17.0x	22.6x	32.7x	28.9x	25.4x
Dividend Yield	2.9%	3.1%	3.3%	3.5%	3.8%
EV / EBITDA*	12.8x	16.6x	20.9x	15.8x	13.2x
Free Cash Flow Yield*	4.1%	0.9%	2.5%	2.7%	3.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

01 February 2024

### Equity

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### Stock Data

Price	160.12 USD
Price Objective	175.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-7
52-Week Range	139.48 USD - 188.12 USD
Mrkt Val (mn) / Shares Out (mn)	145,422 USD / 908.2
Free Float	99.8%
Average Daily Value (mn)	948.71 USD
BofA Ticker / Exchange	TXN / NAS
Bloomberg / Reuters	TXN US / TXN.OQ
ROE (2024E)	26.9%
Net Dbt to Eqty (Dec-2023A)	48.9%
ESGMeter <sup>TM</sup>	High

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ADI: Analog Devices

FCF: free cash flow

GM: gross margin

ITC: investment tac credit

PO: price objective

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Timestamp: 01 February 2024 03:49PM EST

# iQprofile<sup>SM</sup> Texas Instruments Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	37.8%	25.1%	16.4%	18.6%	21.1%
Return on Equity	62.4%	41.2%	26.9%	32.0%	39.2%
Operating Margin	50.6%	41.8%	31.6%	31.7%	32.8%
Free Cash Flow	5,923	1,349	3,567	3,930	5,020

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.0x	1.9x	1.8x	1.8x
Asset Replacement Ratio	3.0x	4.3x	3.1x	2.2x	1.9x
Tax Rate	12.8%	12.2%	12.4%	12.4%	12.5%
Net Debt-to-Equity Ratio	39.0%	48.9%	44.8%	65.2%	89.9%
Interest Cover	47.4x	20.8x	14.0x	15.9x	18.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	20,028	17,519	15,796	17,825	19,552
% Change	9.2%	-12.5%	-9.8%	12.8%	9.7%
Gross Profit	13,771	11,019	8,982	9,711	10,648
% Change	11.3%	-20.0%	-18.5%	8.1%	9.7%
EBITDA	11,119	8,569	6,816	9,009	10,795
% Change	12.2%	-22.9%	-20.5%	32.2%	19.8%
Net Interest & Other Income	(108)	87	120	120	120
<b>Net Income (Adjusted)</b>	<b>8,710</b>	<b>6,476</b>	<b>4,458</b>	<b>5,025</b>	<b>5,696</b>
<b>% Change</b>	<b>12.6%</b>	<b>-25.6%</b>	<b>-31.2%</b>	<b>12.7%</b>	<b>13.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	8,749	6,510	4,486	5,053	5,724
Depreciation & Amortization	925	1,175	1,620	2,300	2,600
Change in Working Capital	(404)	(686)	2,045	1,099	1,145
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(550)	(579)	416	479	551
Capital Expenditure	(2,797)	(5,071)	(5,000)	(5,000)	(5,000)
<b>Free Cash Flow</b>	<b>5,923</b>	<b>1,349</b>	<b>3,567</b>	<b>3,930</b>	<b>5,020</b>
<b>% Change</b>	<b>-5.9%</b>	<b>-77.2%</b>	<b>164.4%</b>	<b>10.2%</b>	<b>27.7%</b>
Share / Issue Repurchase	(3,430)	(30)	(800)	(800)	(800)
Cost of Dividends Paid	(4,297)	(4,557)	(4,771)	(5,045)	(5,521)
Change in Debt	994	2,500	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,050	2,964	3,960	2,045	744
Trade Receivables	1,895	1,787	1,790	1,960	2,150
Other Current Assets	9,076	10,371	6,985	7,344	7,581
Property, Plant & Equipment	6,876	9,999	12,379	14,079	15,479
Other Non-Current Assets	6,310	7,227	6,727	6,227	5,727
<b>Total Assets</b>	<b>27,207</b>	<b>32,348</b>	<b>31,841</b>	<b>31,655</b>	<b>31,680</b>
Short-Term Debt	500	599	599	1,325	2,589
Other Current Liabilities	2,485	2,721	2,882	3,011	3,082
Long-Term Debt	8,235	10,624	10,624	10,624	10,624
Other Non-Current Liabilities	1,410	1,507	1,507	1,507	1,507
<b>Total Liabilities</b>	<b>12,630</b>	<b>15,451</b>	<b>15,612</b>	<b>16,467</b>	<b>17,802</b>
<b>Total Equity</b>	<b>14,577</b>	<b>16,897</b>	<b>16,228</b>	<b>15,188</b>	<b>13,878</b>
<b>Total Equity &amp; Liabilities</b>	<b>27,207</b>	<b>32,348</b>	<b>31,841</b>	<b>31,655</b>	<b>31,680</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Semiconductors

## Company Description

Texas Instruments is a broad-based supplier of semiconductor components, ranging from digital signal processors, to high-performance analog components, to digital light-processing technology and calculators. 65% of TXN sales are exposed to the well diversified, business-to-business Industrial, Automotive, Communications Infrastructure, and Enterprise markets.

## Investment Rationale

We rate TXN Neutral. We believe that TXN is among the highest-quality semiconductor companies in the analog sector, with a strong track record of consistent share gains. However, near-term capex commitments could slow free cash flow growth, limiting FCF upside.

## Stock Data

Average Daily Volume

5,925,022

## Quarterly Earnings Estimates

	2023	2024
Q1	1.85A	1.06E
Q2	1.87A	1.14E
Q3	1.85A	1.37E
Q4	1.49A	1.32E

## Price objective basis & risk

### Texas Instruments Inc. (TXN)

Our \$175 PO is based on 41x CY25E EV/FCF. At high-end of its historical 15x-42x range, which we believe is warranted based on TXN's best-in-class FCF generation and returns, and based on incremental cash flow from US CHIPS Act grants.

Risks to our price objective: 1) Macro/cyclical risks given high exposure to automotive, industrial, and telco capex markets, also makes TXN susceptible to any potential global trade tensions/tariffs, 2) Increasing capex intensity and higher depreciation burden could be a headwind to gross margins, 3) Increased R&D spending pressure to maintain an edge versus the competition, 4) Inventory cycles and potential double ordering by customers that can often create mismatches between real supply and demand, 5) exposure to several mature markets such as PC and other consumer.

## Analyst Certification

I, Vivek Arya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Advanced Micro Devices, Inc	AMD	AMD US	Vivek Arya
	Analog Devices Inc.	ADI	ADI US	Vivek Arya
	Applied Materials, Inc.	AMAT	AMAT US	Vivek Arya
	Arm Holdings	ARM	ARM US	Vivek Arya
	Broadcom Inc	AVGO	AVGO US	Vivek Arya
	Cadence	CDNS	CDNS US	Vivek Arya
	Camtek	CAMT	CAMT US	Vivek Arya
	KLA Corporation	KLAC	KLAC US	Vivek Arya
	Lam Research Corp.	LRCX	LRCX US	Vivek Arya
	M/A-Com	MTSI	MTSI US	Vivek Arya
	Marvell Technology Group Ltd.	MRVL	MRVL US	Vivek Arya
	Microchip	MCHP	MCHP US	Vivek Arya
	Micron Technology, Inc	MU	MU US	Vivek Arya
	Nova	NVMI	NVMI US	Vivek Arya
	NVIDIA Corporation	NVDA	NVDA US	Vivek Arya
	NXP Semiconductors NV	NXPI	NXPI US	Vivek Arya
	onsemi	ON	ON US	Vivek Arya
	Synopsys	SNPS	SNPS US	Vivek Arya
<b>NEUTRAL</b>				
	Advanced Energy Industries	AEIS	AEIS US	Duksan Jang
	Allegro MicroSystems	ALGM	ALGM US	Blake Friedman
	Axcelis Technologies	ACLS	ACLS US	Duksan Jang
	Coherent Corp	COHR	COHR US	Vivek Arya
	GlobalFoundries	GFS	GFS US	Vivek Arya
	Intel	INTC	INTC US	Vivek Arya
	Lattice Semiconductor	LSCC	LSCC US	Blake Friedman
	Texas Instruments Inc.	TXN	TXN US	Vivek Arya
<b>UNDERPERFORM</b>				
	Ambarella	AMBA	AMBA US	Vivek Arya
	Credo Technology	CRDO	CRDO US	Vivek Arya
	Lumentum Holdings	LITE	LITE US	Vivek Arya
	Qorvo Inc.	QRVO	QRVO US	Vivek Arya



## US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Skyworks Solutions, Inc.	SWKS	SWKS US	Vivek Arya
	Teradyne	TER	TER US	Vivek Arya
	Wolfspeed Inc	WOLF	WOLF US	Vivek Arya

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

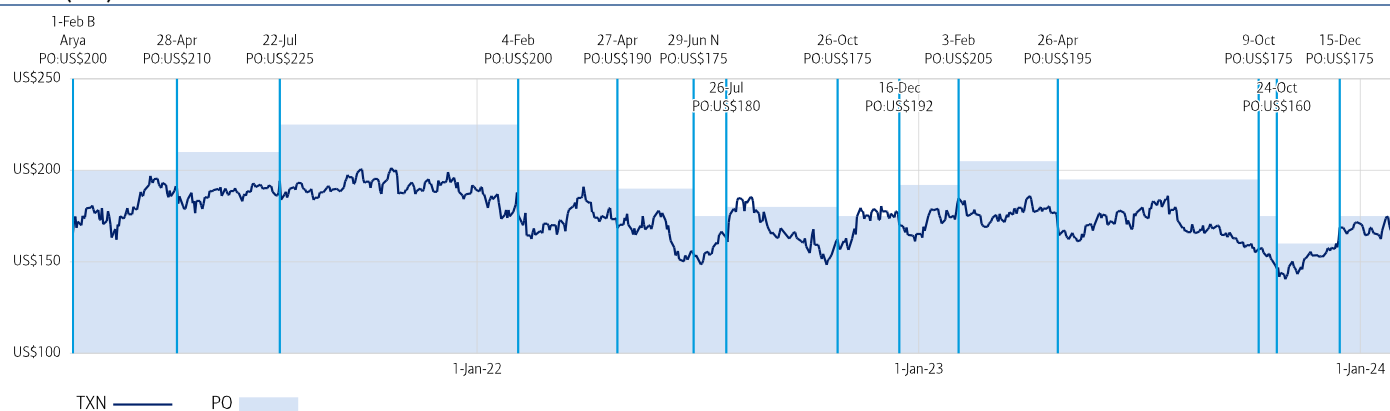
Sales

Basic EBIT + Depreciation + Amortization

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**Disclosures****Important Disclosures****Texas Instr. (TXN) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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