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HEARD ON THE STREET

Texas Instruments Messes with Chip Outlook

Warning sinks semiconductor sector, but problems may be specific to company

Texas Instruments, whose products include calculators, is one of the semiconductor industry's most diversified companies.
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By Dan Gallagher

Updated Oct. 23, 2019 4:09 pm ET

Leave it to Texas Instruments TXN **-7.48%** ▼ to spoil the party. Again.

The chip-making giant reported late Tuesday that third-quarter revenue fell 11% from a year earlier to $3.77 billion, a tad under the $3.8 billion analysts projected. But the company's outlook was especially worrisome, with TI projecting a 14% drop in sales for the fourth quarter compared with the 3% slip Wall Street had been expecting. That would also make for the company's largest quarterly revenue decline in more than a decade.

TI's stock fell more than 7% Wednesday. But it wasn't alone: TI is the fourth-largest semiconductor company by market value, and by far the most diversified. The company sells a lot of chips to a lot of end markets and lacks heavy exposure to any one. TI itself noted Tuesday that its largest product last year accounted for less than 1% of the company's total revenue. So as TI essentially blamed its outlook on the continued uncertainty created by global trade disputes—stating that its customers "are just far more cautious" than even three months ago—the market took it as a bad sign all around. The PHLX Semiconductor Index slipped nearly 2% by Wednesday's close.

But the reaction also had a familiar ring. TI inspired the same sort of meltdown a year ago, when its fourth-quarter outlook worried investors who were already in the middle of an unprecedented tech selloff. Tech shares have more than recovered since then, as have TI's. But the company's actual business hasn't: The fourth quarter will be TI's fifth straight period of declining revenue, and analysts don't expect a turn until the middle of next year. TI hasn't logged a slowdown of that duration since 2013.

All of which raises the question of just how much of TI's current predicament could actually be issues specific to the company, such as recent changes to its distribution strategy. TI may also be losing market share, though Stacy Rasgon of Bernstein notes that industry data has yet to support that conclusion. TI is highly regarded on Wall Street, owing mainly to its strong cash flow and generous 3% dividend yield. But in a sustained downturn, even the most defensive stocks aren't immune to hits.

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