Tessera Technologies Inc (TSRA)

Raimondas Lencevicius

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)