

Price (26 Dec 2025): US\$ 330
Market Cap: US\$ 8.5B

Performance YTD: +75%
P/E 22.5x

Net Profit Margin (Sep '25) 53.5%
ROIC (Sep '25) 62.5%

InterDigital (IDCC)

InterDigital is a pure-play intellectual property licensing company focused on wireless, video, and AI technologies. The company actively contributes to the development of global communication standards and monetizes its patent portfolio through long-term licensing agreements with OEMs and global technology players. IDCC operates a capital-light, IP-driven business model characterized by upfront fixed costs (R&D and legal enforcement), near-zero marginal costs, minimal capex, and structurally high margins. With no exposure to hardware manufacturing or end-market competition, IDCC converts incremental revenue almost entirely into EBITDA and FCF. CAGR is 27% on 3y, 20% on 5y.

Investment hypothesis

- InterDigital combines exceptional revenue quality with extreme operating leverage. Once the fixed costs are in place, each additional licensing agreement flows through at close to 100% incremental margins. Operating margins consistently exceed ~60%, net margins ~50%, and FCF conversion is structurally high (~70%).
- The company's patent portfolio benefits from intangible economies of scale. Each new patent increases the probability of inclusion in future standards and lowers the marginal cost of incremental innovation. This creates a self-reinforcing moat where scale strengthens defensibility rather than diluting it.
- Even under conservative assumptions, IDCC generates very high ROIC, as incremental reinvestment needs are minimal. Capital allocated to R&D and selective IP acquisitions consistently earns returns well above WACC, turning InterDigital into a compounding vehicle despite modest terminal growth.

What is the market missing? Why is it good value, and what are the catalysts?

The market continues to misprice IDCC on 2 dimensions. First, it confuses revenue timing volatility (linked to licensing negotiations) with business volatility, despite the underlying durability of cash flows. Second, it struggles to model the embedded optionality of the patent portfolio, resulting in compressed multiples relative to earnings quality.

Today, IDCC trades at ~22x P/E, below peers. Holding multiples constant, a 20–30% uplift in EPS implies a similar increase in market capitalization, while any normalization in valuation amplifies the upside.

Key catalysts include:

- Licensing renewals and new agreements, which improve revenue visibility and reduce risk.
- Expansion beyond handsets, increasing licensee breadth and contract duration.
- 6G standardization, which restarts a multi-year R&D and monetization cycle, reinforcing InterDigital's role as critical infrastructure for future wireless ecosystems.
- Guidance revisions, which can quickly reset market expectations given the high earnings sensitivity.

What invalidates my thesis, downside scenario, key risks

- The thesis would be invalidated by a structural weakening of the FRAND framework, through adverse regulation or jurisprudence, that reduces SEP holders' pricing power.
- Alternative standards or disruptive technologies might reduce the relevance of IDCC's patents.
- Revenue concentration in time. If multiple licensing negotiations slip into the same fiscal year, reported results and the stock can experience drawdowns. This is primarily a timing risk rather than an erosion of intrinsic value, but it can affect sentiment in the short term.
- In a downside scenario driven by regulatory pressure or licensing delays, the stock could de-rate meaningfully; however, absent a structural break in the licensing model, downside is limited by the durability of cash flows, while upside remains cumulative and asymmetric for long-term investors.