Texas Instruments second-quarter profit falls 4%

By Benjamin Pimentel, MarketWatch
Last update: 6:13 p.m. EDT July 21, 2008

SAN FRANCISCO (MarketWatch) - Texas Instruments Inc. on Monday reported a 4% drop in second-quarter net profit as the chip giant reeled from an unexpected decline in demand in June.
TI reported second-quarter net income of $588 million, or 44 cents a share, compared with a profit of $614 million, or 42 cents a share for the year earlier period. Revenue was $3.35 billion, up from $3.42 billion.

Analysts expected the Dallas-based company to post earnings of 45 cents a share on revenue of $3.39 billion, according to a survey by FactSet Research.

The company said demand "slowed unexpectedly" in June after distributors cut down inventory levels and "did not replenish them late in the quarter," the company said in a release. TI also cited a sales decline for its wireless business in the quarter.

In a prepared statement, TI CEO Rich Templeton said, "We believe this slower demand was due to a mix of reasons, including a weaker economic environment and greater confidence in TI's ability to deliver products within short lead times. Our orders were up in the quarter and backlog grew, but we are cautious given the demand environment we just experienced. If demand strengthens as quickly as it slowed, we are well-positioned to meet it."

'Pretty soft'
For the third quarter, TI said it expects revenue in the range of $3.26 billion to $3.54 billion, and earnings per share of between 41 cents and 47 cents.

"Bad, bad and more bad," analyst Doug Freedman of American Technology Research said of the results. "The only positive is the order trend."

Analyst Brian Piccioni of BMO Capital Markets said TI's said the company's guidance was "low on the top line, and pretty soft on the bottom line."

On the overall results, he said, "I would say, at a glance, disappointing. ... I would think weaker economic demand would be a significant factor. I seem to recall having read Nokia was concerned about its inventory levels, so if you think about it is sure looks like a slowdown."

Analyst John Dryden of Charter Equity Research said TI's quarter was "weaker than we expected, and the outlook is worse."

"Rebound in units at Nokia can't overcome distributor pullback from analog products," he said. "The second half of 2008 will not be better than a weak first half in no appreciation for the stock near-term."

New challenges

TI has been the dominant cell-phone chips maker but it has faced new challenges after its biggest customer, Nokia Corp., decided to work with other suppliers such as Broadcom Corp. and STMicroelectronics NV.

Another major customer, Ericsson LM, also has shifted to a multi-supplier strategy. Kevin March, TI's chief financial officer, said in a call with analysts that the company was paying close attention to broader market trends.

"The broader economic environment and its impact on near term demand have our attention. As a result, we will continue to be cautious in our operating plans and our forecasts until we have better clarity on demand," he said. ■

Benjamin Pimentel is a MarketWatch reporter based in San Francisco.