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Q2 2024 INTERDIGITAL INC EARNINGS CALL

EVENT DATE/TIME: August 01, 2024 / 2:00PM UTC



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## CORPORATE PARTICIPANTS

- **Raiford Garrabrant** *InterDigital Inc - Head of Investor Relations*
- **Liren Chen** *InterDigital Inc - President, Chief Executive Officer, Director*
- **Rich Brezski** *InterDigital Inc - Chief Financial Officer, Treasurer*

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Arjun Bhatia** *William Blair & Company, L.L.C. - Analyst*
- **Anja Soderstrom** *Sidoti & Company - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and thank you for standing by, and welcome to InterDigital's second quarter 2024 earnings call. (Operator Instructions) Again, please be advised that today's conference is being recorded.

I will hand the call over to the Head of Investor Relations, Raiford Garrabrant. Please go ahead.

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### **Raiford Garrabrant** *InterDigital Inc - Head of Investor Relations*

Thank you, Carmen. Good morning to everyone, and welcome to InterDigital second quarter 2024 earnings conference call. I'm Raiford Garrabrant, Head of Investor Relations for InterDigital. With me on today's call are Liren Chen, our President and CEO; and Rich Brezski, our CFO.

Consistent with prior calls, we will offer some highlights about the quarter and the company and then open the call up for questions. For additional details, which you can access our earnings release and slide presentation that accompany this call on our Investor Relations website.

Before we begin our remarks, I need to remind you that in this call, we will make forward-looking statements regarding our current beliefs, plans and expectations, which are not guarantees of future performance and are made only as of the date hereof.

Forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from results and events contemplated by such forward-looking statements. These risks and uncertainties include those described in the risk factors section of our 2023 Annual Report on Form 10-K and our other SEC filings.

In addition, today's presentation may contain references to non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the supplemental materials posted to the investor relations section of our website.

With that taken care of, I will turn the call over to Liren.

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### **Liren Chen** *InterDigital Inc - President, Chief Executive Officer, Director*

Thank you, Raiford. Good morning, everyone. Thanks for joining us today. I'm pleased to share that we have delivered Q2 revenue at \$223 million that far exceeds the top end of our guidance for the quarter, a record first half revenue of \$487 million, and we have raised our 2024 full year revenue guidance by \$70 million to a new range of \$690 million to \$740 million as a result of the continued positive momentum in the business.

Our financial results, which Rich will cover in more detail were driven by a new device license with Google and multiple court wins in our litigation with Lenovo. In addition, we continue to drive our innovation forward and saw our video portfolio confirmed as one of the highest quality in the world.

Our new license with Google is an example of the importance of innovation to a wide array of consumer devices. The agreement licenses a range of devices, including pixel smartphones and Fitbit wearable devices to our cellular, Wi-Fi and HEVC video patents. It renews an agreement we already had with Google for 4G and expands Google's license to cover our growing portfolio of 5G assets.

In addition to Google, this morning we also announced a new license agreement with Panasonic covering our 4G and 5G assets as well as our Wi-Fi and HEVC video patents.

Next, let me highlight several positive developments on the litigation front. In our dispute with Lenovo, the UK Court of Appeal handed us a resounding victory in the appeal of our FRAND licensing judgment. The court increased the amount Lenovo must pay for a license for our cellular patents through the end of 2023 by more than \$55 million to just over \$240 million.

The court also confirmed that Lenovo must pay for all of the past sales going back to 2007. And the court requiredf Lenovo to pay our legal expenses for the appeal. While I believe there are multiple reasons that the value of our cellular innovation is even higher, we are pleased that the Court of Appeal decision has significantly increased the licensing fee Lenovo must pay. This decision is important, not only in terms of our ongoing negotiations with Lenovo, but also because of its potential impact in other licensees, SEP licensees.

We believe that paying for past deals could help us receive fair compensation for the use our innovation from other licensees, removing incentives for an implementer to hold out and delay in taking our license. While the Court of Appeal ruling give us another litigation win in our dispute with Lenovo it's important to keep in mind that this decision only covers a cellular license through the end of 2023.

In May, a court in Germany awarded InterDigital an injunction against Lenovo's infringement of our cellular patents. The German court heavily criticized Lenovo's behavior through the course of our negotiations and wrote that InterDigital has acted in a FRAND manner at all times.

As we are pleased with our litigation wins, we remain committed to sign a forward-looking agreement with Lenovo that fairly reflects the value our fundamental innovation in wireless, video and AI. Our arbitration to decide the monetary terms of our license with Samsung for mobile devices continue to be on track.

In July, we completed a two weeks long arbitration hearing, and we hope to have a final decision by end of this year. As a reminder, Samsung already agreed to take a license to our portfolio from January 1, 2023, and this binding agreement will determine the final value of the license.

The license is in addition to the agreement we have signed with Samsung at the start of this year, which covers Samsung's digital TV and displays. While many of the details of litigation we file are case specific, one common thread is that courts have consistently recognized the quality of our wireless, video and AI innovation, and confirmed that we conduct licensing negotiations in a FRAND manner.

Our innovation pipeline has never been stronger. Not only do we own one of the leading 5G portfolios where we are in the top five worldwide when analyzed both quality and quantity, but we are also among the leaders in video innovation.

We are one of the largest and highest quality portfolios in HEVC the video compression standard that is a codec of choice for a growing range of devices and services. Our strength in video is also clear in Versatile Video Coding, or VVC, the latest video compression standard, which was finalized a few years ago and now it's in early stage of deployment.

A recent report from LexisNexis confirmed that we are among the top five owners of HEVC and VVC patents when assessed in terms of both quantity and quality. As its name suggests, one of the cornerstones of VVC is its versatility and its ability to support a wide range of applications in the areas such as augmented and virtual reality.

And we are excited about its potential to open up new use cases for our video innovation. Video is also one of the area where we are among the leaders in application of AI to make video networks more efficient. The depth and breadth of our video innovation is why we believe our video portfolio will be a long-term driver of shareholder value across a broad array of devices and services. This includes what we believe is a considerable greenfield opportunity in cloud based video services where we continue to make progress.

In summary, our performance in the second quarter far exceeded our outlook and highlights how we continue to execute our strategy and strengthen our innovation pipeline to support long-term growth. Given our all-time record revenue for the first half of the year and our increasing momentum across the business, we are raising our financial -- our full year revenue guidance by \$70 million to between \$690 million to \$740 million.

With that, I'll hand you over to Rich who will talk through the numbers in more detail.

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### **Rich Brezski InterDigital Inc - Chief Financial Officer, Treasurer**

Thanks, Liren. I'm pleased to share that in Q2 we delivered revenue, adjusted EBITDA and non-GAAP EPS all far exceeding the high end of our guidance range. Total revenue of \$223 million increased 120% year over year.

As Liren discussed, the UK Court of Appeal ruling increased the lump sum royalty Lenovo must pay for cellular license through 2023 from \$185 million to just over \$240 million. In 2023, we deferred recognizing a portion of the prior award as a conservative measure pending the appellate process.

The UK Court of Appeal ruling, together with our latest Google agreement drove our catch-up revenue in the quarter. Meanwhile, higher recurring revenue from CE and IoT mostly offset the 2023 expiration of our Huawei agreement while we continue to negotiate that renewal.

Our adjusted EBITDA for the quarter of \$158 million equates to an adjusted EBITDA margin close to 71% as the vast majority of the revenue upside flowed through to adjusted EBITDA. NON-GAAP EPS came in at a robust \$4.57 per share.

As Liren noted, we had a record first half. In fact, each of our first two quarters this year ranked in the top five of the company's history in terms of revenue, combining for a total of \$487 million of revenue and delivering an aggregate \$288 million of adjusted EBITDA and \$8.14 of non-GAAP EPS.

These results provide further demonstration of the power of our business model. Our investments in fundamental technologies drive top line growth, while the reuse of those technologies across multiple verticals delivers high margins and drives cash flow.

Moving on to capital allocation. In Q2, we repaid the \$126 million of remaining principal on our 2024 notes. We also issued a net 324,000 shares to cover the conversion premium. However, the resulting dilution was fully offset by corresponding options we held and exercised under our related new note hedge transactions. We have partially funded the purchase of those options through the sale of warrants with an initial strike price of \$109, which will expire over the balance of this year.

Net-net, based on the closing stock price at settlement, the note hedge spared us roughly \$37 million of dilution. In late July, we collected the additional \$55 million payment from Lenovo plus the reimbursement of a portion of our legal expenses.

We expect this and other receipts from existing licensees alone will drive close to \$100 million of free cash flow in Q3. Our strong cash flow, combined with a cash balance of over \$750 million, supports our continued return of capital to shareholders.

In Q2, we repurchased approximately 300,000 shares for \$35 million, bringing our year-to-date total to over 600,000 shares for \$64 million. And we still have more than \$230 million left on the current buyback authorization.

Since we paid our first dividend in 2011, we have now returned over \$1.8 billion to shareholders through share buybacks and dividends. In that time, we reduced our outstanding share count by almost 45% from more than 45 million shares to just over 25 million shares.

We exit Q2 with recurring revenue of \$96 million. Based only on existing customers, for Q3 we are currently guiding to adjusted EBITDA of about \$38 million and non-GAAP earnings per share of \$0.75 in each case at the midpoint.

Of course, any additional agreements we signed in Q3 would be additive to those amounts. As Liren mentioned, we are increasing our full year 2024 guidance by \$70 million and expect to deliver revenue in the range of \$690 million to \$740 million.

We now expect full year adjusted EBITDA of roughly \$400 million at the midpoint with a margin of 55%. This compares to our prior midpoint of about \$325 million with a 50% margin. Furthermore, we now expect non-GAAP earnings per share of more than \$10.30 per share at the midpoint, representing an increase of more than \$2.20 per share compared to our prior guidance.

With that, I'll turn it back to Raiford.

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### **Raiford Garrabrant *InterDigital Inc - Head of Investor Relations***

Thanks, Rich. Before we move into Q&A, I'm excited to announce that we'll be hosting an Investor Day in New York City on Tuesday, September 10. This will be our first Investor Day under the current management team, and we are excited to update investors on our business and our longer-term vision for continued growth.

We hope that you can make it in person or join virtually. Please see today's press release for registration details. In addition to our Investor Day, we'll be attending a number of conferences in Q3, including the BofA virtual SMID conference, the BWS conference in New York, the Jefferies and Evercore tech conferences in Chicago and Sidoti virtual small-cap conference. Please reach out to your representatives at those firms, if you'd like to schedule a meeting.

Now Carmen, we are ready to take questions.

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## **QUESTIONS AND ANSWERS**

### **Operator**

(Operator Instructions)

Arjun Bhatia, William Blair.

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### **Arjun Bhatia *William Blair & Company, L.L.C. - Analyst***

Thank you, guys, and congrats here on a nice quarter. Liren, maybe one for you to start out with very interesting commentary on the VVC patents and maybe potential for new use cases there. When you think about the application of your portfolio for VR, AR use cases, can you just give us a little bit more detail? What would those be new licensees that you're going to signing agreements with, would those be existing ones? And just when you think about timing of when that might come in, how far do you think those sort of agreements might be?

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### **Liren Chen *InterDigital Inc - President, Chief Executive Officer, Director***

Hey, Arjun. Good morning. Yeah. So what I was referring to is we have a lot of strength in the VVC portfolio, which is the latest video codec. When we talk about XR or AR versus VR use cases here, keep in mind a fairly large portion of our portfolio would be applicable to that use case.

In addition to the VVC for example, our HEVC patents will be applicable to them as well as our core patents in connectivity, with wireless connectivity either over cellular 5G, or over Wi-Fi patent portfolio available to them. Regarding whether they will be standalone licensees versus a combination of others, it really depends on who are the makers of those devices.

So our existing, you know, large customers who make XR devices in addition to other devices, and in those contracts we will most likely negotiate in combination of other devices. And there's also in other vendors who will, let's say only makes XR devices.

So it's hard to say generically how this will play out. But we -- as usual, we will try to get a fair return for our important innovations and frankly, try to make a deal under the FRAND obligations and make sure you know the customer gets a good value of what they are building on top of our innovation.

**Arjun Bhatia William Blair & Company, L.L.C. - Analyst**

Okay. Helpful. Understood. And then I had a couple of questions on Lenovo, if I could. Liren, one for you and one for Rich. Just seems like there's some maybe back-and-forth on pricing still you've got the appellate court decision in your favor. But I don't think there is a go-forward agreement signed yet. Can you just give us your perspective on where you stand on, you know, what the royalty rate should be for that contract?

And for Rich, just wanted to double check. Is there anymore either cash flow or catch-up rev-rec left from that Lenovo contract that we should expect in the back half of '24 or go-forward. Thank you.

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**Liren Chen InterDigital Inc - President, Chief Executive Officer, Director**

Yes, Arjun, let me take the first question here. So our -- as you refer to back and forth litigation with the Lenovo, there are multiple pieces. So first one is what I just started opening with the Court of Appeal decision. This is really a in an appeal case that comes from the initial trial case, frankly was decided last year and we win overwhelmingly in appeal case. Frankly, we win on all of the issues and where the court raised its award from the trial court case. We also win on the past of sales issue, which is a very important issue, as I refer to goes beyond just Lenovo. So in that context here and by the way, the court also issued us a legal expenses - ordered Lenovo to pay for the legal bill that we cost for the appeal case.

So in that context that's essentially the decision. It's also important to know that particular decision only covers sales up to end of 2023, right. We are obviously in 2024 now so Lenovo is un-licensed for our cellular patents, and that's why we were seeking the essentially injunction against them in Germany, which we win of May of this year.

So currently, they're enjoined from selling cellular devices that include their cellphones and cellular-enabled tablets and laptops in Germany, so that's already a win. It is also worth noting that we did have a separate license agreement where they are paying us for our HEVC patents.

And frankly, there are other portfolio, the other assets in our portfolio, they continue to be infringing, including our Wi-Fi patents and other implementation patents. So we currently have a case against them in ITC in US where we are asserting multiple patents against them.

So there are actually multiple pieces here but as I continue through repeating on these particular issues, our goal is always to get out forward looking license going forward. And that's fairly reflecting the different assets we have in the portfolio. That's essentially the current status with Lenovo.

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**Rich Brezski InterDigital Inc - Chief Financial Officer, Treasurer**

And Arjun, regarding the cash, I mentioned in my prepared remarks that we collected the 50 -- the additional \$55 million that was awarded, actually in the last month, along with the fee reimbursement that was part of that order where Lenovo had to reimburse part of our litigation expenses.

As far as going forward revenue the full process could play out further with potentially a request to appeal to the UK Supreme Court. So until it's fully resolved our accounting at this point fundamentally represents an estimate as before, it's a conservative estimate just updated for the facts as they exist today.

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**Arjun Bhatia William Blair & Company, L.L.C. - Analyst**

All right. Perfect. Thank you again.

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**Operator**

(Operator Instructions)

Anja Soderstrom, Sidoti.

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**Anja Soderstrom Sidoti & Company - Analyst**

All right. Thank you for taking my questions and congratulations on the nice progress here and the Panasonic win you announced today. Is that included in the third quarter guidance? Or --

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**Rich Brezski InterDigital Inc - Chief Financial Officer, Treasurer**

Anja, we're having a little trouble hearing you, I think you were asking about the Panasonic announcement today and whether or not that was factored into the Q3 guidance. Is that correct?

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**Anja Soderstrom Sidoti & Company - Analyst**

Yes. Thank you.

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**Rich Brezski InterDigital Inc - Chief Financial Officer, Treasurer**

Yes, it is.

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**Anja Soderstrom Sidoti & Company - Analyst**

Okay, thank you. And then the full year guidance, it kind of implies you will see the recurring revenue decline. Can you just remind us of the puts and takes there?

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**Rich Brezski InterDigital Inc - Chief Financial Officer, Treasurer**

Yeah. So the full year guidance, which we increased by \$70 million to \$690million to \$740 million, does, you know, bake in some new business growth there, just as our prior guidance had, of course, with the results that we delivered in Q2, that already drove us above that prior range, so that warranted the increase.

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**Anja Soderstrom Sidoti & Company - Analyst**

Okay. Thank you. That was all for me.

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**Operator**

Thank you. And as I see no further questions in the queue, I will turn the call back to CEO, Liren Chen for closing remarks.

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**Liren Chen InterDigital Inc - President, Chief Executive Officer, Director**

Thank you, operator. Before we close, I'd like to thank all our employees for their dedication and contribution to InterDigital as well as our many partners and customers for an all time, record-setting first half of 2024. Thank you, everyone, for joining today's call, and we look forward to seeing you all at our Investor Day.

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**Operator**

And thank you all for participating in today's conference. You may now disconnect.





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