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EDITED TRANSCRIPT
- Q3 2020 Xperi Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2020 / 10:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Xperi Third Quarter Fiscal Year 2020 Earnings Conference Call. (Operator Instructions) This call is being recorded today, Monday, November 9, 2020.

I would now like to turn the call over to Geri Weinfeld, Vice President of Investor Relations for Xperi. Please go ahead, ma'am.

Geri Weinfeld - *Xperi Corporation - VP IR*

Good afternoon, everyone. Thanks for joining us as we report our third quarter fiscal year 2020 financial results. With me on the call today are Jon Kirchner, CEO; and Robert Andersen, CFO. Also on the call is Samir Armaly, President of IP Licensing, who will be available along with Jon and Robert to answer questions during the Q&A portion of the call.

Before we begin, I would like to provide 2 reminders. First, today's discussion contains forward-looking statements that are predictions, projections or other statements about future events, which are based on management's current expectations and beliefs and therefore, subject to risks, uncertainties and changes in circumstances. Please refer to the Risk Factors section in our SEC filings, including our most recent Form 10-Q, for more information on the risks and uncertainties that could cause our actual results to differ materially from what we discuss today, including, but not limited to, risks associated with the TiVo transaction, the development and launch of new products and any potential impact of the coronavirus. Please note that the company does not intend to update or alter these forward-looking statements to reflect events or circumstances arising after this call.

Second, we refer to certain non-GAAP financial measures, which exclude merger and acquisition-related expenses, integration and separation expenses, acquired intangible asset amortization, charges for acquired in-process research and development, stock-based compensation expense, realized gains or losses on equity securities and gains or losses on debt extinguishment. We have provided reconciliations of these non-GAAP measures to the most directly comparable GAAP measures in the earnings release and on the Investor Relations section of our website.

The recording of this conference call will be available on our Investor Relations website at www.xperi.com.

I'll now turn the call over to Jon Kirchner.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Thanks, Geri, and thanks, everyone, for joining us. On the call today, I'll provide a brief update on our integration progress, walk you through our 2 business segments, IP and Product, and then turn it over to Robert to discuss our financials and our improved outlook for the remainder of the year.

Before I begin though, I'd like to start with a brief word on Comcast. By now, you've likely seen the release that went out after market today. We have successfully concluded a long-term license and settled all outstanding litigation with Comcast, one of the world's leading media and entertainment companies. This license underscores the relevance and value of our IP portfolio to all forms of video consumption and further establishes the long-term and stable nature of our licensing programs within the media business.

And as a result of the license agreement, we are raising our guidance for the remainder of the year. This license agreement positively contributes to a higher expected annual revenue baseline for our IP business of approximately $350 million starting in 2021. We will provide more details on the license and what it means for Xperi later in this call.

For today's call, all year-over-year comparisons will refer to past periods on a fully combined basis for Xperi and TiVo.

Onto the quarter. We made significant progress on various strategic initiatives during the quarter and delivered financial results in line with our original second half expectations. Revenue in Q3 was $202.8 million, down 6.2% year-over-year. Operating cash flow for the quarter was $62.2 million, up from $45.1 million last year. Importantly, adjusted free cash flow was $66.4 million versus $46.5 million a year ago. During the quarter, we bought back 2.8 million shares at an average price of $12.39 or just over 2.5% of our shares outstanding.

Our employees continue to navigate through the ongoing pandemic extremely well. And I'm exceptionally proud of the Xperi team for their commitment towards our overarching goal: to invent, develop and deliver technologies that enable extraordinary experiences in the home, on the go and in the car.

Our end markets are beginning to show signs of recovery. And while we are assuming some improvement in Q4, we remain cautious on the pace of recovery in 2021. We are now at the 5-month mark since Xperi merged with TiVo, and we've made substantial progress executing on our integration plans as well as the expected key revenue and cost synergies. We have already completed a full-scale organizational redesign, aligned our major employee programs, including compensation, benefits and training, and completed the architecture and high-level design requirements for an optimized set of business applications and infrastructure.

By the end of the third quarter, which is our first full quarter as a combined company, we've already realized on a run rate basis about 2/3 of the $50 million in annualized synergies we committed to achieve by the end of 2021. We remain highly confident in our ability to meet the synergy targets we outlined, and we'll look for further efficiencies beyond those targets. On the revenue synergy side, we are now augmenting DTS' Connected Radio product with TiVo's metadata and personalized content discovery and are in early discussions with TV OEMs with regards to the TiVo Stream implementation.

Moving to the IP Licensing business. IP Licensing revenue in Q3 was $80.3 million, down 9% year-over-year. As expected, the decline was due to lower semiconductor revenue. To be clear, the third quarter numbers we will be discussing do not include any impact from our license agreement with Comcast that was announced today as that agreement was concluded after the end of the quarter.

Given the importance of this resolution to our go-forward IP business, I want to walk you through the license agreement and what we believe should be the key takeaways. First, this agreement resolves all of the outstanding disputes between the companies and underscores the relevance and value of our patent portfolio.

Second, the terms of the agreement are consistent with our well-established licensing program for the pay-TV market. The overall length of the agreement extends for a total of 15 years, dating back to the expiration of our prior agreement with Comcast in early 2016. Providing coverage through early 2031, this license agreement supports our core Pay-TV licensing program revenue through the next decade.

Third, we are pleased to have resolved our dispute with Comcast so soon after the completion of our merger. This agreement underscores our commitment to successfully licensing the leading companies in our core markets, even if complex and protracted litigation becomes necessary to protect the value of our IP and to achieve long-term value for our shareholders.

Finally, concluding this agreement with Comcast illustrates our ability to execute key renewals with our largest customers as the video market continues to experience significant technological and business evolution. Importantly, we believe that resolving Comcast will have a positive impact on our ability to reach successful licensing outcomes across our business going forward.

In summary, our IP business is better positioned than ever, supported by long-term agreements with leading companies that generate significant recurring cash flows well into the future.

Moving to our Product business. Total Product revenue for the quarter was $122.5 million, down 4.2% versus $127.9 million last year. As a reminder, we break out our Product business down into 3 categories: Consumer Experience, Connected Car and Pay-TV.

In the Consumer Experience category, revenue was $49 million, up 2% year-over-year. The growth was driven by sales of the TiVo Stream 4K, which offset declines in other parts of the home business. Regarding the TiVo Stream 4K, during the quarter, we grew our retail presence through Walmart and Amazon as well as adding broadband partner distribution through RCN. TiVo+ content expanded to include Pluto TV, Tubi, XUMO and Locast and now delivers 144 core channels and up to 200 channels in major markets based on local availability. To date, consumer engagement has been strong, and the product is delivering industry-leading search and discovery metrics for consumer satisfaction in time from search to watching content.

On the IMAX Enhanced front, we continue to expand the ecosystem with strong momentum in China. Leading streaming services, Tencent and iQiyi, are expanding IMAX Enhanced content offerings. And Chinese TV manufacturer, Hisense, just announced the first domestic IMAX Enhanced 4K OLED TVS. In addition, Philips announced the first IMAX Enhanced sound bar, bringing the total number of brands in the ecosystem to 19.

As a reminder, key long-term growth drivers in the Consumer Experience category include sales and penetration of TiVo Stream and the monetization of that platform, growth of our IMAX Enhanced program and the launch of Perceive's ergo chips and follow-on chips and future products.

Moving to the Connected Car category. Revenue was $18.5 million, down 5.8% year-over-year. As expected, the decline was driven by lower car production year-over-year due to the impact of COVID-19.

On the HD Radio front, the FCC approved all-digital AM broadcasting. This is significant in that it builds on the existing broadcast standard for our technology and further encourages receiver manufacturers to incorporate HD Radio. During the quarter, HD Radio launched in North America on 14 new 2020 car models. We are seeing signs that the automotive market is starting to recover. We expect to see a recovery of our HD Radio shipments in line with the market trends. The latest car sales projections released this month predict around a 9% recovery in 2021.

On the Connected Radio front, we reached a significant milestone this quarter with the official launch of Connected Radio with Daimler AG. Connected Radio launched in the Mercedes-Benz S-Class, new state-of-the-art Mercedes-Benz User Experience multimedia system, which is redefining the in-dash radio listening experience. We expect Daimler to roll the platform out more broadly across their product line. This is the first of many OEMs that we expect to implement our Connected Radio platform.

The team has developed and delivered the most advanced next-generation radio platform for automotive manufacturers. Connected Radio's global platform is available in 24,000 cities, 48 countries and 14 languages, with content sourced from 76,000 radio stations, all aggregated, curated and personalized to create a rich in-vehicle radio listening experience for its users. Importantly, by 2025, according to recent market forecasts, we expect the total addressable market for our automotive connected media platform will reach approximately 75 million units worldwide.

Lastly, for in-cabin monitoring, we remain on track to deliver the first occupant monitoring solution to a major European brand in the second half of 2021. To capture the opportunity in this market, we continue to add new features to our OMS, which includes advanced computer vision features such as generic object detection and body and gesture analytics. Our current addressable market is roughly half of the 100 million new cars sold each year globally, with a focus on those countries and regions that have been early adopters of improved safety standards such as Japan, North America and Europe.

Moving to the last category in our Product business. Our Pay-TV revenue was $55.6 million, down 6% sequentially. During the quarter, certain customers, including Liberty Latin America, Midco, MetroNet and RCN, launched next-gen TiVo IPTV platforms. Our new IPTV platform provides an upgraded user experience and greater monetization potential than previous older-generation Pay-TV solutions. However, due to COVID-19-related restrictions, the pace of household conversion to IPTV has been slower than originally expected.

Lastly, in our Perceive start-up, we continue to engage with our lead customers. And the interest level is increasing across potential PC, mobile and enterprise customers, several of which are evaluating our platform. The Ergo chip received favorable media coverage during the quarter. And in September, Perceive CEO, Steve Teig, presented Ergo at the Embedded Vision Summit, where our session was among the highest-rated and attended at the conference.

With that, I'll turn the call over to Robert to discuss our financials. Robert?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Thanks, Jon. Let me begin with financial results for the third quarter. As noted earlier, in order to provide more meaningful comparisons in discussing both non-GAAP and cash flow based numbers, prior periods are presented on a fully combined basis for the merged companies.

Xperi's third quarter revenue was $202.8 million, which is on track with our original second half 2020 guidance. GAAP operating expense, including the cost of goods sold, was $221.8 million. GAAP operating expense is significantly higher than the third quarter of last year due to our merger with TiVo.

On a non-GAAP basis, our total operating expense, including COGS, was $153.1 million, down from $164 million a year ago on a fully combined basis. Cost of goods sold was $33.8 million, an increase by $5.5 million year-over-year due to increased hardware expense from the rollout of the Stream -- TiVo Stream 4K. Excluding COGS, non-GAAP operating expense for the quarter was $119.3 million, down by $16.5 million or 12% year-over-year due to lower personnel expense, reduced litigation costs and lower outside spend.

From a synergy perspective, as of the end of the quarter, we'd already realized approximately 2/3 of the targeted annualized savings of $50 million that's targeted by the end of 2021. But not all of those savings will be reflected in this year's financial results.

Cash taxes paid in the quarter were $16.9 million. This quarter's cash tax was unusually high since it included $5.8 million of TiVo's withholding and BEAT taxes that were accrued prior to the merger yet paid in Q3.

Using the total cash tax number for the third quarter, non-GAAP earnings per share was $0.19. If one excludes the $5.8 million of cash tax related to prior period TiVo liabilities, non-GAAP earnings per share would have been $0.24.

We ended the quarter with 107.5 million basic shares outstanding. During the quarter, we bought back 2.8 million shares of common stock at an average price of $12.39 for a total of $35 million. As of the end of the quarter, we had $100 million of share repurchase authorization remaining.

Moving to the balance sheet. We finished the quarter with $203 million in cash and investments, up by $3 million from the second quarter. We've paid down $13.1 million of our debt during the quarter and expect to make a significant paydown on our debt as a result of the Comcast license.

Operating cash flow for the quarter was $62.2 million, up from $45.1 million a year ago on a fully combined basis due to reduced operating spend and lower interest expense. Our adjusted free cash flow for the quarter was $66.4 million. Adjusted free cash flow reflects operating cash flow adjusted for $1.1 million of property, plant and equipment spend and $5.3 million of merger and separation-related costs. During the quarter, Xperi paid cash dividend of $0.05 per share of common stock.

Let me now provide an update on our second half outlook. For the second half of 2020, we now expect revenue to be between $625 million and $645 million. Importantly, with Comcast now resolved, the new baseline revenue for our IP business beginning in 2021 will increase to approximately $350 million a year compared to figures discussed on our second quarter call of approximately $300 million per year.

Notably, we continue to believe there is meaningful upside for our IP business from the 3 areas we discussed last quarter, including increased penetration in new media and OTT, the remaining unlicensed traditional Pay-TV subscribers in North America and the semiconductor business. We now expect cost of goods sold for the second half to be between $73 million and $76 million.

GAAP operating expense for the second half of the year is now expected to be between $421 million to $431 million. The non-GAAP operating expense is expected to be between $275 million and $285 million. The expense increase from prior guidance is primarily due to true-up of variable compensation expense accruals from an improved outlook at year-end. Please refer to our earnings release for a reconciliation between GAAP and non GAAP expenses.

We expect interest expense to remain between $26 million and $27 million, other income to increase to approximately $3 million and cash taxes to move between $33 million and $35 million. Also, due to recent share buybacks, we now expect our basic share -- number of shares outstanding in the second half to be 106 million and fully diluted shares on a non-GAAP basis to be 112 million.

Using the midpoint of the updated guidance ranges, we would expect non-GAAP earnings per share in the second half of 2020 to be approximately $2. Additionally, we expect to generate between $335 million and $355 million of adjusted free cash flow in the second half, which includes payments to be received in the fourth quarter relating to prior periods covered in the Comcast agreement.

That concludes our prepared remarks. Let's now open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

It's Eric Wold from B. Riley Securities Can you guys hear me now?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Yes.

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Yes.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

Perfect. Perfect. So I guess a couple of questions on the guidance. Obviously, congrats on getting Comcast done. It's been a slug for a number of years. I guess when you talk about the consistent baseline IP revenue going up from $300 million to $350 million after that license is signed, should we assume that $50 million increase is on a fixed basis? Or is there potential variability in that number around those subscribers?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

The terms of the agreement itself are confidential, so I can't really describe the structure and how it's going to occur going forward. I'm afraid I just can't get into the specifics of the contract. I think the increase, I think, will give you a feel for what we're looking at on an annual basis. So the difference between the $300 million and $350 million.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

Okay. That's fair. Go ahead, sorry.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

I was just going to say, Eric, the other thing I'd add is just that the the license was, I think, concluded on consistent terms with our broader U.S. Pay-TV licensing program.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

Okay. So with the new $350 million base, is there anything -- I know you talked about this license helping other license discussions and renewals. Are there any significant renewals in that $350 million number over the next, call it, 2 to 3 years?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

I think I can take a pass at that, which is we have renewals every year. We've been very successful in actually achieving those renewals. So certainly, there is some degree of that. I'm not aware of any significant licenses that may be renewed during the period of time that you mentioned.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

Got it. And then just final one for me. Obviously, along with that license, assuming there's going to be a significant amount of savings on litigation spend, what is the current plan with that litigation saving? Is it to be recycled into other pursuits on litigation end? Or is that also going to represent a nice EBITDA boost in addition to the upward move in license revenue?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Yes. It's always tricky trying to forecast litigation spend. But I think to the extent that we don't spend on litigation, that will flow down. So we're not going to use it elsewhere.

Operator

And we'll go ahead and take our next question.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Richard Shannon here. Can you hear me?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Yes.

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Yes.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Getting used to this new conferencing platform. I wasn't sure if [that was open]. Let's see here. Maybe a couple for Robert to start with on the numbers side. You kind of gave us a thought process for your Pay-TV run rate next year. How should we think about your OpEx run rate as well in that time frame? And then also, I want to get a sense of what you think for tax rate as well. Kind of get your thought -- or kind of an estimate of what you're going to get in the fourth quarter, but I guess like a run rate as well, please.

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Sure. So I think for OpEx next year, we're still working through our plans. It's early for us to be giving any kind of guidance. We normally provide that in February. I think you can expect that our operating spend would be down year-over-year, primarily the synergy work that we're working on that we would get going into next year, and we'll obviously be looking for operational savings as we can.

In terms of tax, I'm hoping to provide a non-GAAP tax rate as we guide out through next year. I think if we're looking at it from a cash tax basis, you can figure it's roughly 25% if we're talking on a non-GAAP basis. And that will give you at least a feel for it. But I'll give more specifics as we give a proper guide in February.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Fair enough. Let me jump over to the TiVo Stream 4K for Jon here. You've kind of laid out your phases of how you're expecting commercialization, and it sounds like Phase 1 is going well here. I guess I'm curious about Phase 2 here. And you described this as getting the embedded application into smart TVs, and I think having a good basis of progress, I think, by the end of next year, if I remember correctly. Can you give us an update, Jon, after 5 months of combination with TiVo, about how that's going? When would you get a better sense of visibility of how well that -- those goals are going?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Well, I think given the nature of how some of the planning cycles go, I would expect us to be into the second quarter of next year before we could likely have much better visibility on what's going to happen in the back half of '21 in general. I would say we're having, I think, good productive discussions on not only the technical issues of porting the code stack into the embedded space but also talking about how we can basically drive a platform that looks a little bit different in terms of the overall ecosystem and what's out there currently for TiVo -- for TV manufacturers.

And so overall, I would say progress is positive. Clearly, early innings, and this is an [ET] phased approach. But the good news is that our contract -- our content-centric, content-first approach to the UX, I think, is not only best in class but getting very, very good feedback. And I think there's a lot of people that would like to have the next interface on their TVs.

Richard Cutts Shannon - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Fair enough. I look forward to future updates on that one, Jon. I guess my last question is on Perceive. You mentioned, I think, in your press release and your prepared remarks about seeing some good engagement with a few different ecosystems, PC, mobile and I can't remember what the other one was. And I guess I thought this was thought as being one more centered around or at least having some level of focus on security. You didn't mention that. I'm not sure if this is a change in application focus or kind of diversification and expansion of that. Or how should we think about that? And then also, can you give us a little sense of what you mean by feedback? When do we see announcements of customers that are shipping as example?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Yes. I think you're going to see things at this point given some slight product shifts even in the core home security space as being in the second half of '21. I don't think the discussion of PC or mobile or enterprise really represents a departure from the initial focus. What it really represents is incredible interest and demand across some of these other industries where people are looking at what we're doing in terms of bringing advanced neural network computing to the edge and saying we have applications for that, where you can basically deliver data center class algorithms at very, very low power.

So the marketplace demand is kind of driving our diversification and our expansion of engaging with these customers. And I think there's a lot of evaluation going on, fortunately, very positively. So we need to remain focused to ensure, obviously, that we're successful in the space that we set out to initially bring the product to market in security. I think we are doing that. But I think the good news is, is that we're seeing more interest at a faster rate than perhaps we even expected as recently as 3 to 5 months ago.

Operator

We'll go ahead and take our next question from Mitch Steves with RBC.

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

I just wanted to clarify one of the comments you had made there. So the increase in guidance effectively is entirely the Comcast agreement? I'm just trying to understand if that's correct, if you guys basically -- in line with everything else, excluding what you announced today?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Fundamentally, yes. It's -- we were in line for the second half. So the primary change is Comcast.

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

Okay. And then secondly, in terms of the length of this agreement, I know you guys can't disclose the exact arrangements. But historically, if you have a very long-term agreement like this, it is -- how do I phrase this? Is the unit opportunity the same? Or is it usually front end loading?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

No. The agreement provides for an initial payment to deal with some prior periods and payments to be made over the course of the entire agreement.

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

Okay. And then can you guys disclose how far this goes back?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

It goes back...

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

Maybe going back to -- yes, go ahead.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Sorry, it basically picks up the license where it expired in 2016 and runs all the way through early 2031.

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

So 2016 until now is the initial. Okay. Perfect. And then just last one. In terms of the cost, I know you guys mentioned you got about 2/3 there. Now that you've seen kind of the operations tied together, do you think that, that synergy target needs to be increased in terms of like the long-term target, meaning 2, 3 years out, you probably could be better than $50 million? Or am I reading too much into that?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

I was just going to say we are obviously confident in that and made good progress on the $50 million, but our internal targets are more aggressive than that. So we'll -- I expect we'll get past that, but I don't want to promise it just yet. And I'll let Jon go.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Yes. I was just going to add that I think as the markets evolve and as our business strategy further evolves, I think we're always looking for ways to deliver a more efficient end result. And so I think there will naturally be some opportunities that evolve as well because of externalities, in addition to the good work that our teams are doing. But the key is that we obviously need to focus our investments in the right places to drive long-term growth, and I think we're very, very keen and focused on doing that.

Mitchell Toshiro Steves - *RBC Capital Markets, Research Division - Analyst*

Okay. Then one last one just for me. Just you guys are making a lot more money than expected off of this. So now it seems like you guys had a chance to pay down your debt. I guess is that the plan? I don't want to put words in your mouth, but like what would you do with the kind of the extra money you're going to be making? Because it seems like quite a bit of cash flow.

Robert J. Andersen - *Xperi Holding Corporation - CFO*

Yes. Good question as well. I mentioned on the call, it's our plan to pay down debt with the proceeds that we're getting during Q4 related to the Comcast agreement. That would be our plan. We'll obviously keep an eye on our stock and continue to buy as appropriate, but it will probably be focused on debt paydown.

Operator

And we'll go ahead and take our next question from Hamed Khorsand with BWS Financial.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

So first off, I just wanted to ask you about the TiVo Stream 4K. So what's the strategy behind that on the retail front? I know you guys were talking about the Walmart and Amazon. And does that change your cost composition for the product and for the hardware in general?

Robert J. Andersen - *Xperi Holding Corporation - CFO*

I think -- this is Robert. The retail channel doesn't, by definition, change our cost composition. It is just what we view as another avenue for getting the product out in a more meaningful way to consumers. So we may have deals, I think, we will do with our distributors. But primarily, the cost of the product stays the same.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

And then...

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Sorry, I was just going to just add one thing. So obviously, from a mix perspective, given the nature of that product and how it's priced, it will have an impact on aggregate gross margins as that scales. But the long-term strategy is to move into an embedded software stack to really drive the ultimate monetization around that footprint. I'm sorry, go ahead.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Okay. All right. And then the other question I had was on the licensing side. What kind of focus are you putting on the international side? The opportunity, obviously, is much larger than domestic at this point. So is there a full paying attention there? Or are you looking at other product lines instead of licensing?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Are you referring to licensing?

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

I'm referring to licensing, yes.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Patent licensing? Are you talking about product or software licensing? I'm sorry, I'm not clear on your question.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Well, that's what I'm trying to ask, is where -- what's your strategy going forward now that you have Comcast? Are you looking at it from a licensing of the patents? Or are you looking at it from a product standpoint?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Okay. So I'll ask Samir to touch on the IP part of it in a second. I think overall, we operate in a global marketplace. There's product licensing opportunities that exist around the world for people to take our user experience software or our enhancement solutions. And there's obviously a business trajectory on to itself that relates to entertainment as well as it relates to things like safety, in car, in home, in mobile that -- in those broad basic verticals.

And so we do, today, actively do lots of business outside the United States. We will continue to do and see that as genuine growth opportunity. And certainly, in the pay-TV space, there's people who are licensing IPTV solutions to another pay-TV solutions, too, in Latin America and Europe and elsewhere. That doesn't obviate, however, the opportunity that exists for people that may wish to use our intellectual property that need to have licenses in order to build either their own products or to use third-party products. And so I'll turn it over to Samir to talk about that.

Samir Armaly - *Xperi Holding Corporation - President of IP Licensing*

Yes. Similarly, on the IP side, as Jon said, there's a worldwide opportunity for us. We're very pleased to have resolved Comcast because that was certainly the largest outstanding opportunity for us in the U.S. But we've talked about some international opportunities that we're pursuing in parallel, including in areas like Canada, where we have a strong licensing business already. But there are a handful of opportunities there that we're continuing to try to resolve. So international is a focus for us, probably starting with Canada and then moving on to some other regions as well.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Okay. But I was asking about if there is one specific area that you're focusing on, is that either going to be the product side or the IP side?

Samir Armaly - *Xperi Holding Corporation - President of IP Licensing*

I think it's going to be both. The company has got businesses that are strong in both sides. And different customers will want either the product solutions that we have or want to develop their own solution and take an IP license. So we really let the customer decide and then are able to address that opportunity irrespective of what their choice is.

Operator

And we'll go ahead and take our next question from Matthew Galinko with Sidoti.

Matthew Evan Galinko - *Sidoti & Company, LLC - Research Analyst*

Can you hear me?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Yes.

Matthew Evan Galinko - *Sidoti & Company, LLC - Research Analyst*

All right. So my question is on Hisense China. I think you mentioned that the IMAX Enhanced deals for, I guess, the market in China, but I'm curious if the scope of that's expandable into the North American market or why it's sort of limited.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

It's not unusual for us to start with certain domestic markets if they're foreign manufacturers in terms of working with them to get something in the local market. IMAX is a very strong brand in China. So it would be logical that they look to do that. I think naturally, we're in discussions with folks about bringing the IMAX program to their particular brands and other markets, North America or Europe. So I think this is just -- these are stages in a process of further development and market validation. Sometimes also impacted by content sources and availability. That tends to influence when people are inclined to embed your technologies. But we're very fortunate and very pleased with the support of Tencent and iQiyi, major content providers in China, which gives, obviously, domestic Chinese TV manufacturers plenty of reason to support the program.

Matthew Evan Galinko - *Sidoti & Company, LLC - Research Analyst*

Got you. And I guess can you -- I guess a follow-up on that. Any notable or anything in terms of development in the North American market for IMAX Enhanced over the last couple of quarters? In terms of Hisense China, maybe what are the milestones we should be looking for to see that U.S. market develop a little bit more?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

I think as you're typically building ecosystems, looking for signs around content expansion, I would say, in the last couple of quarters, we've had some very productive discussions that should further bear out as we get into '21 on the content front. And also from a manufacturer or support perspective, seeing more major TV brands get in the game in support of the program.

And then the other thing to keep an eye on is don't overlook the importance of the peripheral market growth. I mean things like sound bars and speakers and AV receivers ultimately contribute positively to building an ecosystem of product in support of the program.

So we continue to work it. I think the feedback remains good. Obviously, in a COVID environment, not everything is moving as fast as you'd like it to. But there's no sign that I'm aware of that would indicate that it's going anywhere other than move forward and positive as we look on to the next couple of years.

Matthew Evan Galinko - *Sidoti & Company, LLC - Research Analyst*

Got you. All right. And one final question on the IP Licensing business. You do have a -- one of the large DRAM companies that I think continues to be lapsed in the portfolio. So I'm curious if you could say whether there are any discussions going on. Or just given -- if we're still in play for 2021 split between the Product and the IP business, how are you thinking about addressing that company?

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Sure. So we, as you know, are out of license with Micron. We've been very, very pleased with the market receptivity and continued focus on hybrid bonding and 3D-related technologies. Suffice it to say that I think as the trends continue not only in memory but in logic and many of the other semi verticals. I think you're going to see more adoption of this technology, and it's going to end up being a strong contributor over the next 3, 5, 7 years.

That said, we continue to engage all of our customers, both existing and former. And naturally, as you I'm sure know from our prior experience, sometimes the discussions take a while as you're providing both -- plenty of technical information and considering how licenses should be optimally structured. But at this point, we haven't guided to any Micron-related revenue as we think about -- and we've said today for '21. And we wouldn't guide until we had direct line of sight just as been consistent with the -- our Xperi practice within the IP segment. So stay tuned. We'll update you further in February when we get there based on the state of play at that point.

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Operator

And that concludes today's question-and-answer session. I'd like to turn the call back over to today's presenters for any additional or closing remarks.

Jon E. Kirchner - *Xperi Holding Corporation - CEO & Director*

Sure. Thanks, operator, and thanks, everyone, for joining today's call. I'm incredibly proud of our team's ability to navigate through these unprecedented times. We've made significant progress on executing on our key long-term growth drivers, including expanding our TiVo Stream 4K footprint, launching Connected Radio with Mercedes-Benz and entering into a long-term license agreement with Comcast. I look forward to meeting with many of you virtually over the coming months.

Operator, this concludes today's call. Thank you.

Operator

Thank you. Once again, this concludes today's conference. We do appreciate your participation. You may now disconnect your phone lines.