

InterDigital, Inc. (IDCC)

\$56.54 (As of 02/07/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

InterDigital incurs significant R&D costs for developing innovative products to fend off stiff competition. Moreover, the products have high technological obsolescence which further necessitates the continuous development of new products, thereby increasing its operating costs. Decline in return on capital, despite rise in capital spending and capitalized patent costs, also poses a serious concern. However, the buyout of the patent licensing business of Technicolor is likely to create a significant opportunity for InterDigital in the consumer electronics market. The company's global footprint, diversified product portfolio and ability to penetrate in different markets remain key drivers. The company is also poised to gain from future growth opportunities, largely fueled by the increased pace of 5G rollout across the country.

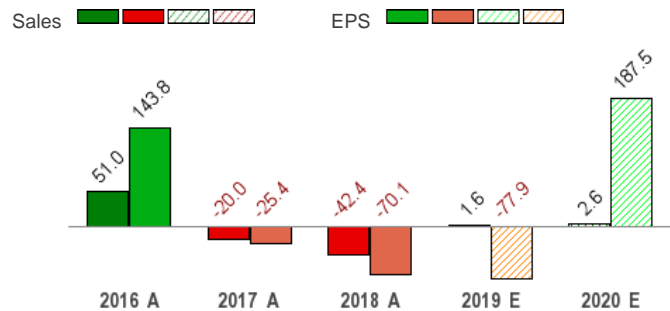
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$74.03 - \$47.02
20 Day Average Volume (sh)	211,023
Market Cap	\$1.8 B
YTD Price Change	3.8%
Beta	1.00
Dividend / Div Yld	\$1.40 / 2.5%
Industry	Wireless Equipment
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	135.0%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	02/20/2020
Earnings ESP	-17.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	79 E	79 E	80 E	83 E	320 E
2019	69 A	76 A	73 A	96 E	312 E
2018	87 A	70 A	75 A	75 A	307 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.13 E	\$0.28 E	\$0.36 E	\$0.48 E	\$1.15 E
2019	-\$0.09 A	\$0.24 A	\$0.07 A	\$0.27 E	\$0.40 E
2018	\$1.29 A	\$0.30 A	\$0.60 A	\$0.05 A	\$1.81 A

*Quarterly figures may not add up to annual.

P/E TTM	209.4
P/E F1	49.2
PEG F1	3.3
P/S TTM	6.0

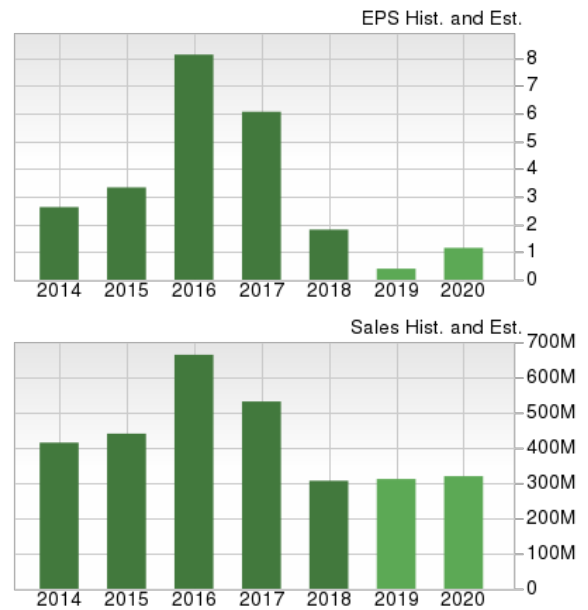
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

Overview

Headquartered in Wilmington, DE, InterDigital, Inc. is a pioneer in advanced mobile technologies that enables wireless communications and capabilities. The company engages in designing and developing a wide range of advanced technology solutions, which are used in digital cellular as well as wireless 3G, 4G and IEEE 802-related products and networks.

Furthermore, the company's team of skilled engineers has an expertise in major mobile connectivity as well as in technologies related to content delivery. Notably, InterDigital's secure and scalable horizontal platform, oneMPOWER, enables businesses to launch and manage Internet of Things (IoT) applications. The patented technologies of the company are used in several products like mobile devices, wireless infrastructure equipment as well as IoT devices and software platforms.

InterDigital derives revenues primarily from patent licensing, with contributions from patent sales, product sales, technology solutions licensing, and sales and engineering services. It has one of the most significant patent portfolios in the wireless and video industries. The company reports under a single operating segment.



Reasons To Buy:

- ▲ InterDigital intends to become a leading designer and developer of technology solutions and innovation for the mobile industry, IoT and allied technology areas by leveraging its R&D capabilities, technological knowhow and rich industry experience. At the same time, the wireless R&D company aims to enhance its licensing revenue base by adding licensees and expanding into adjacent technology areas that align with its intellectual property position.
- ▲ InterDigital's commitment toward licensing its broad portfolio of technologies to wireless terminal equipment makers, which allows it to expand its core market capability, is laudable. The company has leading companies such as Huawei, Samsung, LG and Apple under its licensing agreement. Management currently expects fourth-quarter 2019 revenues to lie within \$92 million to \$100 million, up from prior expectations of \$83-\$95 million. The revised guidance is primarily attributable to a new consumer electronics licensee, which the company signed in the second half of December.
- ▲ InterDigital's global footprint, diversified product portfolio and ability to penetrate in different markets are impressive. Apart from the company's strong portfolio of wireless technology solutions, the addition of technologies related to sensors, user interface and video to its offerings are likely to drive considerable value, considering the massive size of the market it licenses. Furthermore, the company remains committed to pursue strategic acquisitions in order to drive its product portfolio and boost organic growth.
- ▲ InterDigital is optimizing its strength in core wireless licensing business and has taken steps to drive shareholder value through the buyout of Technicolor licensing business. This has created significant new licensing opportunity in the video and consumer electronics markets. It has also acquired the Research & Innovation unit of Technicolor SA, a technology leader in the media and entertainment sector. The company is poised to gain from future growth opportunities, fueled by the 5G rollout. Such strategic acquisitions are anticipated to be accretive to InterDigital's financials and contribute to its long-term growth.

InterDigital is optimizing its strength in core wireless licensing business and has taken concrete steps to drive shareholder value through the strategic buyout of Technicolor licensing business.

Reasons To Sell:

- ▼ InterDigital has been working to expand its revenue base through continuous development, commercialization and licensing of technology projects, which in turn tend to put pressure on margins. The company faces substantial competitive pressure and thus needs to constantly work on product quality and customer service. Also, in order to hedge the competitive pressure, InterDigital has to invest significantly in R&D to come up with innovative technology solutions, which in turn leads to escalated costs. InterDigital's policy of acquiring companies further adds to the integration risks.
- ▼ InterDigital's return on total capital has decreased at a CAGR of 27.2% from 2012 to 2018. The decline in return on capital despite rise in the company's capital spending and capitalized patent cost remains a concern. This apart, InterDigital's return on equity has also witnessed a negative CAGR of 28% over the same time frame, indicating its inability to generate profit to reward shareholders with attractive risk-adjusted returns.
- ▼ In addition, latent tensions between the United States and China owing to trade restrictions imposed on the sale of communication equipment and technology solutions to Chinese firms are likely to hurt the industry's credibility and induce loss for businesses. InterDigital's third-quarter revenues totaled \$72.5 million, down 3.5% from \$75.1 million year over year. The decrease was primarily due to lower royalties from one of the Taiwanese licensees.

The decline in return on capital despite rise in InterDigital's capital spending and capitalized patent cost is worrisome. High R&D costs further reduce the profitability of the company.

Last Earnings Report

InterDigital Q3 Earnings Beat Estimates, Revenues Lag

InterDigital reported mixed third-quarter 2019 results, wherein the bottom line surpassed the Zacks Consensus Estimate but the top line lagged the same. However, meticulous control of expenses and revenues generated from new licensing avenues highlight the operating leverage of the company's business model.

Net Income

Net income for the quarter was \$2.2 million or 7 cents per share compared with \$21.8 million or 61 cents per share in the year-ago quarter. The significant year-over-year decline was largely attributable to higher income tax benefit in the prior-year quarter. The bottom line surpassed the Zacks Consensus Estimate of loss of 20 cents.

Revenues

The wireless R&D company's revenues totaled \$72.5 million, down 3.5% from \$75.1 million year over year. The top line lagged the Zacks Consensus Estimate of \$73 million. The decrease was primarily due to lower royalties from one of the Taiwanese licensees. While revenues from patent royalties came in at \$68 million, the same from current technology solutions totaled \$3.7 million.

Other Details

Total operating expenses were \$68.7 million, reflecting an increase of 10.5% year over year, mainly due to \$15.8 million of costs related to the acquisition of Technicolor SA's patent licensing business and its Research and Innovation team. The company recorded a gain of \$8.5 million from the sale of Hillcrest Laboratories product business to a subsidiary of CEVA, Inc., partly offset by \$3.3 million loss resulting from a partial impairment of the long-term investments.

Operating income was \$3.8 million compared with \$12.9 million a year ago owing to lower revenues and higher operating expenses.

Cash Flow and Liquidity

During the third quarter, InterDigital generated \$125.5 million of net cash in operating activities compared with cash flow of \$170.4 million in the year-ago quarter. The company's free cash flow was \$117 million compared with free cash flow of \$160.7 million a year ago.

As of Sep 30, 2019, InterDigital had \$ 947.6 million in cash and short-term investments with \$383.2 million of long-term debt and other liabilities.

Outlook

InterDigital is optimizing its strength in core terminal unit licensing business and has been successful in curbing expenses coupled with the expansion of its R&D footprint. Highlighting the strength and operating leverage of the business model, the company has taken steps to drive shareholder value through the buyout of Technicolor licensing business, creating a significant licensing opportunity in the video and consumer electronics markets.

InterDigital remains poised to gain from future growth opportunities of 5G rollout. It entered into a collaboration with Finland 6G flagship program in September. InterDigital also added two new patent licensees, ZTE Corporation and Google, shortly after third-quarter 2019, which is expected to complement the bilateral approach that has dominated the mobile SAP licensing to date.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-0.38%
EPS Surprise	135.00%
Quarterly EPS	0.07
Annual EPS (TTM)	0.27

Recent News

On Jan 6, 2020, InterDigital announced that it is raising revenue guidance for fourth-quarter 2019 to better reflect incremental revenues from a new licensee. Management currently expects fourth-quarter revenues to lie within \$92 million to \$100 million, up from prior expectations of \$83-\$95 million. The improved outlook includes recurring revenues in the range of \$74 million to \$77 million compared with previous expectations of \$74 million to \$78 million. The revised guidance is primarily attributable to a new consumer electronics licensee, which the company signed in the second half of December.

On Nov 13, 2019, InterDigital announced that it has contributed \$50,000 to Carnegie Mellon University for the development of mobile edge computing research, through the Open Edge Computing Initiative. The initiative is likely to provide attractive edge applications and drive the adoption of Open Edge Computing with application providers, operators and cloud service providers in the IT and telecommunications industry, as well as end-customer industries. It will further strengthen the global edge computing ecosystem by tackling key technical challenges on a global scale.

On Nov 12, 2019, InterDigital announced that it has collaborated with a consortium of 12 partners in Europe and Taiwan through a joint platform — 5G-DIVE. The partnership has been formed to develop intelligent edge solutions for two 5G verticals, Industry 4.0 and Autonomous Drones. The two-year project received funding of €4.3 million from the European Commission and Ministry of Economic Affairs in Taiwan. The project aims to boost data analytics with edge and fog intelligence to meet the dynamic innovation needs of the 5G infrastructure across all regions.

Valuation

InterDigital shares are down 22.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 20.8% and 29.5% over the past year, respectively.

The S&P 500 index is up 21.9% in the past year.

The stock is currently trading at 12.84X trailing 12-month EV/EBITDA, which compares to 20.62X for the Zacks sub-industry, 12.74X for the Zacks sector and 11.36X for the S&P 500 index.

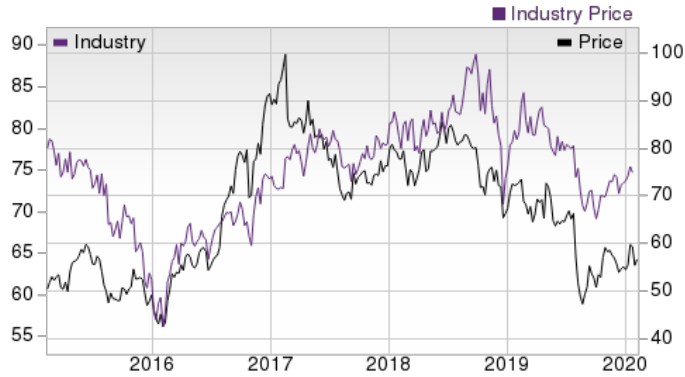
Over the past five years, the stock has traded as high as 17.7X and as low as 3.2X, with a 5-year median of 5.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 1.3X forward 12-month earnings.

The table below shows summary valuation data for IDCC

Valuation Multiples - IDCC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.84	20.62	12.74	11.36
	5-Year High	17.69	25.55	12.74	12.85
	5-Year Low	3.23	10.1	7.68	8.47
	5-Year Median	5.6	15.8	10.53	10.7
P/E F12M	Current	45.99	19.54	22.82	19.12
	5-Year High	157.8	30.47	22.82	19.34
	5-Year Low	10.41	13.61	16.87	15.18
	5-Year Median	31.34	18.24	19.32	17.47
P/S F12M	Current	5.46	3.23	3.72	3.53
	5-Year High	10.57	3.51	3.72	3.53
	5-Year Low	3.49	2.07	2.3	2.54
	5-Year Median	6.39	2.8	3.02	3

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

PCTEL, Inc. (PCTI)	Outperform
Clearfield, Inc. (CLFD)	Neutral
Comtech Telecommunications Corp. (CMTL)	Neutral
Ericsson (ERIC)	Neutral
Juniper Networks, Inc. (JNPR)	Neutral
Motorola Solutions, Inc. (MSI)	Neutral
Nokia Corporation (NOK)	Neutral
Sierra Wireless, Inc. (SWIR)	Neutral

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	IDCC Neutral	X Industry	S&P 500	CMTL Neutral	ERIC Neutral	JNPR Neutral
VGM Score	D	-	-	D	C	D
Market Cap	1.76 B	258.42 M	24.00 B	724.14 M	28.98 B	7.95 B
# of Analysts	2	2	13	2	4	9
Dividend Yield	2.48%	0.00%	1.78%	1.35%	0.75%	3.20%
Value Score	C	-	-	C	C	B
Cash/Price	0.55	0.23	0.04	0.07	0.21	0.25
EV/EBITDA	11.81	13.13	14.07	10.80	13.13	10.34
PEG Ratio	3.27	2.66	2.04	4.48	NA	2.01
Price/Book (P/B)	2.19	2.07	3.28	1.35	3.35	1.72
Price/Cash Flow (P/CF)	14.72	15.26	13.58	9.51	21.67	12.57
P/E (F1)	49.05	20.83	18.86	22.41	16.63	13.56
Price/Sales (P/S)	6.03	1.77	2.65	1.06	1.21	1.79
Earnings Yield	2.03%	4.64%	5.30%	4.48%	6.04%	7.37%
Debt/Equity	0.43	0.25	0.71	0.37	0.44	0.37
Cash Flow (\$/share)	3.84	0.53	6.89	3.12	0.40	1.89
Growth Score	D	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	-19.35%	-5.87%	10.80%	3.03%	-40.08%	-0.59%
Proj. EPS Growth (F1/F0)	187.50%	20.65%	7.23%	28.64%	379.55%	1.87%
Curr. Cash Flow Growth	-52.55%	-11.77%	9.51%	18.78%	33.76%	-8.77%
Hist. Cash Flow Growth (3-5 yrs)	9.58%	6.65%	8.55%	14.59%	-16.71%	-15.41%
Current Ratio	3.06	1.94	1.20	1.95	1.32	2.08
Debt/Capital	30.13%	25.49%	42.90%	26.79%	30.45%	26.75%
Net Margin	3.08%	2.82%	11.76%	4.10%	1.02%	7.76%
Return on Equity	1.07%	4.03%	16.98%	6.64%	4.41%	9.16%
Sales/Assets	0.19	0.78	0.54	0.76	0.80	0.50
Proj. Sales Growth (F1/F0)	2.59%	4.66%	4.15%	7.32%	2.19%	1.21%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-0.58%	0.00%	-0.64%	-2.08%	5.41%	2.77%
1 Week Price Chg	-6.67%	-5.61%	-2.60%	-21.97%	-5.64%	-6.67%
4 Week Price Chg	1.80%	-1.13%	0.72%	-17.94%	-1.13%	-2.50%
12 Week Price Chg	-0.11%	-3.38%	4.69%	-17.50%	-1.57%	-5.23%
52 Week Price Chg	-21.82%	-3.61%	16.01%	18.05%	0.57%	-8.51%
20 Day Average Volume	211,023	80,924	1,961,054	251,581	8,906,314	3,926,013
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.43%	-0.60%	-0.00%	0.00%	-2.77%	-2.82%
(F1) EPS Est 12 week change	-9.92%	-1.38%	-0.16%	-1.38%	-2.77%	-4.64%
(Q1) EPS Est Mthly Chg	18.18%	0.00%	0.00%	0.00%	-30.30%	-19.41%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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