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CORPORATE PARTICIPANTS

Geri Weinfeld *Xperi Corporation - VP IR*

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

Robert J. Andersen *Xperi Holding Corporation - CFO*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Xperi Second Quarter Fiscal Year 2020 Earnings Conference Call. (Operator Instructions) This call is being recorded, Monday, August 10, 2020.

I would now like to turn the call over to Geri Weinfeld, Vice President of Investor Relations of Xperi. Geri, please go ahead.

Geri Weinfeld - *Xperi Corporation - VP IR*

Good afternoon, everyone. Thanks for joining us as we report our second 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'd 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 reconciliation 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. A 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. Let me start by saying that this is an exciting time for our company.

This is our first earnings call since we closed the merger between Xperi and TiVo, and over the past few months, we've made tremendous gross toward unlocking the value of this transformative combination, including progress around our planned separation of the IP and Product businesses. These efforts involve working jointly to sell technology across our combined customer channels, advancing product road maps and leveraging our respective IP strengths across the larger combined patent portfolio. As part of these efforts, we are making significant progress towards executing on our forecasted expense synergies and remain highly confident in our ability to realize at least $50 million in annualized cost synergies by the end of '21.

We also continue to successfully execute on our underlying business, including signing new licensing agreements in the IP and Product businesses as well as making significant progress on outstanding litigation.

While it's still early in our transformation, we've already validated many of the assumptions and benefits we had expected going into the transaction, and now have even greater conviction that the Xperi TiVo combination will deliver significant long-term value to our shareholders. Together, we've added scale and diversification to our IP business. We have an industry-leading platform in our product business that enables us to deliver technology solutions in multiple end markets. We believe we are well positioned to capitalize on the numerous growth opportunities ahead due to key trends that involve the continued proliferation of entertainment content, changes in the entertainment consumption trends at home, in the car and on the go and a broader move towards artificial intelligence at the edge.

On the call today, I will share more detail about some of the opportunities we see for the new Xperi, cover some recent highlights and talk about our longer-term road maps. Robert will then walk you through how we plan to report going forward, review the financials for the quarter and [provide our outlook for] the remainder of the year.

First, a word on COVID-19. I continue to be inspired by our employees and partners who have diligently worked to keep our business operating at a high level during these unprecedented times. COVID-19 has added additional environmental stress to our processes. And I want to thank our employees and partners for navigating so seamlessly and effectively around these disruptions. Our primary focus continues to be ensuring the safety and well-being of our employees. And thanks to their hard work, we continue to deliver innovative solutions for our customers.

While there are still some uncertainties around the impact of COVID-19 on our end markets, we are encouraged that the estimated net impact on our combined business will be less than 10% relative to the guidance provided at the beginning of the year. Despite the impact of COVID-19, we are highly confident in our business model and prospects over the near and longer term.

I'll now spend some time talking about our 2 business segments: Product and IP.

First, in our Product business. Through the combination of TiVo and Xperi, we've gained significant scale and technology depth, making our combined platform even more relevant to one of the biggest consumer trends we see today: the massive proliferation of content and how and where consumers are finding, watching and enjoying entertainment. We can now offer consumers a unique and seamless end-to-end entertainment experience from choice to consumption in the home, in the car and on the go. Additionally, through our combined solutions, we can offer OEMs additional ways to monetize that consumption.

Moving forward, we will measure our business performance in the Product segment in 3 categories: Consumer Experience, Connected Car and Pay-TV.

I'll walk through each of these categories, key growth drivers and highlight some of the wins during Q2. Our first category in product is Consumer Experience. This category includes all the audio, imaging and ML-based solutions for the home and mobile markets from Xperi's portfolio, along with the DVR hardware, streaming, metadata and monetization solutions from TiVo's portfolio. This category represents approximately 40% to 45% of our total combined company Product revenue and we expect it to grow this year, even with the headwinds of COVID-19.

A key near-term growth driver in this category is the TiVo Stream solution. During the quarter, we launched the Stream 4K product, which gives consumers 1 centralized place for searching, browsing and creating watch lists across their favorite apps by integrating streaming video services and live TV. It also includes TiVo's content network, TiVo Plus, with more than 70 ad-supported free channels. Our primary focus right now for the TiVo Stream is on expanding our installed footprint and customer engagement, which will further fuel our monetization solutions.

Our road map for footprint expansion includes 3 phases. The first phase is the Stream 4K hardware launch, which occurred in May. We are pleased to report that the Stream 4K is selling faster than any previous TiVo hardware product. The second phase of this footprint expansion will come from the launch of Stream as an embedded search and discovery application for smart TVs, expected to arrive in Products in late '21 or early '22. In the third phase, we will deliver Stream as a comprehensive smart TV platform, connecting content from all sources and leveraging our search and discovery and monetization tools to fully exploit the TiVo content experience. This is one of the merger-related revenue synergies we are most excited about. As we unite the TiVo Stream product with Xperi's very strong OEM relationships and TV footprint. Our teams have been working together on this road map and recognize the tremendous growth potential for an integrated solution.

Another growth driver in the near to midterm is IMAX Enhanced, which brings a best-in-class entertainment experience to the home. This program supports the continued penetration of our audio decoders and TVs, sound bars and other home entertainment devices. We now have 28 device brands, 6 streaming services and 3 Hollywood studios as part of the ecosystem. And we expect to add more partners as entertainment consumption at home continues to increase.

In summary, we will not only be providing better ways to engage and consume content, but we will focus on enhancing the consumer experience through better audio and imaging presentation.

Our second category in Product is the Connected Car, which represents approximately 10% to 15% of total combined revenue in the Product segment. This includes our HD Radio, automotive connected media and in-cabin monitoring solutions. Our focus here is on enhancing the in-cabin automotive experience through highly personalized, connected infotainment and safety solutions for the global automotive market. We are building an ecosystem that revolutionizes the in-car entertainment experience for consumers and creates recurring revenue opportunities for Xperi, car manufacturers and content owners.

There are 3 primary growth drivers in this category. The first growth driver is continued penetration of our HD Radio technology, which is focused on entertainment and safety applications, including our digital broadcasting in North America, new HD channels and emergency alerts. During the quarter, HD Radio launched on 6 new 2020 car models in North America. And while the auto market is being impacted by COVID-19 in the near term, we expect the category to return to growth next year.

Our second major growth driver in the Connected Car category is our global automotive connected media solution, which includes connected radio, coupled with the TiVo Music library and preference engine. This represents a global solution that enables a fully integrated audio entertainment platform with personalized discovery across local radio, digital music and podcast.

Our third growth driver in the Connected Car category is our in-cabin monitoring solutions, which includes both driver and occupancy monitoring solutions, focused on the safety of drivers and passengers. After securing a major European automaker win late last year, we continue to see customer interest in our solutions grow across major automakers and Tier 1 suppliers. We've also released the latest version of our Occupancy Monitoring System suite, which includes child seat detection, occupant detection, emotion detection and passenger authentication.

The third category in Product is TiVo's Pay-TV business, which represents about 45% to 50% of total combined revenue in the Product segment. This category is comprised of TiVo's Classic Guides, TiVo DVR, and its next-generation end-to-end platform, which consists of our latest user interface, the user experience for and our IPTV cloud service.

As the trend towards cord cutting continues, our focus in this category is on upgrading our service offerings with OTT content additions and enhancing our industry-leading personal content discovery solutions that make it easy to find, watch and enjoy content across all content sources.

To that end, during the quarter, we signed a new conversion agreement with a regional U.S. cable television provider. This now makes a total of 12 providers using this solution. Importantly, this quarter, churn of subscribers using our solutions was less than 2%, significantly lower than the Pay-TV industry average of 4% to 5%. This is consistent with our own end user research which shows that households with TiVo's personalized discovery and voice are more engaged. They watch more content and churn significantly less than other Pay-TV households. As we think about the Pay-TV category over the longer term, we expect it to remain an important contributor to overall revenue while experiencing a modest slow decline in the near to midterm.

However, it remains strategically important alongside our growing streaming footprint as it provides us with one of the largest video consumption consumer ecosystems. This ecosystem gives us insight into consumer habits, and allows us a unique window into the household to develop new and innovative solutions that delight our customers and drive real value for our OEM, Pay-TV and content partners.

Lastly, with respect to a newer initiative that came out of stealth this year, our majority-owned subsidiary, Perceive, continues with its groundbreaking progress on its new edge inference platform. This platform leverages our deep experience in semiconductors and novel research and efficient machine learning while extending the value of our imaging and audio solutions in both existing and new markets. Perceive launched and announced its Ergo chip at the end of March to very strong market, media and investor reception. Ergo brings data center level machine learning to edge devices, allowing them to deliver the smart features consumers crave without the privacy concerns of today's cloud-based solutions. Advanced features like video and audio object detection, face and voice recognition, and even speech can be simultaneously enabled by Ergo, delighting customers while safeguarding their privacy. By using just tens of milliwatts, Perceive is making low power edge devices a lot smarter as well as more secure. We remain actively engaged with leading partners in the home security space and expect to see the chip be integrated into products shipping in early '21.

Moving on to the IP Licensing business, where there are 3 key high-level takeaways. First, combining our IP business positions us to be one of the largest public stand-alone IP licensing companies in the world. With a total company portfolio of more than 11,000 issued patents in pending applications, we have a strong base of innovations that will help us continue to drive meaningful revenue and significant cash flow well into the future.

Second, we have a well-established track record of successfully licensing our IP. Individually, each of our media and semiconductor businesses were among the most successful licensing companies over the past few decades. Combined, we are even stronger. Specifically, our IP businesses have generated in excess of $8 billion in-licensing revenue over the past 20 years. There are very few IP companies in the world that have achieved that level of licensing success.

Importantly, we generated consistent IP revenue through successfully licensing across technological and business evolution, across multiple industries and through numerous renewal cycles. By strategically refreshing our patent portfolios through organic R&D and key acquisitions, we've been able to continually anticipate and meet the evolving needs of our customers and end markets.

Third, one of the biggest benefits of the transaction is that we now have a more stable and diversified foundation for our IP business going forward. This is in contrast to the more episodic nature of Xperi's historical semiconductor IP licensing business over the past 5 years. We will no longer be disclosing billings as we believe revenue is a more appropriate metric for our combined larger business. While the impact of this change in approach on the semi IP business may be significant over comparable periods as revenue will fluctuate meaningfully based on the pipeline and timing of new deals, the combined IP business will be much less impacted. For example, the current annual revenue for the media IP business alone is approximately $300 million. This is similar to the average annual revenue generated by the core of this business over the last decade. With many long-term and significant fixed fee licenses in place, we expect the media IP business to continue to be the strong foundation upon which we intend to build a larger and more successful IP platform in media, semiconductors and beyond.

Within the IP business, we believe there are a number of meaningful vectors for growth, each of which I'll walk you through in more detail. First, while we have extensive penetration in the North America Pay-TV market, there are a number of significant opportunities remaining. We currently have nearly all of the top traditional U.S. Pay-TV providers under license, and we continue to regularly renew and expand these agreements. For example, in the last few months, we've already concluded 2 important license agreements in this space. We recently renewed and expanded our IP licensing agreement with Verizon, one of the top 5 U.S. Pay-TV providers, for its FiOS TV service. We also recently announced the expansion and extension of our licensing relationship with CommScope, one of the leading suppliers to the North America Pay-TV market.

The largest unlicensed U.S. Pay-TV provider is Comcast. On that front, we are very pleased to report that in our most recent ITC case, we received a favorable initial determination. The judge ruled the Comcast's X1 platform infringes 2 of our key patents, known as the 528 and 855 patents, and recommended the issuance of a limited exclusion order and a cease and desist order. The patents at issue in the order cover key and widely used innovations generally relating to multiroom DVR and communication between multiple set-top boxes using MoCA technology.

This is now our third favorable decision at the ITC against Comcast, and we believe this decision is particularly important in the context of our ongoing dispute. First, this decision builds off the previous wins we've had at the ITC, the first of which has already been upheld through all appeal options. Second, both of these patents have significant remaining terms, the last of which extends through 2028. Third, the nature of the innovations covered by these patents are integral to today's Pay-TV systems. These favorable decisions represent positive and key milestones in our ongoing litigation. Our ultimate goal remains to ensure that we receive fair value for our innovations through a commercial agreement with Comcast, allowing for the ongoing use of our patented technology, just as we've done broadly with nearly all the other major U.S. Pay-TV providers. The latest initial determination is now subject to review by the commissioners of the ITC and a final determination is currently expected in late November. In addition to Comcast in the U.S., we're also focused on the remaining unlicensed pay-TV operators in Canada, which represent additional upside for our IP business.

Our second growth opportunity is in new media. We already have a well-established licensing business outside of the traditional pay-TV market, with agreements in place with many of the leading new media providers, including companies that provide OTT and other related video streaming services. These providers are becoming more prominent as content is increasingly consumed through their services. We continue to pursue these opportunities. And in Q2, we completed a new agreement with another leading social media platform, our third such agreement in the social media space in the last year.

In our third growth opportunity in the semiconductor markets, our direct and hybrid bonding technologies and IP are gaining momentum, particularly in image sensors, stacked DRAM and 3D NAND applications. This year, we've begun to see traction in this area with the signing of SK hynix, the second largest memory manufacturer in the world, in Q1.

In Q2, we announced that Tower Semiconductor, a global leader in semiconductor foundry solutions, also licensed our ZiBond and DBI technologies for a range of applications. These 3 growth opportunities represent a pipeline in the lower hundreds of millions of dollars in potential incremental annual revenue. While the teams are actively pursuing each of these growth areas as is typical in the IP licensing business, the time line for successfully concluding each of these can be uncertain.

Overall, our IP business generates strong recurring cash flow and has significant revenue already contracted through 2025. We believe the combination of Xperi and TiVo's licensing platforms brings beneficial scale, stability and diversification that will lead to significant ongoing innovation and patent creation, better licensing outcomes, greater cash flow generation and improved visibility over the long term. We believe that the company is positioned well to expand and grow our IP licensing platform into new markets over time.

Lastly, I want to touch on the topic of capital allocation as a new combined business. Our priority remains continuing to invest efficiently for the long-term growth of the business. Our new Board recently reviewed the company's capital allocation policy and established a target to return approximately 50% of free cash flow to stockholders, consistent with the company's history. Additionally, the Board determined to take a more balanced approach to capital allocation to provide greater flexibility and enhance our ability to drive shareholder value.

Robert will provide further details in the financial section. Robert?

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

Thanks, Jon. As noted earlier, we are pleased with the company's operating performance and financial results for the second quarter. As I will be discussing in more detail, our results highlight the resilience of our business model during these unique and challenging times.

Before I get into the quarter's results, let me note that as a result of our combination with TiVo, we are making some changes to the way we measure and categorize our business performance.

First, as Jon mentioned, the combined company will now focus on revenue, as opposed to billings, to describe the business performance. While the impact of ASC 606 will continue to cause lumpiness to revenue from the upfront recognition of semiconductor-based IP licensing deals along with timing differences between revenue and operating cash flow, on a relative basis, these differences are expected to be less meaningful for the combined company going forward.

Notably, TiVo's IP licensing business does not have the dynamics of Xperi's legacy IP Licensing business that led to the previous use of billings as a business measure. Our financial outlook will also change, providing revenue as opposed to billings. Second, we're making some changes to the expense categorizations of the combined company. Most notably, both depreciation expense and litigation expense will be more visible as they are reported as separate line items on the income statement. Previously, Xperi's depreciation expense was embedded in both R&D and SG&A and TiVo's litigation expense was embedded in cost of goods sold. TiVo's patent-related expense, which is primarily for patent applications and maintenance, is being moved from cost of goods sold and G&A into R&D, consistent with Xperi's prior treatment. These changes will impact expense category comparability to our predecessor companies.

Let me now proceed to the financial results for the second quarter. Legacy Xperi second quarter billings were $93.4 million, above the high end of our guide of $85 million to $90 million due to the timing and size of IP licensing royalty reports in the quarter.

Revenue for the second quarter, including 1 month of TiVo results, was $137.6 million. Including all 3 months of TiVo, and adding back the $1.7 million impact to revenue from purchase accounting, the combined revenue would have been $234.8 million, down 7% from the $251.3 million that TiVo and Xperi reported in the second quarter of 2019 on a combined basis.

Our Product business, when you include all 3 months of TiVo, generated $114.7 million of revenue for the quarter, down 22% from 2019 and reflecting year-over-year unit declines in the Connected Car, Consumer Experience and Pay-TV markets. This decline is largely the result of COVID-19's impact to our end markets and is within our expectations, since revenue reflects the activity within the second quarter as opposed to a quarter in arrears that occurred on a billings basis. We expect these markets to recover, but timing remains uncertain.

Our IP business, when you include all 3 months of TiVo, generated $118.5 million of revenue for the quarter. This reflects a 13% increase over the prior year on a combined basis, driven primarily by the recent agreement with SK hynix, somewhat offset by a onetime catch-up payment for TiVo that occurred in the second quarter of 2019.

Our total operating expense for the quarter, which included 1 month of TiVo results, was $155.4 million on a GAAP basis and $82.7 million on a non-GAAP basis.

Moving to the balance sheet. We finished the quarter with $200 million in cash, cash equivalents and investments. In connection with the closing of the merger on June 1, we entered into a new Term B loan facility that raised $1.05 billion and was used to pay down existing term B loans for Xperi of $344 million and for TiVo of $735 million, including a prepayment penalty on TiVo's loan. The new term loan has a tenor of 5 years at an effective interest rate, including the amortization of debt issuance costs, of approximately 4.8%. We ended the quarter with 108 million basic shares outstanding, reflecting the share issuance associated with the merger.

Operating cash flow for the quarter was $34.6 million, excluding the 2 months of cash flow from TiVo in the quarter. On May 27, legacy Xperi paid stockholders a quarterly cash dividend of $0.20 per share of common stock.

As Jon noted earlier, following the merger, Xperi's new Board reviewed the company's capital allocation policy as Xperi and TiVo each had their own approaches to capital allocation. The Board established a target to return approximately 50% of free cash flow to stockholders, consistent with historical levels. The Board also determined to take a more balanced approach to capital allocation providing for increased stock buybacks and debt pay down relative to cash dividends.

On June 12, the Board authorized a stock repurchase program providing for the repurchase of up to $150 million of the company's common stock. During the quarter, the company repurchased 1.1 million shares of its common stock at an average price of $13.92 for a total of $15 million. And on July 29, the Board declared a dividend of $0.05 per share payable on September 21.

Let me now provide some context for the remainder of the fiscal year. Due to the disruptions caused by COVID-19, the dynamics of our end markets remain uncertain at this time, both in terms of impact and duration. For instance, our Connected Car market appears to be impacted in the 20% to 30% range for the year. Also, market research indicates TV unit shipments are expected to decline by approximately 5% this year. Despite these uncertainties, we believe it is important to provide investors with a second half outlook for the newly combined company, based on the best information we have at present.

As I mentioned earlier, going forward, we'll be guiding on revenue as opposed to billings. When transitioning from billings to revenue for legacy Xperi, it's important to understand that Xperi's semiconductor IP licensing business is forecasted to have billings that are approximately $70 million higher revenue in 2020 due to the impact of ASC 606. This difference is due to fixed fee semiconductor IP agreements, where revenue was recognized in prior periods, but continues to be billed in 2020. For the second half of 2020, we currently expect revenue to be between $390 million and $410 million.

Let me provide some context to the overall revenue outlook. If 1 adds the $511 million of first half revenue from both companies excluding any impact from purchase accounting, our annual revenue outlook on a fully combined basis is between $901 million and $921 million. This translates to the combined outlook being approximately 8% to 10% below the guidance given by each company in February. This difference is primarily attributable to market disruption from COVID-19 since the original guidance ranges were provided before the business impact of the pandemic was widely understood.

When comparing this full year combined revenue outlook to the annual guidance that TiVo and Xperi each provided early this year, one must first make a few adjustments in comparability. For reference, please see Slide 22 in the Q2 2020 investor deck.

First, in February, Xperi guided the 2020 year on billings rather than revenue at a midpoint of $410 million. TiVo guided for 2020 revenue at a midpoint of $670 million. On a combined basis of billings and revenue, this amounts to $1.08 billion. This total must be reduced by $77 million to account for a guidance change from Xperi billings to revenue of $70 million and a purchase accounting adjustment of $7 million. Thus, on a comparable combined revenue basis, the original annual outlook at the midpoint would have been just over $1 billion. The remaining difference is due to the previously mentioned COVID-19 impact.

We expect cost of goods sold for the second half to be between $72 million and $75 million, an increase from the first half due primarily to the rollout of the Stream 4K product.

GAAP operating expense for the second half of the year is expected to be between $380 million and $395 million. And the non-GAAP operating expense is expected to be between $230 million and $245 million. Please refer to our earnings release for a reconciliation between GAAP and non-GAAP expenses.

We expect interest expense between $26 million and $27 million, other income of approximately $2 million and cash taxes between $20 million and $22 million. Also, excluding additional share repurchases, we expect our basic number of shares outstanding to be 109 million and fully diluted number of shares on a non-GAAP basis to be 113 million.

As we take a step back and think about the entire year, our top line is now estimated to be 8% to 10% down against our combined pre-COVID outlook. Notably, on a combined basis, when including the first 5 months of TiVo, we still currently expect operating cash flow to be in the range of $220 million, excluding acquisition, merger and separation-related costs of approximately $50 million.

Combined capital expense is expected to be approximately $20 million for the year. These expected results, coupled with a very strong balance sheet where we have approximately $200 million in cash and investments, positions us well for the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Eric Wold, B. Riley.

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

A couple of questions. I guess one, you briefed -- Jon, you talked about the ITC decision that came out last week, initial determination. I know that all 3 of the disputes filed with the ITC were initiated prior to the merger, but is there a way to frame the importance to the industry in general of the patents in the third suit versus those in the first 2?

I know Comcast found a way to kind of work around original patents, remove features. Is that something that that's feasible here with the patents covered in the third ruling?

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

Yes. Maybe it's best, Eric, since Samir is here, to have him address it since he's got the deep history.

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

Eric, I think we're -- as we mentioned, very pleased with the ID we got in our third ITC case. As you mentioned, we had success in the previous decisions. As we talked a little bit about the technology these patents cover in the third ID, we do think they're pretty integral to the pay-television business. We mentioned one of them covers whole-room, multi-room DVR. The other one covers communication between set-top boxes using the MoCA technology. And I think if you looked at how the pay-television systems of today's consumers are deployed, these are things that we think are not only particularly valuable, but particularly well deployed throughout those systems.

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

And then prior to the merger, when TiVo was a stand-alone company, one of their kind of key growth areas was coming from the Stream 4K product that was launching. And now that you've kind of gotten your hands on it for a little bit kind of working through the integration, help us understand how you're kind of thinking about you're getting that product to stand out and gain traction in, what's a fairly competitive market? And is that something you'll be reporting metrics for separately in terms of subscribers, revenue per subscriber? Or is that just going to be baked into large category?

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

Fair questions. I think, first, we're very pleased with how the hardware has been selling. We priced it on an introductory basis at just under $50. And I think we've gotten very, very strong reviews from reviewers on the product. Our content-centric approach to how we organize content, we think, is very consumer-friendly and very unique. I think over time, that is over the next few quarters, we expect there to be a pretty significant ramp in the volumes, pushing through to consumers. And as we establish that footprint and further build it, I think we'll then be in a position to perhaps talk more meaningfully about how the monetization picture looks. But what is important is that it is about footprint because with footprint, you can begin to monetize engagement, and that engagement has real value year-over-year. And so I think we see the Stream product as really kind of launching a new chapter in the TiVo history.

We also believe that with some time and the knowledge and the relationships that the Xperi legacy team have in the TV space, that this also serves as just an opening act in a broader move towards embedded applications and support for TVs directly, which will open up a much wider base of a footprint. And again, allows you to further monetize that user engagement and that broader audience successfully. So in short, I think we're very, very pleased. We've got a lot going there. And I think over time, we'll be able to talk more directly about some of the metrics in and around it.

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

Perfect. And then just a final question for me. Robert, of the $72 million to $112 million estimated COVID-19 impact for the year. How much of that was in the first half versus the second half?

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

I'd say it's probably weighted more towards the second half. Given that much of the shutdown, particularly from automotive, didn't occur until sort of late in the first quarter, I think if you look at overall, we would -- it's primarily in the second half, but I think we'll probably see most of the dip in automotive during the second quarter because things were shut down, they've started to increase the manufacturing. So I would say it's weighted a little bit more to the second half, but not substantially.

Operator

We'll take our next question from Richard Shannon with Craig-Hallum.

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

Maybe I'll follow-up the last question by asking in a slightly different way here in terms of the COVID impact of 8% to 10% here. I apologize if you've delineated this in some way in the prepared remarks, but how much of this is coming from TiVo versus the Xperi side? Any way to delineate those?

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

Yes. It's a good question. I'm starting to try to look at the business on a combined basis. So I'm not necessarily thinking in those terms. But I think given that the impact is centered on automotive, in particular, is a challenged area, which I mentioned in the remarks, that's a traditional Xperi legacy business. And then just on consumer electronics, that's where we're also seeing some of the challenges. So I'd say it's more weighted towards the legacy Xperi side as opposed to TiVo. But I think both businesses have seen an impact from COVID-19.

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

Okay. That is helpful. Let's see here. I think you talked about just kind of a tactical question. You talked about some upside to Xperi's billings outcome versus your original guidance here. I guess, given the automotive difficulties here you just mentioned, where was the upside from? Was there a license that came through billings? Or can you help me understand that upside?

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

I'm not recalling an automotive, something that was unique in automotive. I'm not totally clear what you're referring to, Richard.

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

I guess you're suggesting that automotive has been impacted by COVID, which makes sense here. I get the Xperi side had upside to the billings original guidance. So I'm wondering where they came from.

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

So this might be more on the IP side as opposed to on the product side. I think if we're talking about billings versus revenue, that's almost entirely within -- the difference for the year is almost entirely within IP. There's very little difference in the Product side. So if we say the numbers I gave on the call were on the Xperi side, there's about a $70 million difference where billings are higher than revenue during 2020, and that's almost entirely due to IP or the semiconductor IP, I should say. [Does that help]?

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

Okay. It answers a slightly different question I also had, but maybe I'll follow-up a little bit later on that one just to clarify a little bit better. 2 more questions.

The next one is related to the TiVo, and I'm going to butcher the nomenclature using that kind of your content media business licensing some of the social media market there. You've talked -- TiVo has talked a little bit about that in the past. It seems like a very exciting area to just be getting into. How would you clarify or think about the total markets you've been able to license so far? I know you kind of view that somewhat expansively. So maybe you could describe how you view that? And then how much of that market have you licensed to date?

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

This is Samir. I'll take that. I think as we mentioned, we've got a lot of established licensing program outside the traditional Pay-TV business. And if you think about that, that probably has a couple of different components. There's the traditional OTT streaming and video streaming service companies. But then you also have a number of social media companies where video isn't the primary thing that they're doing, but it's increasingly becoming more and more important to their services. And I think what you've seen over the last year or so in the media licensing side is we've announced a number of agreements with some of the leading social media companies. We announced just last quarter, our third in the last year. And we do think that's a growing and important area.

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

Okay. Samir, could you characterize that as you're just kind of getting started in terms of licensing that potential? Or are we well underway? I mean, I don't know how you think of 3 of them in that greater context?

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

I think generally, we're -- we think we're -- we've got a good base in the new media area, which includes social, but we do see a fair amount of upside in that area relative to where we've had a longer, more established program in the traditional pay-TV space. So we're pleased with the initial progress we made, but excited about the upside we have there as well.

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

Richard, earlier -- maybe I would describe it.

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

Okay. That's helpful, Jon. My last question, I'll jump on the line here.

The TiVo Stream seems a very exciting initiative here, and I see the slides here, I've been able to briefly absorb. How should we think about milestones for success as we go through Phase 2 and Phase 3 here? Is this agreements with smart TV vendors to get to embedded on there? Or what other interim milestones should we think about to judge your progress over the Phase 1 to Phase 2 and Phase 3 here?

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

Those certainly will be the most visible ones. Underneath the hood, so to speak, there will be efforts, engineering and porting the broader code set onto different platforms that are relevant in the TV space, but that will certainly be less likely less visible. Sometimes those agreements with chip vendors to become publicly known. But by and large, we're already well into conversations with TV folks about our road maps. And I think as we said back in December, as we articulated the vision for the combination, we reached out to a number of our customers across our business in home and automotive and elsewhere. And we've got quite a bit of positive feedback. So we're engaged in and around it, I think. So stay tuned.

Operator

We'll take our next question from Mitch Steves with RBC Capital Markets.

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

At the beginning of the remarks, you kind of talked about how you're more excited about the TiVo deal, and you believe that you're going to be on track or better with kind of the targets you have laid out for some of the internal targets you may have. Can you maybe describe what you're referring to there? Is that more revenue opportunity, is that cost savings? Just trying to get understand what's making you guys more positive on the transaction now than you were before close?

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

Yes. I think it's 3 things, Mitch. It is that our teams have come together in an incredibly positive and collaborative way, such that the extent of preplanning we were able to get done before the transaction closed, I would say, is certainly above what you normally expect for a transaction of this size and complexity, which has really enabled us to hit the ground running.

So first and foremost, we had a whole bunch of metrics internally around integration steps and planning steps we wanted to take. And I think we have -- we've done extremely well against those internal measures.

Secondly, from a revenue perspective, our teams have come together on day 1, began selling as Xperi and began articulating broader road maps, things like combining metadata with some of our automotive solutions, for example, are immediately possible. And so we're very pleased with how well our teams and the road maps have come together, which is stimulating pretty significant conversations that I think, over time, will bear out as contributing positively to the revenue synergy targets we have, excuse me.

And then on the cost side, similarly, we came into the deal with quite a bit of planning having been done such that we were able to start actioning it on the early day, the day after close. And I think as we kind of look out to the end of the year, we're well on our way to achieving many of the synergies that we talked about on an annualized basis. I would argue that perhaps by roughly year-end, we'll be more or less, on an annualized basis, roughly 60% of the way to our -- in our initial targets of $50 million of annualized synergies, and we're continuing to work it. So overall, very pleased on all 3 -- across all 3 different areas.

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

Got it. And then the second one I had is just on the COVID impact, $72 million you got there on the slide. I'm worried a little bit less of what the number is and more worried about what exactly is causing issues? So we -- for example, of that $72 million, how much are you guys being forced to space out? How much is additional supply chain issues? Just trying to understand what exactly is driving those costs so we can -- when the world starts to open up a little bit more, we can get an idea of what cost will off as we get back to normal?

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

This is Robert. So you're familiar with Xperi's business, it's really a unit-based model where we get paid for each unit that ships. And so the most dramatic impact is in automotive, which you talked about a little earlier, where we get paid as -- for HD Radio technology in particular, as the unit ships. So when we have a decline in volumes, that's where we're feeling it. It's also the case in some of our end markets for home and mobile. So that's probably the main place. There's some impact to kind of the TiVo side of the business. Less -- more on the product side than on the IP side. And so I think when you take those in totality, I'd say the weight is probably more on the legacy Xperi rather than TiVo per se, but we are kind of feeling it across the end product markets.

Operator

Our final question comes from Matthew Galinko with Sidoti.

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

I guess, first one was on when we expect to start seeing in-cabin monitoring start to generate revenue if or, I guess, whether COVID is moving that out in terms of your expectation on starting to recognize revenue?

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

'21 is the short answer is when we expect to see some of the car models ship. COVID hasn't had a meaningful impact on some of the programs that we've been working on over the past 12 to 18 months. So I do think that you'll see it -- I think you'll see it accelerate as you get out of '21 into '22 and beyond. But you'll see the first revenue, at least as far as we understand, in '21.

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

Okay. Great. And then I guess similar question on Perceive. You've been out of stealth mode for a few months now. How has the go-to-market been, I guess? And how it's been going from, I guess, demonstrations to trying to generate commercial relationships there?

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

I would characterize the broader discussions we've had since coming out of stealth as being super exciting and very, very intense with a number of players in different areas that touch on the need for potentially edge-based solutions. And that's with regard to security cameras as well as in other areas like PC and mobile as well as other IoT applications. So in short, I would say the commercial interest and the discussions around it are going exceedingly well. We've seen a little bit of movement in and around the timing of some of these first home security-related products kind of slipping out of Q4 into Q1. But in general, as we look at '21, I think we feel very good about the progress we're making, and ultimately, you're going to see Ergo, the Perceive chip, show up on different products in that year and be accelerating probably towards the back half.

Operator

Thank you. And that does conclude today's conference. I'd like to turn the conference back over to Mr. Kirchner for any additional or closing remarks.

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

Thanks, operator, and thanks, everyone, for joining today's call.

I couldn't be prouder of the team's successful effort to close the transaction amidst the pandemic, maintain important business momentum and preparing for an exciting future as we add scale and diversification to our IP and Product platforms. I believe we're well positioned to deliver on our combined company revenue and cost synergies over time and very much look forward to updating you on our progress in the coming months. This concludes today's call.

Operator

Thank you. And that does conclude today's conference. Thank you all for your participation. You may now disconnect.
