

InterDigital, Inc. (IDCC)

\$63.28 (As of 02/21/20)

Price Target (6-12 Months): **\$67.00**

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:F

Value: D

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, InterDigital reported solid fourth-quarter 2019 results, wherein both the bottom line and top line 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. The company is also poised to gain from the increased pace of 5G rollout across the country.

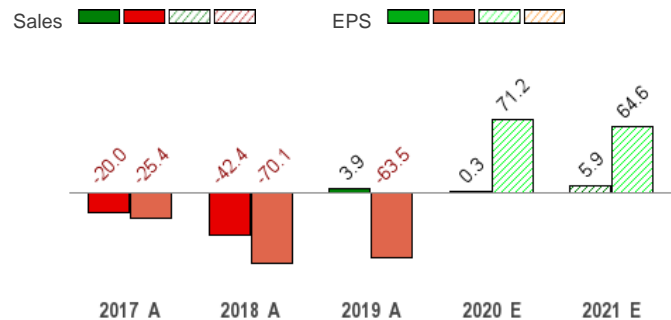
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.66 - \$47.02
20 Day Average Volume (sh)	183,220
Market Cap	\$2.0 B
YTD Price Change	16.1%
Beta	1.00
Dividend / Div Yld	\$1.40 / 2.2%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 40% (153 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	63.0%
Last Sales Surprise	6.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	12.0%
P/E TTM	95.9
P/E F1	56.0
PEG F1	3.7
P/S TTM	6.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	92 E	91 E	88 E	91 E	339 E
2020		79 E	80 E	83 E	320 E
2019	69 A	76 A	73 A	102 A	319 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.52 E	\$0.46 E	\$0.48 E	\$1.86 E
2020	\$0.13 E	\$0.29 E	\$0.31 E	\$0.47 E	\$1.13 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.

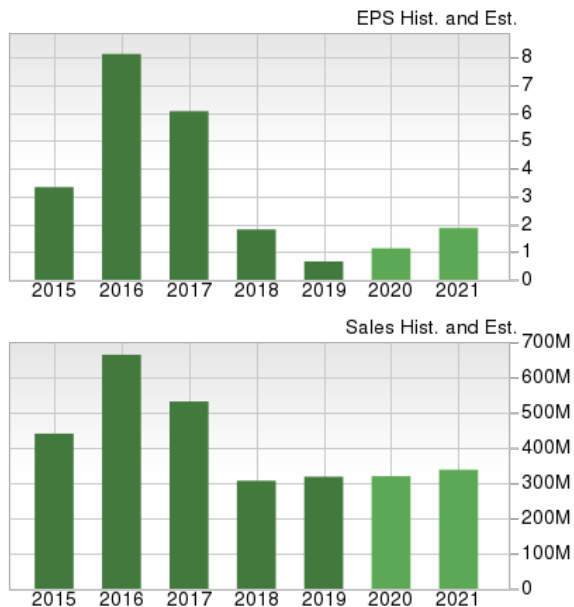
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

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. InterDigital inked new license agreements in fourth-quarter 2019, including cellular-based licensing agreements with ZTE and Google and a video-based licensing agreement with Funai. Collectively, these agreements contributed above \$26 million revenues in the quarter, including more than \$4 million of recurring revenues. 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.

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 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.
- ▼ 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.

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's Q4 Earnings Beat on Higher Revenues

InterDigital reported solid fourth-quarter 2019 results, wherein both the bottom line and top line 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

Net income in the quarter was \$13.8 million or 44 cents per share compared with \$2.1 million or 6 cents per share in the year-ago quarter. The significant year-over-year improvement was largely attributable to higher revenues. The bottom line surpassed the consensus estimate by 17 cents.

In 2019, net income declined to \$20.9 million or 66 cents per share from \$65 million or \$1.84 per share in 2018 due to higher operating and income tax expenses.

Revenues

The wireless R&D company's revenues totaled \$102.2 million, up from \$75.3 million in the year-earlier quarter. The top line surpassed the Zacks Consensus Estimate of \$96 million. The increase was primarily due to new license agreements signed in the quarter, including cellular-based licensing agreements with ZTE and Alphabet Inc.'s (GOOGL) Google and a video-based licensing agreement with Funai. Collectively, these agreements contributed above \$26 million revenues in the quarter, including more than \$4 million of recurring revenues.

Recurring revenues during the reported quarter were \$77.5 million compared with \$73.7 million a year ago. While revenues from patent royalties came in at \$99.4 million, the same from current technology solutions totaled \$2.7 million. In 2019, total revenues were \$318.9 million compared with \$307.4 million in 2018.

Other Details

Total operating expenses were \$76.9 million compared with \$71.5 million in the prior-year quarter due to intellectual property enforcement and non-patent litigation costs. Operating income was \$25.3 million compared with \$3.8 million a year ago.

Cash Flow and Liquidity

During the fourth quarter, InterDigital generated \$17.5 million of net cash in operating activities compared with cash utilization of \$29.8 million in the year-ago quarter, bringing the tallies for cash flow in 2019 and 2018 to \$89.4 million and \$147 million, respectively. The company's free cash flow at year-end 2019 was \$51.4 million compared with \$112.1 million a year ago.

The company repurchased 0.4 million shares under its share repurchase program during the quarter for approximately \$25 million. At year-end 2019, about \$71.8 million was available for repurchase under the stock buyback program. As of Dec 31, 2019, InterDigital had \$924.7 million in cash and short-term investments with \$396.6 million of long-term debt and other liabilities compared with respective tallies of \$945.8 million and \$351.5 million in the year-ago period.

Outlook

With solid licensing agreements in the reported quarter and ongoing licensing discussions with other consumer electronics customers, 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 remains poised to gain from growth opportunities from 5G rollout. For first-quarter 2020, the company expects to revenues in the range of \$73-\$75 million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	6.86%
EPS Surprise	62.96%
Quarterly EPS	0.44
Annual EPS (TTM)	0.66

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.

Valuation

InterDigital shares are down 8.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 16.3% and 24.7% over the past year, respectively.

The S&P 500 index is up 18.6% in the past year.

The stock is currently trading at 12.33X trailing 12-month EV/EBITDA, which compares to 21.11X for the Zacks sub-industry, 12.31X for the Zacks sector and 12X 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 \$67 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	12.33	21.11	12.31	12
	5-Year High	17.69	25.55	12.61	12.87
	5-Year Low	3.23	10.1	7.68	8.48
	5-Year Median	5.62	15.82	10.53	10.77
P/E F12M	Current	51.12	18.96	22.26	19.09
	5-Year High	157.8	30.47	22.26	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	6.02	3.24	3.7	3.51
	5-Year High	10.57	3.51	3.7	3.51
	5-Year Low	3.49	2.07	2.3	2.54
	5-Year Median	6.39	2.8	3.02	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 255)



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	F	-	-	D	C	D
Market Cap	1.97 B	242.36 M	24.03 B	806.33 M	29.45 B	8.08 B
# of Analysts	3	2	13	2	4	9
Dividend Yield	2.21%	0.00%	1.76%	1.21%	0.74%	3.15%
Value Score	D	-	-	C	C	B
Cash/Price	0.53	0.21	0.04	0.06	0.18	0.24
EV/EBITDA	14.46	13.35	14.08	11.82	13.35	10.51
PEG Ratio	3.60	2.04	2.08	4.99	NA	2.04
Price/Book (P/B)	2.51	1.95	3.29	1.50	3.40	1.75
Price/Cash Flow (P/CF)	16.48	16.48	13.42	10.59	22.02	12.77
P/E (F1)	54.07	20.68	19.00	24.95	16.89	13.78
Price/Sales (P/S)	6.18	1.52	2.64	1.18	1.23	1.82
Earnings Yield	1.79%	4.39%	5.26%	4.02%	5.95%	7.25%
Debt/Equity	0.50	0.24	0.70	0.37	0.44	0.37
Cash Flow (\$/share)	3.84	0.49	7.03	3.12	0.40	1.89
Growth Score	D	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	-19.35%	-7.95%	10.84%	3.03%	-40.08%	-0.59%
Proj. EPS Growth (F1/F0)	71.21%	20.94%	7.09%	28.64%	379.55%	1.87%
Curr. Cash Flow Growth	-52.55%	-8.77%	6.72%	18.78%	33.76%	-8.77%
Hist. Cash Flow Growth (3-5 yrs)	9.58%	7.96%	8.25%	14.59%	-16.71%	-15.41%
Current Ratio	3.33	1.94	1.22	1.95	1.32	2.08
Debt/Capital	33.53%	25.49%	42.37%	26.79%	30.45%	26.75%
Net Margin	6.56%	2.82%	11.56%	4.10%	1.02%	7.76%
Return on Equity	2.60%	3.26%	16.80%	6.64%	4.41%	9.16%
Sales/Assets	0.20	0.77	0.55	0.76	0.80	0.50
Proj. Sales Growth (F1/F0)	0.48%	4.05%	3.90%	7.32%	2.19%	1.21%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	-0.17%	-0.29%	-0.83%	-2.31%	-0.22%	-0.74%
1 Week Price Chg	1.73%	1.73%	1.65%	12.90%	3.53%	2.02%
4 Week Price Chg	8.08%	-5.20%	-0.37%	-9.26%	-0.78%	-1.43%
12 Week Price Chg	10.47%	-3.05%	3.74%	-11.34%	-1.76%	-4.47%
52 Week Price Chg	-9.59%	-9.59%	14.14%	21.77%	-3.26%	-11.38%
20 Day Average Volume	183,220	59,554	1,992,841	314,233	9,955,599	4,877,071
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.49%	-0.02%	0.00%	-3.21%	-2.82%
(F1) EPS Est 12 week change	-9.92%	-2.77%	-0.17%	-1.38%	-2.77%	-3.33%
(Q1) EPS Est Mthly Chg	0.00%	-2.76%	-0.48%	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	D
Growth Score	D
Momentum Score	F
VGM Score	F

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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