

[<< Back](#) | [Print](#)

TI: Analog is key driver going forward

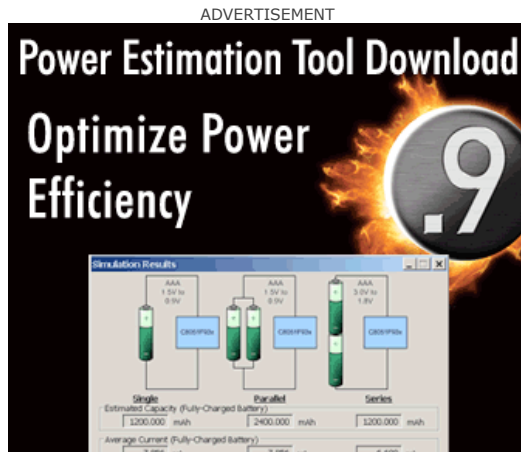
By Ann Steffora Mutschler, Senior Editor -- 4/23/2008
Electronic News

Going forward, it's all about analog semiconductors for Dallas-based semiconductor maker **Texas Instruments Inc (TI)**, which announced Q1 financial results this week that reflect that position. Overall, TI revenue in Q1 was \$3.27 billion, up 3% from Q1 2007, highlighted by 20% growth in high-performance analog semiconductors, while the company's operating profit grew 19%.

"Analog is making us stronger and will be a great growth opportunity for a very long time. Analog goes into almost every piece of electronic equipment that is made, and at TI we have the technology and the manufacturing power to serve much more of this market than we are addressing today. There also are clear benefits to our operating profit, which has grown faster than revenue, and to our cash flow, which we can return to shareholders or reinvest in growth," commented Rich Templeton, TI's chairman, president and CEO, in a statement.

At the same time, TI's Q1 revenue declined 8% sequentially from Q4 2007, due to weaker sales into cell phones, especially high-end cell phones.

"Given uncertainty in the near-term economy, we have become more conservative with our outlook for the second quarter. More strategically, we believe our long-term opportunity is excellent. We're continuing to do the things needed to be the better choice for our customers, such as adding sales and applications engineers, investing in new products, and increasing assembly/test capability," Templeton added.



TI Q1 gross profit was \$1.76 billion, or 53.7% of revenue, up \$119 million from Q1 2007, and \$170 million lower than Q4 2007.

Q1 operating expenses were \$514 million for R&D, which was \$38 million less than Q1 2007 as the company, continues to benefit from its **collaborative work with foundries** on advanced digital process technologies. R&D expense was about the same as Q4 2007.

Operating profit was \$807 million, or 24.7% of revenue, up \$127 million from Q1 2007, but \$189 million lower than Q4 2007.

Earnings per share (EPS) were 49 cents which included a discrete tax benefit of 6 cents. EPS increased 14 cents from Q1 2007, but decreased 5 cents from Q4 2007.

TI's capital spending totaled \$219 million for Q1.

Looking ahead to Q2, TI expects revenue to fall between \$3.24 billion and \$3.5 billion, with semiconductor revenue between \$3.08 billion and \$3.32 billion, and EPS between 42 cents and 48 cents. For the full year, TI maintained its outlook for R&D expense of \$2 billion, and capital expenditures of \$900 million.

During a conference call with financial analysts, Ron Slaymaker, TI's VP and manager of investor relations reiterated the company's progress in analog. "At the top level we believe the first quarter's results again demonstrate the progress that we are making in analog and the benefits that a stronger mix of analog products provide to TI's profitability," he said.

Slaymaker reminded that the sale of TI's DSL CP product line in July 2007 caused the decline in revenue of about \$55 million compared with Q1 2007 or a negative impact of almost 2 percentage points of growth, and since most of these products were mixed signal technologies they mostly affected TI's application-specific analog revenue over this period although there was also some DSP impact.

TI's Q1 analog revenue of \$1.32 billion increased 6% from Q1 2007, driven by another solid quarter of growth in high performance analog, which was up 20%. High performance analog revenue grew strongly in all of the major product categories; amplifiers, power management, data converters and interface.

Outside of high performance analog, the remaining analog revenue, which is comprised mainly of application-specific analog products, declined 4% from Q1 2007, due to the sale of the DSL product line as well as lower revenue from cell phone applications, but there were gains in other areas including hard disk drive, automotive as well as battery management products used in a wide range of portable applications.

Even though analog revenue was down 4% sequentially, high performance analog was about even with Q4 2007 and consistent with the seasonal average over the past five years, TI noted. Beyond high performance analog, the remaining analog revenue declined 7% sequentially mostly due to lower sales of application-specific products into hard disk drive and cell phone applications. To be true, both of these areas are typically down in Q1. However, even with the below seasonal Q1, hard disk drive revenue was up more than 20% compared with a year ago.

"As we've said before, we believe analog will be our most important growth driver in the years ahead. To achieve this we need to sustain our out performance in HPA that we've achieved over the past five years," Slaymaker said.

"Just as important we also have actions under way that if successfully executed, should accelerate out revenue growth in application-specific analog. The potential for market share gains combined with the higher margins and lower capital investments that characterize the well-run analog business support our belief that we are pursuing what is likely the best opportunity in the entire semiconductor industry," he continued.

In TI's DSP segment, Q1 revenue of \$1.12 billion declined 3% from Q1 2007 and 18% from Q4 2007, due to lower sales into cell phone applications. Other than handsets, TI reminded that its focus in DSP is to address opportunities across a broad range of customers where those customers layer their innovations on top of TI's DSP platform in the form of software that they have developed, with the amount of innovation ongoing with DSPs is tremendous. At the same time, these results often are masked by changes in the much larger handset DSP revenue.

Commenting on TI's results, Lehman Brothers' semiconductor research analyst Tim Luke said the numbers were broadly in line with expectations inventory higher with wireless weak, while analog was solid.

"TI's analog sales came in slightly ahead of expectations at approximately \$1.32 billion (versus our estimates at \$1.29 billion). ...We view this strong performance by high performance analog as broadly similar with strong recent seasonal trends (typically flat to slightly up in quarter-over-quarter). High performance analog revenue was strong across all of the major product categories including amplifiers, power management, data converters and interface. Looking into the June quarter, we believe high performance analog may be up sequentially (versus typical seasonality at +8% quarter-over-quarter) with some planned inventory build to support solid demand," Luke said.

"Longer term, TI continues to see significant opportunity in the analog market with a target market size

at around \$37 billion. We estimate that TI's market share is currently at approximately 13%. We believe TI remains committed to growing and gaining share in analog evidenced by their investments in increasing the number of field applications engineers and reaching a broad scope of customers across end markets. In particular, TI is focused on growth in the high volume analog division, which has not kept up with high performance analog. Near term, we model a return to growth in the seasonally strong 2Q. We model analog revenues up 4% sequentially, to \$1.32 billion, though we acknowledge the uncertain macro environment may temper growth in the near to medium term," he continued.

Lehman maintained its "Equal weight/Positive sector" view on TI's stock.

[<< Back](#) | [Print](#)

© 2008, Reed Business Information, a division of Reed Elsevier Inc. All Rights Reserved.