VALIDEA

# Guru Stock Report

## ARTERIS INC (NASD: AIP)

**Based on 9/28/2023 Close Price of $6.50**

**INDUSTRY: Software & Programming** | **SECTOR: Technology**

**Current Rating: Sell**

**Downgrade from D to F on 9/29/2023.**

**VALIDEA RATING (OVERALL STRENGTH GRADE):** : A : B : C : D : **F**

### OVERVIEW

• This stock receives a fundamental grade of "F" based on Validea's Guru Analysis system. "F" rated stocks pass very few of the fundamental tests of our guru strategies and typically do not meet many major criteria. Stocks that receive this grade typically have many major fundamental flaws. For further details on our scoring system, please see the FAQ section at the end of this report.

### ANALYSIS SUMMARY

| Strategy Name | Based On Book By/About | Score |
|---|---|---|
| **Value Models** | | |
| Value Investor | Benjamin Graham | 14% |
| Patient Investor | Warren Buffett | 0% |
| Contrarian Investor | David Dreman | 14% |
| Price/Sales Investor | Kenneth Fisher | 40% |
| Low PE Investor | John Neff | 0% |
| Book/Market Investor | Joseph Piotroski | 0% |
| Earnings Yield Investor | Joel Greenblatt | 0% |
| Value Composite Investor | James O'Shaughnessy | 0% |
| Acquirer's Multiple Investor | Tobias Carlisle | 0% |
| Private Equity Investor | Validea | 47% |
| **Growth and Momentum Models** | | |
| Twin Momentum Investor | Dashan Huang | 0% |
| P/B Growth Investor | Partha Mohanram | 44% |
| Growth Investor | Martin Zweig | 15% |
| Momentum Investor | Validea | 7% |
| Small-Cap Growth Investor | Motley Fool | 15% |
| Quantitative Momentum Investor | Wesley Gray | 0% |
| Earnings Revision Investor | Wayne Thorp | 20% |
| **Multi-Factor Models** | | |
| P/E Growth Investor | Peter Lynch | 0% |
| Growth/Value Investor | James O'Shaughnessy | 25% |
| Multi-Factor Investor | Pim van Vliet | 0% |
| Milennial Investor | Patrick O'Shaughnessy | 40% |
| Shareholder Yield Investor | Meb Faber | 25% |

**COMPANY PROFILE**

Arteris, Inc. is a provider of semiconductor system intellectual property (IP). It is a provider of interconnect and other IP technology that manages the on-chip communications and IP block deployments in System-on-Chip (SoC) semiconductors. It provides semiconductor interconnect IP and IP deployment solutions to serve its target end markets, including automotive, enterprise computing, consumer electronics, communications across wired and wireless, and industrial segments. Its IP products include the Ncore cache coherent and FlexNoC non-coherent interconnect IP, the CodaCache standalone last-level cache, and the optional Resilience Package (ISO 26262 functional safety), FlexNoC AI Package, and PIANO automated timing closure capabilities. Its IP deployment products provide intelligent automation that accelerates the development of SoC hardware designs and their associated software and firmware, verification and simulation platforms, and specifications and customer documentation.

**RATING HISTORY**

| Date | Action | Old Rating | New Rating |
|---|---|---|---|
| 10/14/2022 | Downgrade | D | F |
| 11/11/2022 | Upgrade | F | D |
| 3/3/2023 | Downgrade | D | F |
| 6/9/2023 | Upgrade | F | D |
| 9/29/2023 | Downgrade | D | F |

**METHODOLOGY**

This report provides a detailed analysis of AIP based on the publicly disclosed methodologies of Wall Street legends. Validea is a premier online independent research provider. The firm's Guru Stock Report unites the quantitative strategies of the world's most successful investors, including names like Peter Lynch, Warren Buffett, Ben Graham, Martin Zweig and many others. Rooted in fundamental analysis and built on core investing principles, each report contains an in-depth description of the guru methodologies, as interpreted by Validea, and examines the stock using multiple approaches (i.e. value, growth, momentum).

Using these strategies, Validea has created a ratings scale that is dynamic and weights more heavily the best performing approaches as identified and tracked by Validea. Each stock is scored using a five point rating system that assesses the security's investment prospects. Ratings range from A to F (correlates to Strong Buy to Sell), with A and B stocks having the best potential for long-term market outperformance. Stocks that score highly based on the best performing risk-adjusted guru strategies or are favored by multiple top performing guru strategies are given a higher rating versus their counterparts. Validea's ratings are limited to companies that exhibit profitability. Reports are updated every two weeks.

## GURU ANALYSIS OF: ARTERIS INC (AIP)

### PRIVATE EQUITY INVESTOR

SCORE: **47%**

BASED ON: Validea | STYLE: Value

### Strategy Overview

Rasmussen's strategy looks for stocks that have the criteria that have led to success in private equity investing. In defining the universe, the model looks for stocks in-between the 25th and 75th percentile of market capitalization (the small- and mid-cap segment of the market). It then further reduces the list by identifying the cheapest 25% based on Enterprise Value (EV) / EBITDA. The final criteria in terms of segmenting the universe is looking for those stocks with an above-median leverage ratio relative to all stocks in the market. To uncover those stocks with even more excess return potential, a second set of factors across four different areas are applied: deleveraging factors, technical factors and quality factors. In their testing, their model, which selected the top 25 stocks using their strategy, returned 25.1% annually from 1965-2013.

## Detailed Analysis

**This strategy looks for small- and mid-cap stocks that mirror the characteristics of successful private equity investments. The first set of three criteria are used to define the universe of small and mid-cap, high debt firms trading at discounted valuations.**

**MARKET CAP:** [PASS]

The first test requires that a company's market capitalization falls within between the 25th and the 75th percentile of the all stock universe. **AIP**'s market cap of $**234.0** million places it in the **44th** percentile of our database, thus passing this criterion.

**ENTERPRISE VALUE TO EBITDA:** [FAIL]

One of the most important identifiers of successful private equity investments is the purchase price. Companies acquired at lower valuations tend to perform better over time. As a result, this strategy requires that a company's enterprise value to EBITDA multiple be in the bottom 25% of the market. **AIP**'s EV/EBITDA is **N/A**, which places it in the **99th** percentile of our database (lower percentile = less expensive), therefore it fails this test.

**LONG-TERM DEBT TO ENTERPRISE VALUE:** [FAIL]

Successful private equity investments tend to use leverage to magnify their returns over time. To measure this, this methodology looks for companies that have an above average debt in relation to their enterprise value. **AIP**'s Debt/EV is **0.01**, which places it in the **34th** percentile of our database (higher percentile = higher debt/EV), therefore it fails this test.

**After defining the universe, this strategy uses four additional criteria to measure a company's ability to repay its debt.**

**CHANGE IN LONG-TERM DEBT:** [FAIL]

The author's research found that the most successful predictor of whether a firm will pay down its debt in the future is whether it has in the past. As a first test of a firm's ability to repay its debt, this strategy looks for lower debt in the most recent fiscal year as compared to the previous year. **AIP**'s long-term debt was **$0.45** million in the most recent fiscal year vs. **$0.3** million in the previous fiscal year, therefore it fails this test.

**LONG-TERM DEBT TO ASSETS:** [PASS]

As a second test of a firm's ability to repay its debt, this strategy looks for a low to moderate long-term debt to assets ratio. **AIP**'s Debt/Assets is **0.01**, which places it in the **39th** percentile of our database (lower is better), therefore it passes this test.

**GROSS PROFIT TO ASSETS:** [PASS]

Companies with higher profits are more likely to be able to repay their debt. As a third test of a firm's ability to repay its debt, this strategy looks for a high gross profit to assets ratio. **AIP**'s Gross Profits/Assets is **0.43**, which places it in the **14th** percentile of our database (lower is better), therefore it passes this test.

**ASSET TURNOVER:** [PASS]

The final identifier of a firm's ability to pay down its debt that this strategy looks for is an improving asset turnover ratio. **AIP**'s asset turnover was **0.44**, in the most recent fiscal year vs. **0.31** in the previous fiscal year, therefore it passes this test.

## P/B GROWTH INVESTOR

SCORE: **44%**

**BASED ON: Partha Mohanram** | **STYLE: Growth**

## Strategy Overview

Mohanram's strategy starts with the lowest twenty percent of stocks using the book/market ratio (the inverse of the price/book ratio). Growth firms, on average, do not beat the market over time, but Mohanram identified eight criteria that can be used to separate the winners from the losers. His criteria are split into three distinct groups. His model looks at profitability using criteria like return on assets and cash flow from operations, consistency using the variance of return on assets and sales, and a willingness to invest for the future using capital expenditures, advertising and research and development. He found that, when combined together, these criteria helped to identify growth firms that are likely to sustain that growth.

## Detailed Analysis

**BOOK/MARKET RATIO:** [PASS]

The first criteria of this strategy requires that a company be in the bottom 20% of the market based on the Book/Market ratio (which is the inverse of the Price/Book ratio). **AIP**, which has a book to market ratio of **0.11**, meets this criterion and thus this strategy will use the following additional criteria to identify whether it is an attractive growth stock.

**RETURN ON ASSETS:** [FAIL]

As a first step, this methodology requires that the return on assets for the most recent fiscal year be above the industry average. **AIP**'s return on assets was **-25.21%** in the most recent year, while the industry average was **-10.30%**, therefore it fails this test.

**CASH FLOW FROM OPERATIONS TO ASSETS:** [FAIL]

The next requirement is that cash flow from operations to assets for the most recent fiscal year be above the industry average. **AIP**'s cash flow from operations to assets was **-24.59%** in the most recent year, while the industry average was **-5.10%**, therefore it fails this test.

**CASH FLOW FROM OPERATIONS TO ASSETS VS. RETURN ON ASSETS:** [PASS]

This methodology also requires that cash flow from operations to assets for the most recent fiscal year be above return on assets. **AIP**'s cash flow from operations to assets was **-24.59%** in the most recent year, while its return on assets was **-25.21%**, therefore it passes this test.

**RETURN ON ASSETS VARIANCE:** [FAIL]

Companies who exhibit consistent growth are more likely to sustain that growth in the future. To analyze this, this methodology looks for firms whose variance in its return on assets is less than the average for its industry. **AIP** has a return on assets variance of **379.55%** in the most recent year, while the variance for its industry was **129.20%**, therefore it fails this test.

**SALES VARIANCE:** [FAIL]

In addition to consistency in return on assets, this methodology also looks for consistency in sales as a second indicator of consistent growth. **AIP**'s sales variance of **32,131,990.00%** is greater than its industry's sales variance of **416.30%**, therefore it fails this test.

**ADVERTISING TO ASSETS:** [PASS]

This methodology looks for firms that are willing to invest in the future at the expense of current earnings. The first indicator of this is that advertising spending to assets is above its industry average. **AIP**'s advertising to assets of **14.32%** is greater than its industry's average of **1.00%**, therefore it passes this test.

**CAPITAL EXPENDITURES TO ASSETS:** [FAIL]

A second indicator of a firm that is investing for its future is a focus on capital expenditures. Firm's that invest in capital expenditures also show a willingness to forgo current earnings in exchange for future growth. To measure this, this methodology looks for capital expenditures to assets above the industry average. **AIP**'s capex to assets of **0.97%** is less than its industry's average of **1.00%**, therefore it fails this test.

**RESEARCH AND DEVELOPMENT TO ASSETS:** [PASS]

A final indicator of a firm that is investing for its future is a commitment to research and development. Therefore it also looks for research and development to assets above the industry average. **AIP**'s R&D to assets of **38.54%** is greater than its industry's average of **11.00%**, therefore it passes this test.

## MILENNIAL INVESTOR

SCORE: **40%**

BASED ON: Patrick O'Shaughnessy | STYLE: Multi-Factor

### Strategy Overview

In investing, simple is often better. Many investment strategies get bogged down in complexity without the performance results to show for it. This strategy uses a simple set of five criteria that get at the heart of the factors that drive investment performance over time. It looks for firms with high shareholder yield (indicating that they are focused on providing value to the owners of their stock), high return on invested capital, inexpensive valuations (via enterprise value to free cash flow), operating cash flow that exceeds accounting earnings, and relative strength in the top 75% of the market.

### Detailed Analysis

**SHAREHOLDER YIELD:** [FAIL]

The best companies put their shareholders first. The first test of this strategy looks for companies that are returning cash to shareholders via dividends, stock buybacks and debt paydown. It looks for a shareholder yield above 5%. **AIP**'s shareholder yield is **0.56%**, which fails this criterion.

**RETURN ON INVESTED CAPITAL:** [FAIL]

This strategy also looks for companies that have demonstrated the ability to generate strong returns on their own internal capital. It requires a return on invested capital above 30%. **AIP**'s ROIC is not available, therefore it fails this criterion.

**EARNINGS QUALITY:** [PASS]

When a company's operating cash flows fail to keep up with their earnings, it is typically a sign of poor earnings quality. Therefore this strategy looks for firms whose operating cash flow exceeds their earnings in the most recent year. **AIP**'s TTM cash flow from operations is **$-0.19** per share, while its earnings are **$-0.97** per share, which passes this criterion.

**ENTERPRISE VALUE TO FREE CASH FLOW:** [FAIL]

This strategy looks for value stocks that the market has very low expectations for. These types of firms have a higher likelihood of exceeding expectations in the future. It measures this by looking for an enterprise value to free cash flow below 10. **AIP**'s enterprise value to free cash flow is not available, therefore it fails this criterion.

**RELATIVE STRENGTH:** [PASS]

The final criterion of this strategy checks to ensure that the market is beginning to notice the good things that are going on with the company. It does this by requiring a six month relative strength above 25. **AIP** has a six month relative strength of **95**, which passes this criterion.

## PRICE/SALES INVESTOR

SCORE: **40%**

BASED ON: Kenneth Fisher | STYLE: Growth/Value

### Strategy Overview

Fisher found that earnings -- even the earnings of good firms -- could vary from year to year based on things (accounting changes, decisions to upgrade facilities, increased research costs that will lead to bigger profits down the line) that had little to do with the prospects of the company's underlying business. Sales, however, were far more stable and thus a better indicator of the strength of a company's business, making the PSR a very useful tool. Fisher wanted stocks with low PSRs, and he used different standards for different types of companies. He also wanted to see strong earnings growth, high profit margins, and low debt. In addition, for technology and medical companies, Fisher viewed research as a commodity. When analyzing these firms, he used the "price/research" ratio (PRR), which divides a firm's market cap by the amount it is spending on research. Fisher has changed his strategy today, but his

PSR-focused approach has continued to produce strong results for us.

## Detailed Analysis

**PRICE/SALES RATIO:** [FAIL]

The prospective company should have a low Price/Sales ratio. Non-cyclical stocks with Price/Sales ratios > 3 should never be purchased, however they can be held depending on the investor's risk aversion. **AIP's** P/S ratio of **4.54** based on trailing 12 month sales, is above 3, which is considered very unfavorable by this methodology. Based on this ratio, the stock is quite risky, however if risk does not bother you much, consider holding the stock until the P/S ratio approaches 6.

**TOTAL DEBT/EQUITY RATIO:** [PASS]

Less debt equals less risk according to this methodology. **AIP's** Debt/Equity of **10.88%** is acceptable, thus passing the test.

**PRICE/RESEARCH RATIO:** [PASS]

This methodology considers Technology and Medical companies with low Price/Research ratios to be attractive. This ratio indicates how much a market values a company's Research and Development (R&D). Companies with Price/Research ratios between 5 and 10 are bargains and considered attractive.**AIP's** Price/Research ratio of **5.68** is considered favorable.

**PRELIMINARY GRADE: No Interest in AIP At this Point**

**Is AIP a "Super Stock"?** NO

**Price/Sales Ratio:** [FAIL]

The Price/Sales ratio is the most important variable according to this methodology. The prospective company should have a low Price/Sales ratio. **AIP's** Price/Sales ratio of **4.54** does not pass this criterion.

**LONG-TERM EPS GROWTH RATE:** [FAIL]

This methodology looks for companies that have an inflation adjusted EPS growth rate greater than 15%. **AIP's** inflation adjusted EPS growth rate is not available. Hence, this methodology cannot analyze this criterion at the present time.

**FREE CASH PER SHARE:** [FAIL]

This methodology looks for companies that have a positive free cash per share. Companies should have enough free cash available to sustain three years of losses. This is based on the premise that companies without cash will soon be out of business. **AIP's** free cash per share of **-0.76** fails this criterion.

**THREE YEAR AVERAGE NET PROFIT MARGIN:** [FAIL]

This methodology looks for companies that have an average net profit margin of 5% or greater over a three year period. **AIP's** three year net profit margin, which averages **-42.12%**, does not pass this criterion.

## SHAREHOLDER YIELD INVESTOR

SCORE: **25%**

**BASED ON: Meb Faber** | **STYLE: Multi-Factor**

## Strategy Overview

This strategy looks for companies that put shareholders first. It selects stocks that pay dividends, buy back their stock, and pay down debt. The summation of those three variables is called shareholder yield and measures a firm's commitment to shareholder friendly practices. In addition to shareholder yield, this strategy also filters stocks based on value, quality, debt, and relative strength.

## Detailed Analysis

**UNIVERSE:** [PASS]

The first step of this strategy is to set the universe, which includes US companies with market capitalizations above $200 million. **AIP** is a US company and its market cap is $**234** million, and therefore this methodology is able to analyze it.

**NET PAYOUT YIELD:** [FAIL]

This strategy seeks to reward companies that focus on shareholder friendly practices. It does this by ranking stocks based on their net payout yield, which is the sum of the dividend yield and the share buyback yield. In this step, stocks that have a net payout yield in the top 20% of our database are selected. **AIP**'s net payout yield is **0.82%**, which is in the **38th** percentile of our database (lower is better), thus failing this criterion.

**QUALITY AND DEBT:** [FAIL]

The third step of this methodology is to filter out low quality and high debt stocks. Stocks with quality composite scores above the 90th percentile of the universe are eliminated in this step. **AIP**'s quality score is not available, therefore it fails this criterion.

**VALUATION:** [FAIL]

The fourth step of this methodology is to filter out expensive stocks. Stocks with valuations above the median of the universe using a value composite are eliminated in this step. **AIP**'s value score is not available, therefore it fails this criterion.

**RELATIVE STRENGTH:** [PASS]

The fifth step of this methodology is to filter out stocks with low relative stength. We will eliminate any stocks with a relative strength below 25. **AIP** has a relative strength of **52**, thus passing this criterion.

**SHAREHOLDER YIELD:** [FAIL]

The final step of this methodology is to sort the remaining companies by shareholder yield, which incorporates debt paydown in addition to dividends and share buybacks. The top 10% of stocks will pass this criterion. **AIP**'s shareholder yield is **0.56%**, which ranks it in the **46th** percentile of our database, thus failing this criterion.

## Frequently Asked Questions

**What is Validea's Guru Analysis?**

Guru Analysis provides an in depth analysis of any stock using Validea's interpretation of published writings by or about 22 successful investors including Peter Lynch, Benjamin Graham, Warren Buffett, James P. O'Shaughnessy, the Motley Fool, David Dreman, John Neff, Kenneth Fisher and Martin Zweig. With Guru Analysis you can analyze any stock step by step using any one of these strategies and can see exactly why the stock passes or fails each methodology.

**What type of investors can use Validea's Guru Stock Reports?**

Validea's Guru Stock reports are geared toward long and medium-term investors. The vast majority of the investors that our guru strategies are based upon were long term investors. The reports can be utilized by both value and growth investors because there are multiple methodologies within the report that appeal to each investment style and several that combine both.

**What does the Validea Rating overall letter grade indicate?**

The Validea Rating indicates how well the stock meets the investment criteria of the 10 strategies in this report. The strategies with the best historical risk-adjusted performance are weighted more heavily in determining the letter grade. The letter grades are determined as follows.

> **A** - "A" rated stocks receive a score of 90% from at least one of our top tier guru strategies. Stocks in this category exhibit the fundamental criteria that have proven most predictive of future stock performance in our historical testing.
>
> **B** - "B" rated stocks receive a score of 90% from at least one of our second tier guru strategies. Stocks in this

category exhibit the fundamental criteria that is sought by these strategies. These strategies have all exhibited strong risk-adjusted performance in our historical testing.

**C** - "C" rated stocks have an average score from all of our strategies of at least 25%. Stocks in this category typically exhibit elements of fundamental strength, but also have some noticeable weaknesses.

**D** - "D" rated stocks have an average score from all of our strategies between 20% and 25%. Stocks in this grouping typically have several major fundamental weaknesses that would not be looked upon favorably by both value and growth investors.

**F** - "F" rated stocks have an average guru score from all of our strategies below 20%. Stocks in this grouping typically have many major fundamental weaknesses that would eliminate them from any consideration by our guru strategies.

**What do the individual guru scores mean?**

The scores for each strategy represent a weighted percentage of how well a particular stock meets a guru's criteria. Not all criteria are weighted equally and some of our strategies have criteria that are important enough to automatically result in a 0% score if they are failed. For example, in the Patient Investor strategy based on Warren Buffett, a stock will automatically fail if it does not meet the requirement of consistent earnings over the past 10 years.

**Is there any affiliation between Validea and the gurus that the strategies are based on?**

No, the names of individual investment advisors (i.e., the 'gurus') appearing in this report are for identification purposes of his/her methodology only, as derived by Validea.com from published sources, and are not intended to suggest or imply any affiliation with or endorsement or even agreement with our reports personally by such gurus, or any knowledge or approval by such persons of the content of this report.



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