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Tiny Technology, Big Growth: Under the Radar

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Cramming more processing power in less space is the ultimate goal of most tech companies because it means their devices will be capable of performing more advanced operations.

**Tessera Technologies** (TSRA Quote) helps make the push to fit more on small wafers a reality. Dazzling fundamentals make it an attractive pick, but investors looking for more proof need only look at the prevalence of tiny gadgets to know that this area is primed for growth.

San Jose, Calif.-based Tessera makes almost 90% of its revenue from intellectual property. The company designs ways to make technology smaller, faster and better, and then licenses those methods to other companies for a fee. That business model has worked quite well.

With a massive profit margin of 23% and a stock that has climbed 64% in the past year, twice as fast as the **Russell 2000 Index**, the company looks impossibly strong. Most would expect such a tech company to be loaded with debt or trading at insane multiples, but that isn't the case.

Tessera has no long-term debt and boasts a current ratio of 7.21, exceeding the ratio of 1 most companies strive to maintain. The company's price-to-earnings ratio is far from bloated at 21, and its price-to-free cash flow ratio of 10 makes it a bargain.

The company also sports an enviable PEG ratio of 0.61, which suggests its growth prospects outweigh its \$20.26 share price. The company's PEG and P/E ratios indicate that analysts expect long-term growth of 34%.

Its lackluster return on equity of 14% looks out of place, but reflects the company's safe capital structure and low leverage, not poor performance. The company deals mainly in intellectual property, not capital-intensive manufacturing, so it may be difficult for even moderate leverage to increase its profitability.

We rate Tessera "buy." This company seems to be in the right place at the right time to capitalize on the push for compact power.

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