Tessera Technologies Inc (TSRA)

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Disclaimers

• I am not a registered investment advisor and I do not offer any investment advise.

• No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments.
**Tessera Technologies - business**

- Develops, licenses, and delivers miniaturization technologies and products for electronic devices worldwide.
- **Micro-Electronics segment** offers semiconductor packaging technologies encompassing interconnect and substrates, and thermal management technology
- **Imaging and Optics segment**
  - Provides image enhancement technologies
  - Micro electro mechanical systems-based single-chip solutions that enable auto focus functionality
  - Micro-optics - small form factor optics developed and delivered on various substrates
  - Wafer-level packaging technologies for image sensor packaging.
Tessera Technologies - business (cont’d)

- Majority revenues chip packaging license fees & royalties
  - Some one-time payments
  - Concentrated customers, 34% from 2 customers in 2010

- Competition
  - Texas Instruments, Intel, Sharp, Samsung
Tessera Technologies - Misc thoughts

• What can go wrong?
  • Loss of licensees
  • New non-TSRA chip packaging technologies
  • Patent system change

• Opportunities:
Strategic considerations

- **Moat (switching costs, habit, low cost):**
  - What are the moats? Standard, best solution
  - What does it take to sustain the moats? Best solution, lowish royalties
  - Bargaining power of suppliers/customers? Not known

- **Is it a low risk business?** Somewhat.

- **Is there high uncertainty?** Medium

- **How capital intensive is the business?** Not capital intensive

- **Future growth - saturation?** Unknown

- **Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions?** Probably not
Management

- I don’t usually do management analysis. Included for template completeness
- Minor dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV
Piotroski Score

Only applicable to Graham Cos - N/A to TSRA

1. Net Income: Bottom line. Score 1 if last year net income is positive.
2. Operating Cash Flow: Better earnings gauge. Score 1 if last year cash flow is positive.
3. Return On Assets: Measures Profitability. Score 1 if last year ROA exceeds prior-year ROA.
4. Quality of Earnings: Warns of Accounting Tricks. Score 1 if last year operating cash flow exceeds net income.
5. Long-Term Debt vs. Assets: Is Debt decreasing? Score 1 if the ratio of long-term debt to assets is down from the year-ago value. (If LTD is zero but assets are increasing, score 1 anyway.)
6. Current Ratio: Measures increasing working capital. Score 1 if CR has increased from the prior year.
7. Shares Outstanding: A Measure of potential dilution. Score 1 if the number of shares outstanding is no greater than the year-ago figure.
8. Gross Margin: A measure of improving competitive position. Score 1 if full-year GM exceeds the prior-year GM.
9. Asset Turnover: Measures productivity. Score 1 if the percentage increase in sales exceeds the percentage increase in total assets.

• Total: / 9
Is it a good business?

• 8 year history of profits
• ROE:
  • 2009: 12.2  2010: 8.6  2011: 5.7
• Margins
  • 2009: 23  2010: 19  2011: 16
• Growing earnings: 3 year sales growth 4%, earnings growth N/A
• Minor dilution
• Very strong balance sheet
  • Debt << cash/short term investments
• ROIC = Earnings / (Equity + Debt - Cash) = Earnings / (Assets - non-debt liabilities - Cash)
  • ~ ROE
Is it a good business? Cash flow

• Strong operating cash flow and FCF:
  • 2011 q1 11M earnings, 22M operating cash flow, 21M FCF (FCF = OCF - capital expenditures)
  • Free Cash Flow/Share higher than dividends paid
Is business cheap? - Buffettology calculations

• ROE 12%
• Earnings in 10 years = ROE*Equity*(1+ROE)^9 = $235M
• Equity in 10 years = Equity*(1+ROE)^9 = $1.9B
• Market cap = 1.9B x P/E (15) = $3.5B
• Rate of return = 14% after tax (calculations omitted), 19% at 15% ROE

• 9 year earnings growth: N/A too volatile%. Assuming % earnings growth: % share price growth.
Is business cheap? DCF

• Discounted cash flow
  • Current earnings of 46M
  • 10% growth for 5 years, leveling after that
    • 15% discount -> $447M current valuation (if you buy company at <$23.4B, you will get 15% return or higher)
  • 5% growth for 10 years, leveling after that
    • 15% discount -> $412M current valuation
  • 10% growth for 10 years, leveling after that
    • 15% discount -> $559M current valuation

• Owner’s yield = earnings / (market cap + debt - cash) = earnings/EV
  • 46M / (785M-520M) = 17%

• What makes up the margin of safety? Patents
• Is there a sufficient margin of safety? Not clear
Is business cheap? - Graham investment considerations

• N/A for TSRA - included for completeness
• 1.1 P/Book - not a net net (130M intangibles)
• Altman Z score ( http://en.wikipedia.org/wiki/Altman_Z-score )