InterDigital, Inc.(Q2 2026 Earnings)

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Corporate Speakers:

- Raiford Garrabrant; InterDigital, Inc.; Head of Investor Relations
- Liren Chen; InterDigital, Inc.; President, Chief Executive Officer, and Director
- Richard Brezski; InterDigital, Inc.; Executive Vice President, Chief Financial Officer and Treasurer

Participants:

- Scott Searl; ROTH Capital Partners; Analyst
- Arjun Bhatia; William Blair & Company; Analyst
- Kevin Garrigan; Jefferies; Analyst
- Anja Soderstrom; Sidoti & Company; Analyst

PRESENTATION

Operator^ Thank you for standing by. (Operator Instructions) At this time I would like to welcome everyone to the InterDigital Second Quarter 2026 Earnings Call. (Operator Instructions) And now I would like to turn the call over to Raiford Garrabrant, Vice President, Investor Relations. Please go ahead, sir.

Raiford Garrabrant^ Thank you, Cathleen. And good morning, everyone. Welcome to InterDigital's Second Quarter 2026 Earnings Conference Call. I am Raiford Garrabrant, VP of Investor Relations for InterDigital. With me on today's call are Liren Chen, our President and CEO; and Rich Brezski, our CFO.

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

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

Forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from results and events contemplated by such forward-looking statements.

These risks and uncertainties include those described in the risk factors sections of our 2025 annual report on Form 10-K and in our other SEC filings. In addition, today's presentation may contain references to non-GAAP financial measures.

Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the supplemental materials posted to the Investor Relations section of our website. With that taken care of, I will turn the call over to Liren.

Liren Chen^ Thank you, Raiford. Good morning, everyone. Thanks for joining us today. We have delivered an outstanding quarter with continued momentum across each part of our business. We achieved revenue of $260 million, adjusted EBITDA of $184 million and non-GAAP EPS of $4.62, all far exceeded the top end of our guidance.

We also increased our annualized recurring revenue to a record of $626 million, an increase of 13% year-over-year, keeping us well on track to reach our goal of $1 billion plus ARR by 2030.

Building on the strength of our second quarter results, the increased business momentum and the opportunity to drive more progress over the balance of this year, we have raised our 2026 full year guidance to between $775 million and $845 million, up $85 million at the midpoint.

As in previous quarters, Rich will cover our financial performance in more detail. The highlights of the quarter were the important milestone we achieved in our streaming and cloud service licensing program. I'll cover our new agreement with Amazon first.

As we have previously announced, we have agreed to enter into a patent license agreement with Amazon, covering Amazon's devices and services including Amazon's Prime Video, with the final terms to be determined through arbitration.

We expect the process will take roughly 18 months to 24 months to complete. As part of the agreement, we have resolved all pending litigations between us.

The Amazon agreement is an important milestone in our goal to drive growth through our streaming and cloud service licensing program and to hit our goal of $300 million plus in ARR from this program by 2030. It's also a clear recognition of the value of our foundational video technology in both devices and services.

As I have said many times, our preference is always to conclude license agreements through bilateral negotiation and, when disputes do arise, to use binding arbitration to decide the final terms of an agreement. This is the path we had followed recently in our arbitrations with both Samsung and Lenovo.

Staying on the streaming and cloud services licensing program, we continue to make excellent progress in our enforcement efforts against Disney.

During the quarter, we were awarded our first injunction against Disney from Europe's Unified Patent Court. The court ruled that Disney infringed one of our patents covering video encoding technology related to HEVC and confirmed the validity of our patent. In addition, the court found that Disney was an unwilling licensee.

The UPC is a pan-European court and the injunction applies across 11 EU countries including major markets like France, Germany, Italy and Netherlands. Last week, we received our second injunction against Disney from the UPC, covering another patent that covers video encoding related to HEVC. As with the first UPC injunction, this decision applies across the same 11 countries in the EU.

In this decision, the court was highly critical of Disney's conduct, again it found Disney was an unwilling licensee and found that InterDigital has acted in a fair manner in the licensing negotiations. These are the latest injunctions that we won have against Disney, and we are working with the court to enforce them.

We believe they are important steps to reach a long-term license agreement with Disney on fair terms that reflect the value of our technology that enables Disney to build one of the world's leading streaming businesses.

Our recent round of success against Disney is also an indication of the quality of our research and our patent portfolio as multiple courts have found our patents to be valid and infringed.

While we always prefer completing license agreements through bilateral negotiation, when we do enforce our patents, we have a strong track record of reaching agreement in the end.

As we continue to build momentum across our licensing program, in the second quarter, we signed a new IoT licensing agreement with a leading fintech company in the payment space. The agreement covers the licensed point-of-sale devices and our cellular and WiFi patents.

After the end of the quarter, we closed another new license with KEBA to cover the company's EV chargers also under our cellular and WiFi patents. Both agreements are good demonstrations of the reach of our technology and the range of industries that depend on the standards we helped build.

Wireless connectivity is now embedded in an expanding number of verticals, and these deals are signs of broader IoT opportunity ahead of us.

We believe this trend will only continue with the development and rolling out of 6G which is why we continue to invest in our research engine and in our leadership of global standards.

The quality of research across wireless, video and AI, combined with our standards leadership continue to be a major competitive advantage for us.

In the second quarter, one of our senior wireless engineers was elected Vice Chair of a key working group in 3GPP which is the standards organization that leads the development of each generation of mobile including 6G.

Our total standards leadership positions is now well over 100, and we remain one of the only three companies in the world and the only U.S. company with multiple chair positions across 3GPP. These positions help inform the direction of research and place us in an even stronger position to define key technology standards across wireless, video and AI.

I was also pleased to see that during the quarter, we were recognized by Business Insider as one of America's high-growth companies. This award recognizes the progress we have made in recent years and the momentum we are carrying into the second half of 2026. With that, I'll hand it over to Rich, who will walk you through the numbers in more detail.

Richard Brezski^ Thanks, Liren. I'm thrilled to report that Q2 was another outstanding quarter for InterDigital and an important milestone in the expansion of our licensing programs.

Our results were well above the guidance we provided on our last call and they included quantifiable progress towards our goal of $300 million plus of ARR from streaming and cloud services by 2030. This milestone was driven by our new agreement with Amazon.

As Liren discussed, Amazon has agreed to enter into a patent license agreement covering both services and devices including Prime Video, with the final terms to be determined through binding arbitration. The agreement also resolves the pending litigation between the parties.

Total revenue for the quarter was $260.2 million compared with our Q2 guidance range of $139 million to $143 million. Revenue included $103.7 million of catch-up revenue, while annualized recurring revenue, or ARR, increased 13% year-over-year to a record $625.7 million.

Looking at revenue by program, smartphone revenue was $122.7 million, CE, IoT and auto revenue was $27.5 million and streaming and cloud services contributed $110 million. Let me take a second to discuss revenue recognition for Amazon.

While Amazon has agreed to enter into a patent license agreement, the final terms including the value of the agreement, will be determined through arbitration. Under GAAP, we recognize revenue in this circumstance based on a conservative estimate of the consideration we expect to be entitled.

While the final outcome of the arbitration cannot be assured at this stage, we currently expect that any adjustment to revenue at the conclusion of the process is more likely to increase rather than reduce recognized revenue.

This is similar to the approach we took in 2023 after Samsung agreed to take a new license, effective January 1, 2023, while the final terms were still being determined through binding arbitration.

In that case, we recorded revenue based on a conservative estimate during the arbitration period and then recorded an adjustment once the final arbitration decision was received.

With respect to Amazon, if the final arbitration award differs from the cumulative revenue recognized during the arbitration process, we will record the resulting adjustment when the award is finalized.

Turning to profitability. Adjusted EBITDA for the quarter was $184.1 million compared with our guidance range of $67 million to $73 million. Our adjusted EBITDA margin was 71% compared with the roughly 50% margin implied in our prior outlook.

Operating expenses increased $25.8 million year-over-year, primarily due to an increase in intellectual property enforcement costs and performance-based compensation driven by business success.

GAAP diluted EPS for the quarter was $3.40 compared with our guidance range of $0.80 to $0.97. Non-GAAP EPS was $4.62 compared with our guidance range of $1.41 to $1.60. Cash generation was strong with cash from operations of $82.5 million and free cash flow of $66.6 million.

As we noted on our last call we expect the collection of accounts receivable from new agreements signed in Q1 to drive strong cash flow in Q2, and our second quarter cash generation was consistent with that expectation.

Consistent with our capital allocation priorities, we continue to invest for growth, maintain a fortress balance sheet and return excess capital to shareholders.

During the quarter, we returned $41.1 million to shareholders through $23 million of share repurchases and $18 million of dividends. We ended the quarter with cash, cash equivalents and short-term investments of $1.1 billion.

Our Q2 results again demonstrate the leverage in our subscription-based licensing model. The long-term fixed fee nature of most of our agreements provides visibility into our business, supports ongoing investment in research and portfolio development and gives us the flexibility to pursue opportunities across our licensing programs while continuing to return capital to shareholders.

Looking forward to Q3, we expect $154 million to $158 million of revenue from existing contracts. Any revenue from any new agreements or enforcement decisions over the balance of the quarter would be additive to these amounts.

Based only on existing contracts, we expect adjusted EBITDA margin of about 57% and non-GAAP diluted earnings per share of $1.94 to $2.13.

In addition, we expect another strong quarter of free cash flow in Q3 driven by scheduled payments due under existing agreements. As Liren noted, we are increasing our full year 2026 guidance.

We now expect revenue in the range of $775 million to $845 million, up from our prior range of $675 million to $775 million. That is an increase of $85 million at the midpoint. We now expect full year 2026 adjusted EBITDA in the range of $469 million to $529 million, with non-GAAP EPS in a range of $10.85 to $12.81.

As we have said before we continue to think about the full year through a multipath approach with different combinations of existing contracts, renewals, new agreements and enforcement outcomes that can deliver financial results within our guided ranges. With that, I'll turn it back to Raiford.

Raiford Garrabrant^ Thanks, Rich. Before we move to Q&A, I'd like to mention that we'll be attending a number of investor events in Q3 including the Jefferies Semiconductor, IT Hardware & Communications Hardware Conference in Chicago; the Midwest IDEAS Conference in Chicago; and the Sidoti Small Cap Conference which is virtual.

Please reach out to your representatives at those firms if you'd like to schedule a meeting. Now we are ready to take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And your first question comes from the line of Scott Searle from ROTH Capital.

Scott Searle^ Congrats on the quarter and congrats on the progress that you're making on the streaming side of the equation, particularly with Amazon. Liren, maybe just to dive in on that front, you've had some important milestones with Disney as well now with two separate injunctions awarded by the UPC.

Can you take us through the timelines and the next steps? It sounds like you are working with the courts in terms of that injunction and otherwise. But what are the various avenues here to move forward, if you could give us some idea?

And then from a broader perspective, a couple of years ago, when you guys articulated the opportunity for streaming services, you estimated the market at $300 million which you guys have reiterated today. And I think that was more of a baseline kind of opportunity.

I'm wondering now as you're getting in and you're starting to get some of those data points with the baseline from Amazon in terms of what you're seeing from a rev rec standpoint as well as the expansion of the marketplace, is that opportunity actually expanding beyond the $300 million that you guys initially talked about?

Liren Chen^ Yes, Scott, so let me explain the UPC process as well as the broader view for the overall market. So as I mentioned in my prepared remarks, we have done very well in our enforcement campaign.

As you are aware, we have received multiple injunctions from different jurisdictions with the latest one being UPC, one received during the Q2, one received, frankly, only last week.

So we're in the process of enforcing them, and there's a process in those court systems for us to go through the process. We do feel our patents are extraordinarily important.

As you are aware, both the patents we received for the UPC injunctions are related to the core features of encoding technique related to HEVC that we believe drives a lot of value. And I do feel this is a -- and by the way, the court also found Disney to be an unwilling licensee that we are conducting our license fairly.

As I commented before as we commented in our press release, we do believe the right outcome is for Amazon to take a license. That's fair to both parties -- for Disney, I'm sorry. And we absolutely think we are on track to do so.

Regarding the broader picture for the licensing opportunity in streaming and cloud services, notice that when we disclosed this opportunity in the Investor Day, we said we believe this opportunity will be a $200 million -- $300 million plus ARR by 2030, but we do emphasize there's a plus sign to it.

So this is not an endpoint. This is essentially a milestone point we see. We believe we are executing really well. Obviously there's still multiple years in this journey, and we have to keep on focusing on doing everything we can to execute on our strategy.

Scott Searle^ Okay. Very helpful. And if I could, just to follow up in terms of the level of engagement that you have now with Amazon on the board or the books, how are the conversations proceeding with other large streaming vendors? Is this a wait-and-see for them to see the final outcome and potentially the pricing as it relates to Amazon? Or they continue on their own parallel tracks?

And a quick question for Rich. Just in terms of the OpEx costs, I believe this quarter, the enforcement costs were pretty high, up substantially, I think, from the first quarter.

But given the progress that you've made now with Amazon, some of the wins you've had with Disney, how should we be thinking about litigation and enforcement costs as well as the broader OpEx as we're going into the second half of this year?

Liren Chen^ Scott, let me take the first half. We are proceeding well with other negotiations. So frankly, we have a strategy to approach all the major customers in both the SVOD as well as the AVOD space, so we are proceeding well.

I do believe people are paying attention to our progress with the Amazon discussion as well as the Disney progress. And I'm hoping to report more progress as we are proceeding with other negotiations in coming weeks and in coming quarters.

Richard Brezski^ Yes. And Scott, regarding the Amazon moving to arbitration and the outlook for enforcement costs, certainly, one of the benefits of arbitration is it kind of ring-fences things.

It can be more efficient. So that's definitely a benefit, and we expect that to impact what we otherwise would have expected from a multi-jurisdictional litigation campaign against Amazon.

At the same time we have a number of other enforcement actions ongoing. So while I think it's helpful, I don't want to oversell it that expenses would come down too much in that area while we have these other cases ongoing.

Operator^ And your next question comes from the line of Arjun of William Blair.

Arjun Bhatia^ Congrats to you guys on the Amazon deal. I know that's an important milestone for the company. Liren, maybe if I can kind of touch on a few of the points that you were talking about in the prior set of questions.

Do you have a sense now that sort of the -- with Amazon having reached an agreement with final terms still to be determined, the positive sort of results you're seeing with Disney litigation, do you sense that you could sort of push on the pedal a little bit more to litigate against other streaming services where maybe they're not coming to the table to negotiate? Or how do you view sort of your position in this market now given that you have some positive outcomes and certainly, courts and Amazon as a counterparty has agreed to the sort of legitimacy of your IP?

Liren Chen^ Yes. Arjun, as I commented earlier, we feel really good about where we are. Obviously the Amazon agreement we reached is a major milestone, and we have been proceeding well with Disney.

I do believe the rest of the industry is paying attention. As of now I don't have a status to update on our litigation or enforcement strategy.

As I commented before we always prefer to get deals done through bilateral negotiation, and we are patient and, frankly, fairly balancing those negotiations. And as of now I don't have an update on other litigation possibilities.

Arjun Bhatia^ Okay. That's fair enough. And then, Rich, I had a couple of questions for you just on the Amazon rev rec dynamics that you laid out.

Is there an initial agreement or initial terms with Amazon? Or what you're recognizing in the sort of $60 million recurring revenue and the catch-up, are those all purely estimates? Or are there some terms that you've agreed with Amazon initially that get finalized in arbitration?

Richard Brezski^ Yes, Arjun, some of those details at this stage are confidential. So I'll go back to my -- and emphasize some of the comments I made that we are basing that revenue on an estimate while we're in arbitration with some terms including the final value of the license agreement to be determined by that arbitration. And that's similar to -- at that high level, the situation we were in a couple of years ago with Samsung.

Arjun Bhatia^ Okay. Got it. And then it would include presumably the catch-up payment or the catch-up revenue that you pointed out this quarter, like that is also subject to arbitration. Is that correct?

Richard Brezski^ Yes. Well again, it's the value of the agreement. So that would be part of that value.

Arjun Bhatia^ Okay. All right. Got it. And then just final one, maybe Liren, for you, on Disney. Some of these -- some of the recent injunctions from UPC sound fairly material, meaning if it's related to video encoding and HEVC, and there's an injunction, it seems like it may result in significantly sort of degraded service from Disney.

What is their sort of response to how this is now playing out in the courts? And do you expect these -- that these are more material than prior injunctions that you've had with Disney earlier in 2026?

Liren Chen^ Yes. Arjun, as you are aware, when we started the enforcement campaign, we had a comprehensive strategy. We intentionally take patents covering different areas of technology and asserted them in various different jurisdictions.

And we are very happy with the wins we have. And as I mentioned earlier, we are in the process of enforcing them.

By the way, we also noticed this from third-party report, certain key services have been disrupted in European markets including 4K HD content which I believe are very important features to their premium tier customers. And so -- by the way, we also noted there's report of consumer protection agentcy investigation that's been either triggered or discussed.

So I do believe those are important services which again reflect on the foundational nature of our technology and our patents and, frankly, indicate the fair value that we are trying to receive.

Operator^ Next question comes from the line of Kevin Garrigan of Jefferies.

Kevin Garrigan^ Let me echo my congrats. Just looking at your guide for flat for Q3, step-up in Q4. And I know you came into the year with $92 million of renewals. I think you said two-thirds of that was already renewed. So if I'm right, you're expecting a final one-third of those renewals really in Q4. And can you just remind us which end markets those renewals are across?

Richard Brezski^ Yes. So Kevin, when we talk about our full year guidance, I mentioned that we have a multipath approach which could include renewals or if, for whatever reason, we don't execute on those renewals, we have other opportunities as well. So we see a couple of different paths to get there. We're not locked in on any one. We're working across all those opportunities.

Kevin Garrigan^ Okay. Got it. And then with Amazon being the first streaming agreement, whatever the terms kind of come to be, is this the framework for how we should think about terms for other streaming agreements?

Richard Brezski^ Yes. So I think in terms of -- at this point, we're really just estimating the revenue based on the eventual arbitration outcome. And as far as getting into the terms, I can't really say more than what we've commented on at this point.

Operator^ And your next question comes from the line of Anja Soderstrom.

Anja Soderstrom^ Congrats on the great quarter and the Amazon agreement. Hopefully, others will follow suit soon. Most of my questions have been addressed, but I'm curious about the capital allocation.

I saw you were light on the buybacks for the quarter, and you also have some short-term debt coming due. How should we think about your capital allocation priorities?

Richard Brezski^ Yes. So Anja, when we think about capital allocation, we think we have a great business. We want to keep investing in it. So that's certainly paramount.

We want to make sure that we keep a strong balance sheet because we do have these enforcement actions against very large companies, and we do want to return capital to shareholders.

We did so in -- we continue to do so in Q2. As far as the level and timing, that's always subject to a number of different factors. I always say like if you broaden the aperture, we're always doing quite a bit there.

If you focus on any small window, you're not necessarily going to get the whole picture. And then in terms of the debt, back in Q1, we had about $80 million of early conversions and paid that off.

You'll see in the Q that we talked about another $83 million that's in the process and is expected to close in terms of early conversions in the next quarter. So it's part of our capital structure that we're always looking at. Those conversions are actually driven by the debt holders, but we're happy to remove the debt.

Anja Soderstrom^ Okay. And also just curious with the Amazon arbitration process, you said you expect it to take 18 to 24 months. So what's the -- how do you come up with that timeframe? And can you remind me how long the arbitration took for Samsung?

Liren Chen^ Yes. So -- Anja, this is Liren. So generally speaking, this process works like this – we are currently trying to get some of the terms resolved. And then whatever terms we could not agree upon go to the arbitration. And then there will be a process to select the arbitrator. I think we described this in the prior call before.

Either party -- both parties come up with one arbitrator and collectively they take the third one, and that process can take a little bit of time. And afterwards, both parties will present their evidence to the arbitrator and that process can, generally speaking, take roughly 12 to 18 months.

So we're at the front end of the process, combined with the whole thing, we are currently estimating to be about 18 to 24 months. And that's pretty much aligned with our Samsung experience, and that's also well aligned with our Lenovo experience regarding timeline.

Operator^ And there are no further questions at this time. I will now turn the conference back over to Liren Chen, our CEO, for the closing remarks.

Liren Chen^ Thank you, Cathleen. Before we close, I'd like to again thank our colleagues for their dedication and contribution to InterDigital as well as our many partners and customers for a strong quarter. Thank you all for everyone who joined the call today. And we look forward to updating you on our progress next quarter.

Operator^ Ladies and gentlemen, that concludes today's call. Thank you everyone for joining. You may now disconnect.