

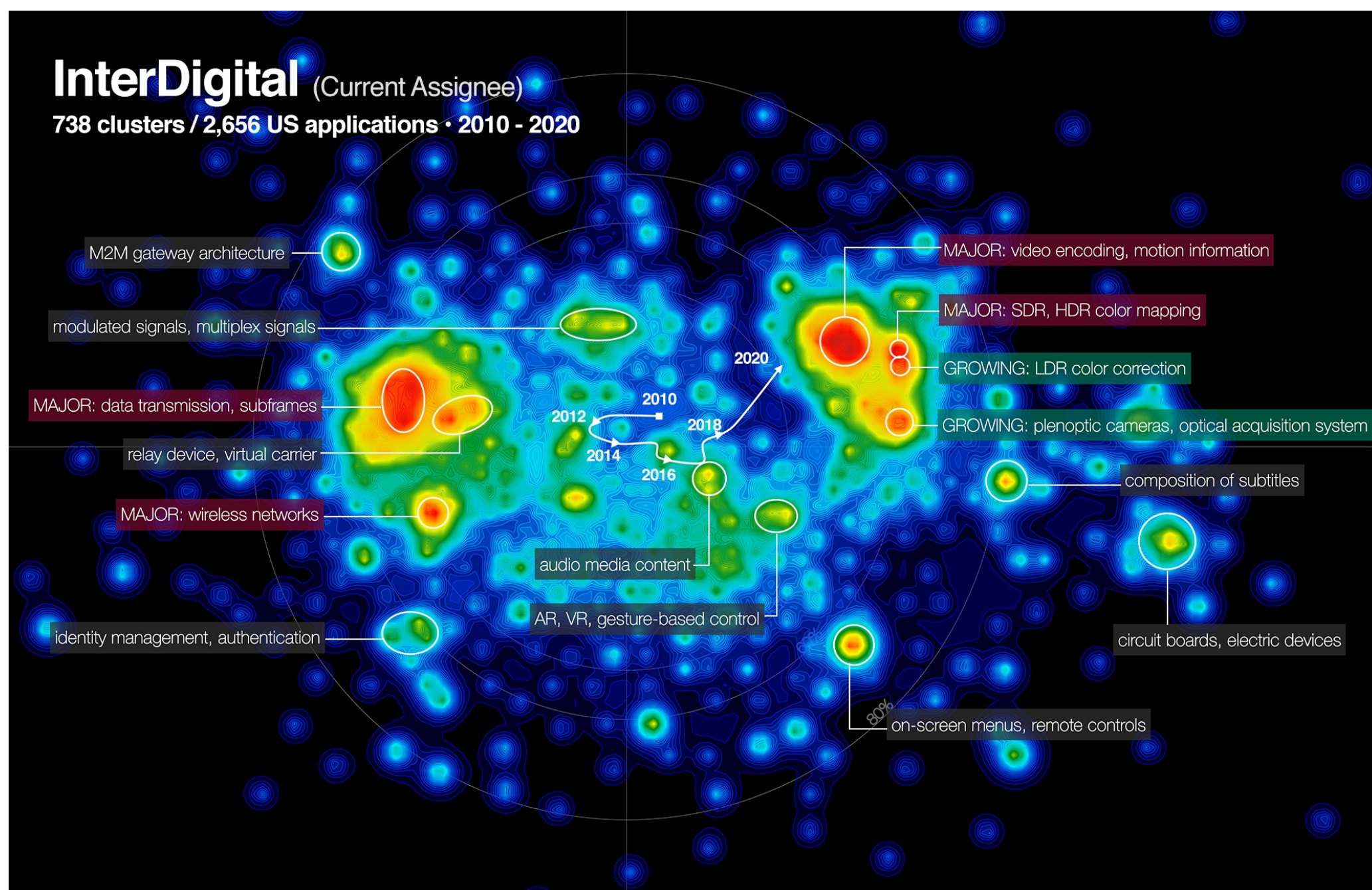
18 Sep
2020

InterDigital's re-vamp makes it an even more powerful patent player

InterDigital is going through a period of significant change. Two years ago [it acquired](#) Technicolor's patent licensing business in a transaction valued at \$475 million. Then, in 2019, it successfully absorbed the French company's research and innovation unit. Earlier this year, the firm [announced](#) that Eeva Hakoranta had been appointed chief licensing officer, replacing Tim Berguis who was heading into retirement.

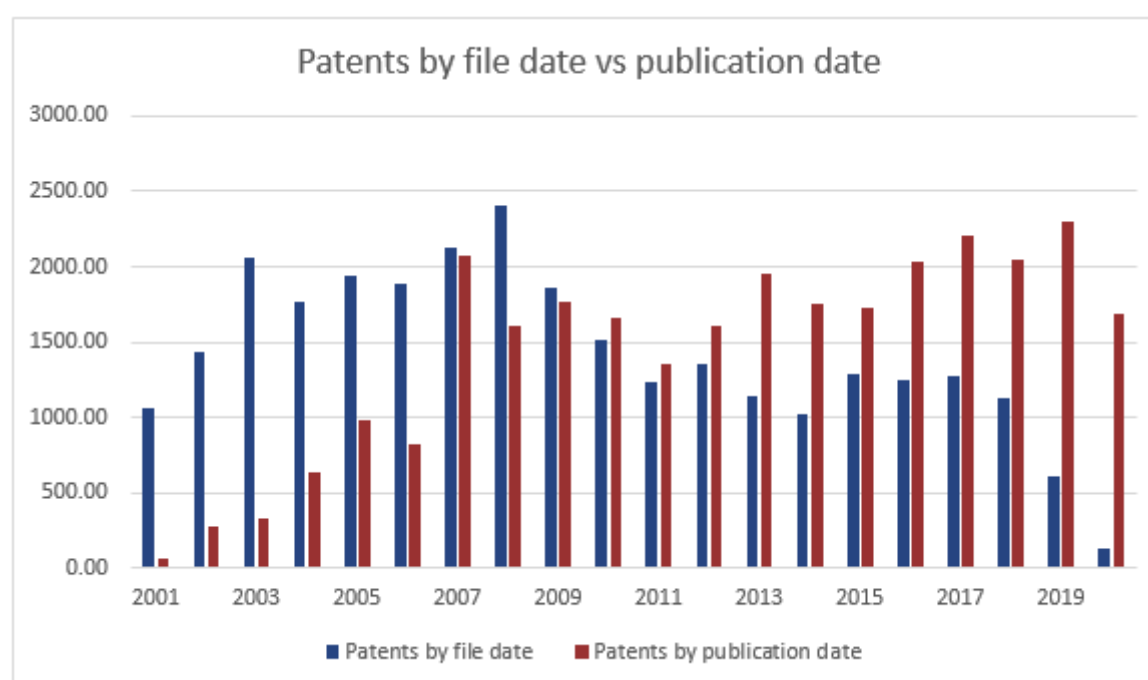
The US-based licensor's acquisition of Technicolor was a strategic play that transformed its prospects in the video coding space. The impact of the purchase is evident in a high-level analysis of the firm's research and development (R&D) landscape (see image below). Conducted by [Valuenex](#), it shows all January 2010 to September 2020 US applications where InterDigital is listed as the current assignee.

There is a clear shift in the company's position between 2018 and 2020, coinciding with the integration of Technicolor's patent portfolio. InterDigital moved at nearly double the speed when compared to the previous two-year blocks, say Valuenex analysts. Its new direction focuses on two of their major technology areas - video encoding, motion information, and SDR, HDR colour mapping (which they are still building up) - and two emerging areas: LDR colour correction, and plenoptic cameras, optical acquisition system.



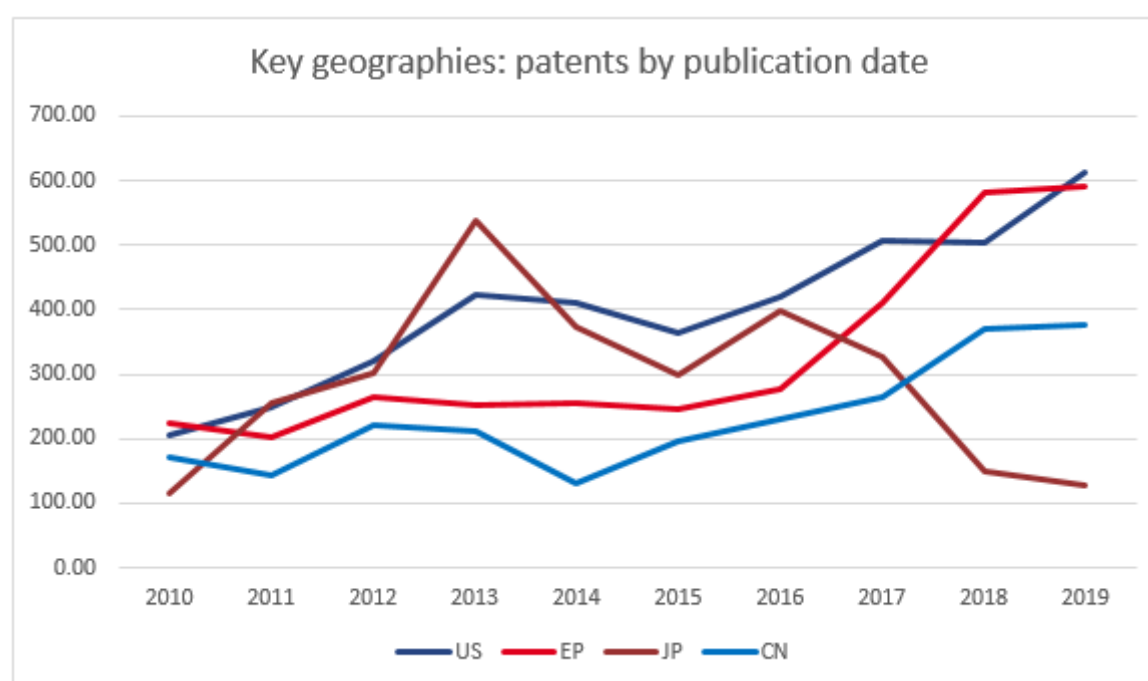
Source: VALUENEX; see full size image [here](#)

InterDigital's portfolio consists of 28,868 global active patents, 15,435 of which are grants and 13,433 applications, according to analysis conducted using [Anaqua's AcclaimIP](#). The company has been steady in its filing levels over the past few years which has resulted in a solid grant pipeline (see graph below).



Source: Anaqua's AcclaimIP Analytics Software; Data is accurate as of 15th September 2020.
The data for 2019 and 2020 is incomplete given the 18-month lag between when a patent is filed and when it is published.

The firm has upped output across key jurisdictions like the US, Europe and China, although there has been a noticeable slump in filings designating Japan (see graph below). Overall, InterDigital has robust protections in key markets, with 4,461 grants in the US, 2,725 in Japan, 2,197 in China and 2,136 in South Korea. It is also an active user of EPO's filings.



Source: Anaqua's AcclaimIP Analytics Software; Data is accurate as of 15th September 2020.
The data for 2019 is incomplete given the 18-month lag between when a patent is filed and when it is published.

Patent-generating revenue: status report

Below are some key excerpts InterDigital's financial results for [Q2 2020](#) as well as [FY2019](#).

Summary consolidated statements of income (dollars in thousands except per share data) (unaudited): Revenues

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Variable patent royalty revenue	4,597	8,594	10,543	17,874
Fixed-fee royalty revenue	77,338	63,736	143,685	126,609
Current patent royalties	81,935	72,330	154,228	144,483
Non-current patent royalties	19,249	1,237	19,954	(4,538)
Totally patent royalties	101,184	73,567	174,182	139,945
Patent sales	-	-	-	225
Current technology solutions revenue	3,314	2,042	6,526	4,070
Total:	\$104,498	\$75,609	\$180,708	\$144,240

Source: InterDigital Q2 2020

Financial Results Key points from Q2 2020:

- Second quarter 2020 total revenue was \$104.5 million, compared to \$75.6 million in second quarter 2019. The increase was primarily driven by the signing of a new fixed-fee patent licence agreement with Huawei in Q2 2020.

- Also noted in the company press release announcing the results was a \$2.4 million increase in intellectual property enforcement costs, driven by litigation with Lenovo and Xiaomi that the company initiated in H2 2019 and July 2020, respectively.

Revenues: 2019 compared with 2018 for the year ended December 31 (dollars in thousands)

	2019 (\$)	2018 (\$)	Total Increase/(Decrease): 2019 v 2018	
Variable patent royalty revenue	30,428	36,384	(5,956)	(16)%
Fixed-fee royalty revenue	257,221	239,347	17,874	7%
Current patent royalties a	287,649	275,731	11,918	4%
Non-current patent royalties b	19,782	26,329	(6,547)	(25)%
Total patent royalties	307,431	302,060	5,371	2%
Current technology solutions revenue a	10,518	4,594	5,924	129%
Patent sales	975	750	225	30%
Total revenue	\$318,924	\$307,404	\$11,520	4%

Source: 2019 Annual Report;

Note: (a) Recurring revenues are comprised of current patent royalties, inclusive of Dynamic Fixed-Fee agreement royalties, and current technology solutions revenue (b) Non-recurring revenues are comprised of non-current patent royalties, which primarily include past patent royalties and royalties from static agreements, as well as patent sales

Key points from FY2019:

- The \$11.5 million increase in total revenue was driven by a rise in recurring revenue of \$17.8 million. This was primarily attributed to fixed-fee royalties and current technology solutions revenue.
- Licences signed in 2019 include:
 - Direct licences
 - Q4: ZTE and u-blox AG
 - Q2: Teltronic SAU and Asustek Computer Incorporated (this was a settlement agreement as well as a first amendment to the pair's patent licence agreement)
 - Licences through platforms
 - Q4: Google was granted a multi-year, worldwide, non-exclusive, royalty-bearing patent licence through an unnamed licensing platform. In Q4 InterDigital also entered an agreement with Funai Electric Co Ltd as part of the Madison Arrangement. The Madison Agreement is a relationship between Technicolor and Sony whereby the two combined portions of their respective digital televisions (DTV) and computer display monitors (CDM) patent portfolios and created a combined licensing opportunity to DTV and CDM manufacturers.
 - FY2019: Avanci, of which InterDigital is a member, announced new licensees including Audi and Porsche, the Volkswagen Group Companies and Volvo Cars.

Secondary market activity

InterDigital's financial statements also cover patent sales, with \$975,000 being made off the divestment of such assets in FY2019. The annual report mentions that the firm is willing to sell off assets that are not vital to its "core licensing programs", as well as being open to patent swaps.

According to [Richardson Oliver Insights](#) (ROI), InterDigital has transferred 142 US assets since 2015 and recorded inbound activity of 3,062 patents (see tables below). Its largest outbound transaction was to Convida Wireless, with 104 assets changing hands. Convida Wireless is the name of the joint venture between InterDigital and Sony. The remainder of the entities appearing on the outbound list are all [subsidiaries](#).

InterDigital has acquired assets from a number of industry heavyweights such as Sony, Panasonic and LG Electronics.

Outbound USPTO records since 2015

New owner	No. of assets
CONVIDA WIRELESS, LLC	104
IDAC HOLDINGS, INC.	17
DRNC HOLDINGS, INC.	15
TECHNICOLOR DELIVERY TECHNOLOGIES SAS	4
DST HOLDINGS, INC.	2
Total:	142

Source: ROI

Inbound USPTO records since 2015

Prior owner	No. of assets
THOMSON	2719
SONY	102
PANASONIC	86
PANASONIC CORPORATION	66
VID SCALE, INC.	24
LG ELECTRONICS, INC.	20
KYOCERA CORPORATION	19
TEKNOLOGIAN TUTKIMUSKESKUS VTT OY	13
DST HOLDINGS, INC.	7
IDHL HOLDINGS, INC.	4
FLORIDA INSTITUTE FOR HUMAN & MACHINE COGNITION	1
VID SCALE, INC	1
Total:	3,062

Source: ROI

Litigation breakdown

InterDigital, independent of Technicolor, has been involved in 13 patent cases in the US (filed between 1st January 2009 and 15th September 2020), according to data pulled from [Lex Machina](#). It has acted as the plaintiff in six instances, the defendant in two and third-party in four cases. Nearly all of these cases have been terminated, save for two. Nokia, Huawei, LG and Lenovo are just some of the companies that the firm has targeted in its litigation campaigns.

The US is only one of the venues where the company's patent battles play out. Notably, if it was up to CEO Bill Merritt most disputes [would be settled](#) through arbitration. But, when things do go to court, the firm has not been shy in going to other jurisdictions. For example, the UK courts [became a focus](#) after the *Unwired Planet* decision was handed down.

InterDigital has also found itself involved in an increasing number of suits in China. Most recently, Xiaomi [filed a case](#) in Wuhan as part of an escalating fight between the pair, while just two months earlier Lenovo [brought their](#) legal dispute to the Beijing Intellectual Property Court. Merritt has previously [expressed the view](#) that China should not become the key player in setting global FRAND rates.

According to analysis using Rouse's online tool for analysing Chinese IP administrative appeals and civil infringement proceedings, [CIELA](#), InterDigital, as the defendant, has been involved in nine cases before Chinese courts, including the pending suit brought by Xiaomi.

These disputes tend to fall under two categories: patent licensing contract cases, and anti-monopoly suits. Among eight closed cases only one suit was concluded by judgment, all others were settled. Ultimately, all the plaintiffs withdrew their lawsuit at a later date, with the exception of Huawei.

It is possible that InterDigital will see more litigation in China, especially as Hakoranta has identified securing licences with Chinese businesses [as a priority](#). That said, she did deals with many major Chinese players during her time at Nokia so will hope that the relationships she established then will help with negotiations and keep disagreements out of court.

IAM says:

There are three key things for Hakoranta to think about as she settles into her new role at InterDigital.

- *The first is China. It's a clear priority given the absence of licences with major Chinese players. There is obvious risk involved, as moves by businesses like Huawei and Xiaomi to have FRAND royalty rates determined in Chinese courts show, but with Hakoranta's background it's nothing she can't handle.*
- *The second is the source of InterDigital's patent licence income. In 2019, Apple, Samsung and LG Electronics accounted for approximately 35%, 25%, and 10% of total revenues for the year. Combined, these three licensees contributed 70% of revenue. While there is no firm date on when the agreement with Apple ends, the Samsung one comes to term on 31st December 2022, while LG's terminates on 31st December 2020. This means that Hakoranta has some important deadlines on the horizon to juggle alongside her pursuit of Chinese licensors.*
- *Finally, there is the continuing output of the InterDigital R&D operation to monetise, especially as it relates to the Technicolor function.*

There is a lot at stake but also a lot of opportunity. Hakoranta led Nokia's licensing operation for six years before taking on her new job, so if anyone is up to the task it's her.