

InterDigital, Inc. (IDCC)

\$65.69 (As of 08/10/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

InterDigital needs to invest in R&D to come up with innovative technology solutions. Continuous commercialization and licensing of technology projects put pressure on the bottom line. The company faces intense competition from rivals to improve product quality and customer service. Capitalized patent costs, a rise in capital spending and a decline in return on capital are headwinds. InterDigital's policy of acquiring companies further adds to the integration risks. The company faces competitive pressure and thus needs to work on product quality and customer needs. However, the company reported solid second-quarter 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Owing to a broad portfolio of technologies, InterDigital is positioned to benefit from its enhanced core market capabilities.

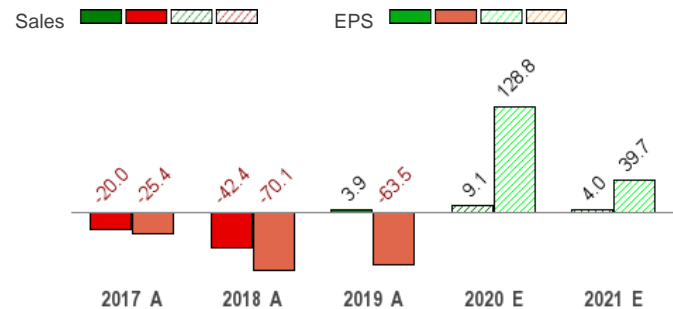
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.06 - \$31.04
20 Day Average Volume (sh)	183,029
Market Cap	\$2.0 B
YTD Price Change	20.6%
Beta	1.16
Dividend / Div Yld	\$1.40 / 2.1%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 32% (173 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	7.5%
EPS F1 Est- 4 week change	-13.5%
Expected Report Date	10/29/2020
Earnings ESP	-23.5%
P/E TTM	53.4
P/E F1	43.5
PEG F1	2.9
P/S TTM	5.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	89 E	88 E	90 E	94 E	362 E
2020	76 A	105 A	85 E	87 E	348 E
2019	69 A	76 A	73 A	102 A	319 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.48 E	\$0.54 E	\$0.64 E	\$2.11 E
2020	\$0.00 A	\$0.72 A	\$0.34 E	\$0.41 E	\$1.51 E
2019	-\$0.09 A	\$0.24 A	\$0.07 A	\$0.44 A	\$0.66 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

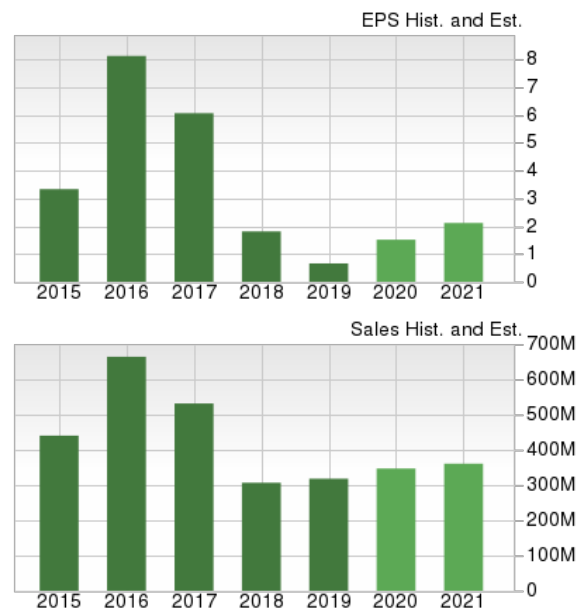
Overview

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 company also provides video encoding and transmission technologies while conducting fundamental research into video coding, IoT, smart home, imaging sciences, augmented reality and virtual reality, and artificial intelligence and machine learning technologies. 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.

The company has incorporated high quality video and AI research team along with an established portfolio of video expertise to expand its footprint in wireless and video technologies and consumer electronics. InterDigital actively contributes to the technical development of standards pertaining to digital cellular and wireless communications and other technologies. Leveraging economies of scale and interoperability functions, these standards provide detailed specifications for wireless communications products and systems. Moreover, the standardization process benefits both implementers and consumers as it encourages the development of ideas and technical solutions that result in innovative standards.



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 35% from 2012 to 2019. 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 35.7% over the same time frame, indicating its inability to generate profit to reward shareholders with attractive risk-adjusted returns.
- ▼ The Zacks Consensus Estimate for the company's current-year earnings has been revised 12.7% downward in the past 30 days to \$1.51. This suggests negative analyst outlook for the stock. Also, 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.

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.

Risks

- InterDigital aims 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 intends 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. InterDigital inked new license agreements including cellular-based licensing agreements with ZTE and Google and a video-based licensing agreement with Funai. Furthermore, InterDigital is eyeing annual licensing potential from new consumer electronics business at \$150 million in three to five years. The combined revenue-generating potential of the wireless and consumer electronics licensing platforms has reached around \$650 million.
 - 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.
 - As of Jun 30, 2020, InterDigital had \$839 million in cash and equivalents with \$359 million of long-term debt compared with the respective tallies of \$781 million and \$355 million at the end of the previous quarter. The company currently has a debt-to-capital ratio of 0.31. The times interest earned (TIE) ratio has improved over the past quarters to 2.1 at present. This indicates that the company is more likely to meet its debt obligations. It has a dividend payout rate of 113.8%. It is to be seen whether InterDigital can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 crisis.
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Last Earnings Report

InterDigital Q2 Earnings Beat on Solid Revenue Growth

InterDigital reported solid second-quarter 2020 results, wherein both top and bottom lines surpassed the respective Zacks Consensus Estimate. Higher revenues generated from new licensing avenues highlighted the operating leverage of the company's business model and reflected the strength of its licensing business.

Net Income

The company reported net income of \$22.3 million or 72 cents per share compared with \$7.7 million or 24 cents in the year-ago quarter. The three-fold rise in year-over-year earnings was largely attributable to top-line growth. The bottom line surpassed the consensus mark by 10 cents.

Revenues

The wireless R&D company's revenues totaled \$104.5 million, up from \$75.6 million in the year-earlier quarter. The top line surpassed the Zacks Consensus Estimate of \$97 million. The double-digit growth amid the challenging macroeconomic environment was primarily driven by the new fixed-fee patent license agreement signed during the quarter with China-based telecom equipment manufacturer, Huawei.

Recurring revenues during the reported quarter were \$85.2 million compared with \$74.4 million a year ago. While revenues from patent royalties came in at \$101.2 million, the same from current technology solutions totaled \$3.3 million.

Other Details

Total operating expenses were \$72.6 million, up from \$66.7 million in the prior-year quarter due to intellectual property enforcement and non-patent litigation costs with Lenovo and Xiaomi. Operating income was \$31.9 million compared with \$8.9 million a year ago, buoyed by higher revenues in the reported quarter.

Cash Flow and Liquidity

For the first half of 2020, InterDigital generated \$42.9 million of cash from operating activities compared with cash utilization of \$53.5 million in the year-ago period. Free cash flow for the first six months of 2020 was \$25.3 million. As of Jun 30, 2020, the company had \$839.2 million in cash and short-term investments along with \$404.7 million of long-term debt and other liabilities.

Outlook

With solid licensing agreements with leading consumer electronics customers in the reported quarter, InterDigital is eyeing a healthy licensing business despite the coronavirus-induced pandemonium. The company remains relatively immune to the adverse economic effects of the virus outbreak as fixed priced agreements make up for more than 90% of revenues. InterDigital also remains poised to gain from growth opportunities from 5G rollout.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	7.46%
EPS Surprise	16.13%
Quarterly EPS	0.72
Annual EPS (TTM)	1.23

Recent News

On Jul 30, 2020, InterDigital announced that it has filed two patent infringement actions in India against Xiaomi. One complaint involves infringement of five of InterDigital's cellular 3G and 4G Indian patents, and the other complaint involves infringement of three of InterDigital's H.265/HEVC Indian patents.

On Jun 3, InterDigital announced that it has joined forces with tech giants — Blacknut and NVIDIA Corporation — for the launch of an avant-garde cloud-gaming solution equipped with best-in-class AI capabilities and machine learning-enabled user interface. Touted as the first such offering in the world, the latest collaboration underscores InterDigital's commitment to deliver an interactive and seamless gaming experience, especially at a time when software developers are capitalizing on real-time computing resources to support a variety of emerging vertical applications beyond gaming, including remote healthcare and robotics.

On Apr 28, InterDigital announced that it has inked a global non-exclusive patent licensing deal with China tech behemoth, Huawei. This came as a surprise to many as the two companies had a bitter history of being actively involved in numerous patent license litigations. Apart from putting an end to years of legal disputes, the strategic move is likely to enhance InterDigital's diversified portfolio of wireless technology and intellectual property amid the economic downturn.

Valuation

InterDigital shares are up 31.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 21.2% over the past year, and stocks in the Zacks Computer and Technology sector are up 36.7% in the same period.

The S&P 500 Index is up 16.4% in the past year.

The stock is currently trading at 10.12X trailing 12-month EV/EBITDA, which compares to 27.72X for the Zacks sub-industry, 13.36X for the Zacks sector and 12.62X for the S&P 500 Index.

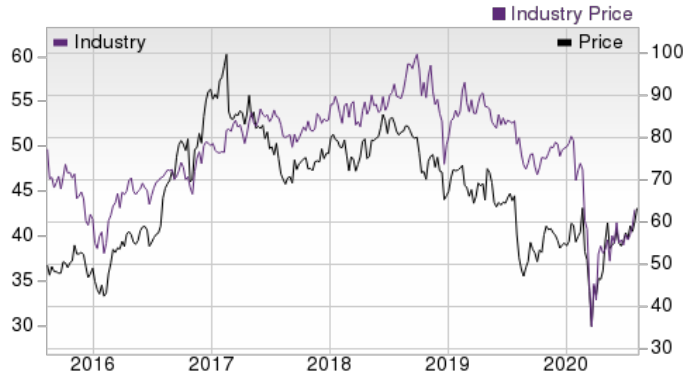
Over the past five years, the stock has traded as high as 17.69X and as low as 3.19X, with a 5-year median of 5.68X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$56 price target reflects 1.59X forward 12-month earnings.

The table below shows summary valuation data for IDCC

Valuation Multiples - IDCC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.12	27.72	13.36	12.62
	5-Year High	17.69	28.12	13.51	12.84
	5-Year Low	3.19	9.84	7.59	8.24
	5-Year Median	5.68	16.58	10.9	10.9
P/E F12M	Current	35.11	19.65	26.3	22.75
	5-Year High	157.8	30.47	26.31	22.75
	5-Year Low	10.41	13.61	16.72	15.25
	5-Year Median	33.94	18.64	19.61	17.58
P/S F12M	Current	5.72	3.68	4.07	3.66
	5-Year High	10.57	3.68	4.07	3.66
	5-Year Low	3.26	2.07	2.32	2.53
	5-Year Median	6.39	2.8	3.14	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Clearfield, Inc. (CLFD)	Outperform	1
Ericsson (ERIC)	Outperform	3
Aviat Networks, Inc. (AVNW)	Neutral	3
Comtech Telecommunications Corp. (CMTL)	Neutral	3
Juniper Networks, Inc. (JNPR)	Neutral	3
PCTEL, Inc. (PCTI)	Neutral	4
Sonim Technologies, Inc. (SONM)	Neutral	3
Motorola Solutions, Inc. (MSI)	Underperform	4

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	IDCC	X Industry	S&P 500	AVNW	PCTI	SONM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	4	3
VGM Score	B	-	-	A	A	B
Market Cap	2.02 B	453.02 M	23.56 B	108.94 M	116.69 M	22.78 M
# of Analysts	4	2	14	1	1	1
Dividend Yield	2.13%	0.00%	1.71%	0.00%	3.50%	0.00%
Value Score	D	-	-	A	B	C
Cash/Price	0.43	0.14	0.07	0.35	0.30	0.56
EV/EBITDA	10.72	10.72	13.39	11.80	10.72	-0.55
PEG Ratio	2.90	2.12	2.92	NA	NA	NA
Price/Book (P/B)	2.55	1.65	3.18	1.63	1.65	1.42
Price/Cash Flow (P/CF)	20.86	14.20	12.69	14.08	12.88	NA
P/E (F1)	43.56	20.08	22.16	12.63	16.10	NA
Price/Sales (P/S)	5.69	1.51	2.55	0.45	1.39	0.22
Earnings Yield	2.30%	4.24%	4.33%	7.92%	6.21%	-113.76%
Debt/Equity	0.45	0.19	0.77	0.04	0.00	0.02
Cash Flow (\$/share)	3.15	0.49	6.94	1.43	0.49	-0.81
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	-36.21%	-5.34%	10.41%	66.36%	47.20%	NA
Proj. EPS Growth (F1/F0)	129.17%	18.51%	-6.51%	33.33%	-17.02%	-15.89%
Curr. Cash Flow Growth	-24.58%	-14.66%	5.26%	-14.66%	-29,325.81%	-628.65%
Hist. Cash Flow Growth (3-5 yrs)	-8.98%	5.53%	8.55%	17.59%	-1.58%	NA
Current Ratio	4.52	1.63	1.34	1.43	6.01	1.40
Debt/Capital	31.23%	22.60%	44.59%	3.59%	0.00%	1.99%
Net Margin	10.79%	2.32%	10.13%	1.23%	4.33%	-30.40%
Return on Equity	4.86%	4.66%	14.59%	9.76%	5.86%	-93.18%
Sales/Assets	0.23	0.76	0.51	1.36	0.97	1.60
Proj. Sales Growth (F1/F0)	9.08%	0.00%	-1.54%	2.74%	-6.77%	-40.86%
Momentum Score	D	-	-	C	A	D
Daily Price Chg	3.87%	-0.65%	0.91%	-2.46%	-1.10%	3.81%
1 Week Price Chg	5.36%	2.21%	2.30%	1.02%	-3.05%	10.57%
4 Week Price Chg	18.69%	14.51%	8.54%	-1.42%	4.32%	37.30%
12 Week Price Chg	17.30%	27.27%	13.68%	58.18%	-4.12%	28.24%
52 Week Price Chg	31.74%	8.10%	3.71%	57.44%	17.16%	-85.29%
20 Day Average Volume	183,029	113,961	2,015,804	36,910	141,741	1,199,468
(F1) EPS Est 1 week change	-12.38%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.50%	0.00%	1.67%	0.00%	-3.45%	0.00%
(F1) EPS Est 12 week change	-13.50%	0.00%	2.27%	NA	-3.45%	-29.03%
(Q1) EPS Est Mthly Chg	-19.05%	0.00%	0.67%	NA	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	A
Momentum Score	D
VGM Score	B

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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