

Investment ideas. Stocks.

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Xperi Holdings (XPER US) is a U.S. company engaged in IT business with two main areas: semiconductors (around 65% of revenue) and technology and intellectual property licensing. Additionally, the company develops apps and technology solutions for cars, mobiles and smart home systems. It looks highly attractive according to benchmarking multipliers assessment.

Company	XPERI HOLDING
Ticker	XPER US
Sector	Software
Capitalization, \$ million	2,348
EV, \$ million	3,008
Dividend yield	1.5%
Entry level, \$	22.38
Current price, \$	22.32
Result	-0.3%

Source: Bloomberg

Key investment attractiveness factors

- 1) **Strong performance in 2020.** Xperi shows an impressive growth of financial indicators according to its year-end results 2020. Revenue spiked 218.5% to \$892 million. EBITDA grew several times and reached \$385 million. At the same time, EBITDA margin increased from 20% to 43%. Net profit amounted to \$156.6 million as compared to a loss of \$54.8 million for the prior year. The company demonstrated a sensible growth in cash flow as well: free cash flow increased by 161.9% reaching \$42.2 million.
- 2) **Litigation agreement with Comcast.** Performance in 2020 was directly affected by settlement agreement with Comcast to end patent litigation. Xperi has already obtained three favorable awards in lawsuits against Comcast. Settlement with Comcast helps reduce liabilities, interest payments and legal expenses, and also increase earnings and cash flow.
- 3) **Merger with TiVo — promising opportunities in media business.** In its current form, the company is essentially “new” Xperi resulting from last summer’s merger with TiVo. In addition to integration of product solutions and software solutions in XPER’s overall portfolio, the merger resulted in a high degree of business diversification because TiVo specialized in media segment. The merger with TiVo brings a large package of patents and new resources in mass media and media platforms — areas where the company was not so strong previously. The company therefore gets new sources of income and growth opportunities.
- 4) **Licensing — an excellent safety net.** Xperi’s intellectual property licensing business acts as financial “safety net”. The company is now considering a split into two companies though, where each is supposed to represent one of the two currently existing business areas.

Until the split is completed, XPER will continue to have a stable source of income which is nearly cost-free.

Key risks. First, there is a risk of technologies becoming obsolete, which is the main risk because Xperi is engaged in licensing business. It is critical for both business areas of the company. Additionally, we see a risk associated with patents portfolio becoming “exhausted” over time due to expiring patent terms. This risk sets limitations to licensing revenues from each individual patent. Accordingly, the company has to constantly purchase intellectual property, which costs it money.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	280	892	891	0%
Gross profit	272	814	770	-5%
EBITDA	56	385	401	4%
Net profit	-55	170	193	14%
EPS	-1.12	2.05	1.88	-8%
<i>Gross margin</i>	<i>97%</i>	<i>91%</i>	<i>86%</i>	<i>-5%</i>
<i>EBITDA margin</i>	<i>20%</i>	<i>43%</i>	<i>45%</i>	<i>2%</i>
<i>Net margin</i>	<i>-20%</i>	<i>19%</i>	<i>22%</i>	<i>3%</i>
Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	354	924	924	0%
Cash	122	257	257	0%
Net debt	232	667	667	0%
Net debt/EBITDA	0.3	12.0	1.7	-
Benchmarking against similar companies, 2021P*	Country	P/S	EV/EBITDA	P/E
ASML HOLDING	Netherlands	14.0	40.4	52.1
APPLIED MATERIALS	USA	6.1	19.3	23.7
LAM RESEARCH	USA	6.7	20.7	26.1
KLA	USA	8.1	19.5	26.0
TERADYNE	USA	6.7	18.3	25.8
ENTEGRIS	USA	7.7	26.3	40.8
IPG PHOTONICS	USA	8.4	22.5	42.0
UNIVERSAL DISPLAY	USA	20.8	42.1	61.0
Weighted average		9.8	26.2	37.2
XPERI HOLDING	USA	2.6	7.5	12.2
<i>Discount/(premium)</i>		<i>272%</i>	<i>248%</i>	<i>206%</i>

*P – Projection

Source: Bloomberg

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