

Texas Instruments Inc. Ticker: TXN Sector: Technology Industry: Semiconductor	Intrinsic Value: \$67.12 Current Price: \$57.97 Stop Loss: \$47.48 Upside Review: \$56.23	TTM P/E: 21.77 Forward P/E: 17.50 Beta: 1.17	Market Cap: \$55.45 B Dividend Yield: \$1.36 (2.50%) 52 Week Range: \$41.47-56.23
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Business Summary: Texas Instruments Incorporated is a global manufacturer of semiconductors and electronic products. The company is the leading supplier of digital signal processors and analog devices. Markets electrical controls, educational and productivity solutions, and metallurgical materials. Royalty income from licensing proprietary technology is significant. (Value Line)

Industry Trends: PC sales strength and public cloud data center purchases may aid global semiconductor sales in 2015, offset by weakening handset and tablet shipments and prices. LTE infrastructure chip growth may still have significant room to expand. The growth in emerging markets may further damp prices and margins, while regional regulatory issues may add to the sales challenges. Memory markets probably will continue to benefit from a balanced supply-demand environment. Gains likely again in 2015. We believe that global chip industry volume increased about 9% in the year just ended. (Bloomberg & Value Line)

Investment Thesis: Texas Instruments' balance sheet is in good shape and improving. By the wafer production innovation, TI expects a huge reduction in chip manufacturing costs and an increase in gross margins, which benefit the R&D. The high-quality proprietary analog designs allows the firm to compete across a broader spectrum of industries. TI's embedded chip business may also see healthy growth over the next few years with the nascent Internet of Things upgraded.

Competitive Analysis: Texas Instruments Incorporated is one of the largest global semiconductor manufacturers and electronics designers. Through organic growth and acquisition, TI's size allows the firm to compete across a broader spectrum of industries. The new product innovation will expect a large cost reduction and strengthen its competitive advantage. The sound balance sheet and growing free cash flow is another plus.

Pros:

- Strong sales and market share from currently available products. PC sales growth and public cloud data center create great demands.
- New 300mm wafer production will bring a huge cost reduction and a leap of gross margin.
- With the nascent Internet of Things takes off, TI's embedded chip business see healthy growth.

Risk Factors:

- TI walked away from the wireless chip business, which weighed on revenue growth in recent years.
- The growth in emerging markets may further damp prices and margins.

5 Year Stock Performance:



Total Return Estimates

- 3 Yr FV Reversion: 6.5%
 - 5 Yr FV Reversion: 5.0%
- Key Valuation Assumptions**
- Est Revenue Growth: 6.5%
 - WACC: 9.0%
 - Expected Inflation: 1.7%
 - Terminal Growth Rate: 3.5%
 - 10 Yr Risk Free Rate: 4.00%
 - Equity Risk Premium: 5.00%
 - Tax Rate: 24.00%

Key Financial Data

- Est 2014 EPS: 2.57
- Est 2015 EPS: 2.85
- 3-5 Yr Est EPS Growth: 7.09%
- PEG (5 yr expected): 1.92

Competitor Comparison:

Direct Competitor Comparison				
	TXN	QCOM	STM	Industry
Market Cap:	58.61B	115.82B	7.68B	2.00B
Employees:	N/A	31,300	N/A	3.24K
Qtrly Rev Growth (yoy):	0.08	0.07	-0.09	0.25
Revenue (ttm):	13.04B	26.96B	7.40B	635.39M
Gross Margin (ttm):	0.57	0.59	0.34	0.39
EBITDA (ttm):	5.07B	9.38B	1.07B	116.61M
Operating Margin (ttm):	0.3	0.3	0.03	0.08
Net Income (ttm):	2.82B	8.06B	128.00M	N/A
EPS (ttm):	2.57	4.73	0.14	0.08
P/E (ttm):	21.77	14.84	62.79	40.88
PEG (5 yr expected):	1.92	1.34	4.07	1.01
P/S (ttm):	4.48	4.3	1.04	2.46

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

- Credit Quality: A+
 - ROE: 26.5%
 - ROA: 15.4%
 - Price/Book: 5.79
 - Price/Cash Flow: 14.9
 - Debt/Equity: 44.7%
 - Current Ratio: 2.9
 - Quick Ratio: 1.8
- CSR Characteristics**
- Human Rights: 1/1
 - Business Ethics Policy: 1/1
 - ESG Disclosure: 40.91/38.17
 - Equal Opportunity: 1/1
 - Emission Reduction: 1/1
 - Environment Disclosure Score: 35.66/29.97

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