QUARTERHILL

Acquisition of ETC

Conference Call, August 16, 2021

TSX: QTRH

OTCQX: QTRHF



Important Cautionary Notes

Certain statements in this presentation, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties that face the Company. Such statements may contain words and expressions based on management's current assumptions and expectations related to estimates and assumptions made by Quarterhill in light of its experience and its perception of historical trends, current conditions, expected future developments and the expected effects of new business strategies, as well as other factors.

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This presentation includes references to adjusted Earnings Before Interest, Taxes, Depreciation and Amortization or "Adjusted EBITDA". adjusted for: (i) income taxes; (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) special charges and other one-time items; (v) depreciation of right-of-use assets and property, plant and equipment; (vi) stock-based compensation; (vii) foreign exchange (gain) loss; and (viii) equity inearnings and dividends from joint ventures. **Unless otherwise noted, all amounts are in Canadian dollars**.

Reconciliation of Net Income to Adjusted EBITDA

(1,000s)

	Six months ended June 30,			
	2021		2020	
	$	Per Share	$	Per Share
Net loss from continuing operations	**$ (10,663)**	**$ (0.09)**	$ (9,899)	$ (0.08)
Adjusted for:				
Income tax recovery	**(2,989)**	**(0.03)**	(2,137)	(0.02)
Foreign exchange gain	**(18)**	**—**	(585)	—
Finance expense (income), net	**127**	**—**	(168)	—
Special charges	**382**	**—**	872	0.01
Impairment losses on intangible assets	**—**	**—**	233	—
Depreciation and amortization	**9,910**	**0.09**	10,542	0.08
Stock based compensation expense	**1,010**	**0.01**	196	—
Other income	**(1,186)**	**(0.01)**	(809)	(0.01)
Adjusted EBITDA	**$ (3,427)**	**$ (0.03)**	$ (1,755)	(0.02)
Weighted avg. number of Common Shares				
Basic		**114,230,204**		118,846,724

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Transaction Highlights

Paul Hill

CEO, Quarterhill

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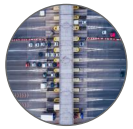
Quarterhill to acquire ETC for $150M

The addition of ETC **transforms Quarterhill into a key player** in the Intelligent Transportation Systems industry

- Expected Revenue of $95.0 - 120.0M and Adjusted EBITDA of $12.5 - $15.0 million
- Delivers scale in a new ITS vertical with strong synergy potential between the IRD and ETC



Commercial Vehicle Operations



Tolling

About ETC

ETC is a leader in Tolling technology as a software services provider & integrator

Founded	HQ	Workforce
1997	**Texas**	**313**

ETC Services to Customers

2B
Transactions processed annually

$3B
Toll revenue processed annually**

1,500
Toll lanes installed, furnished and maintained

* Actual results may vary materially and are subject to market conditions and other factors and risks that are set out in the "Important Cautionary Notes" on slide 2.

** U.S. dollars.

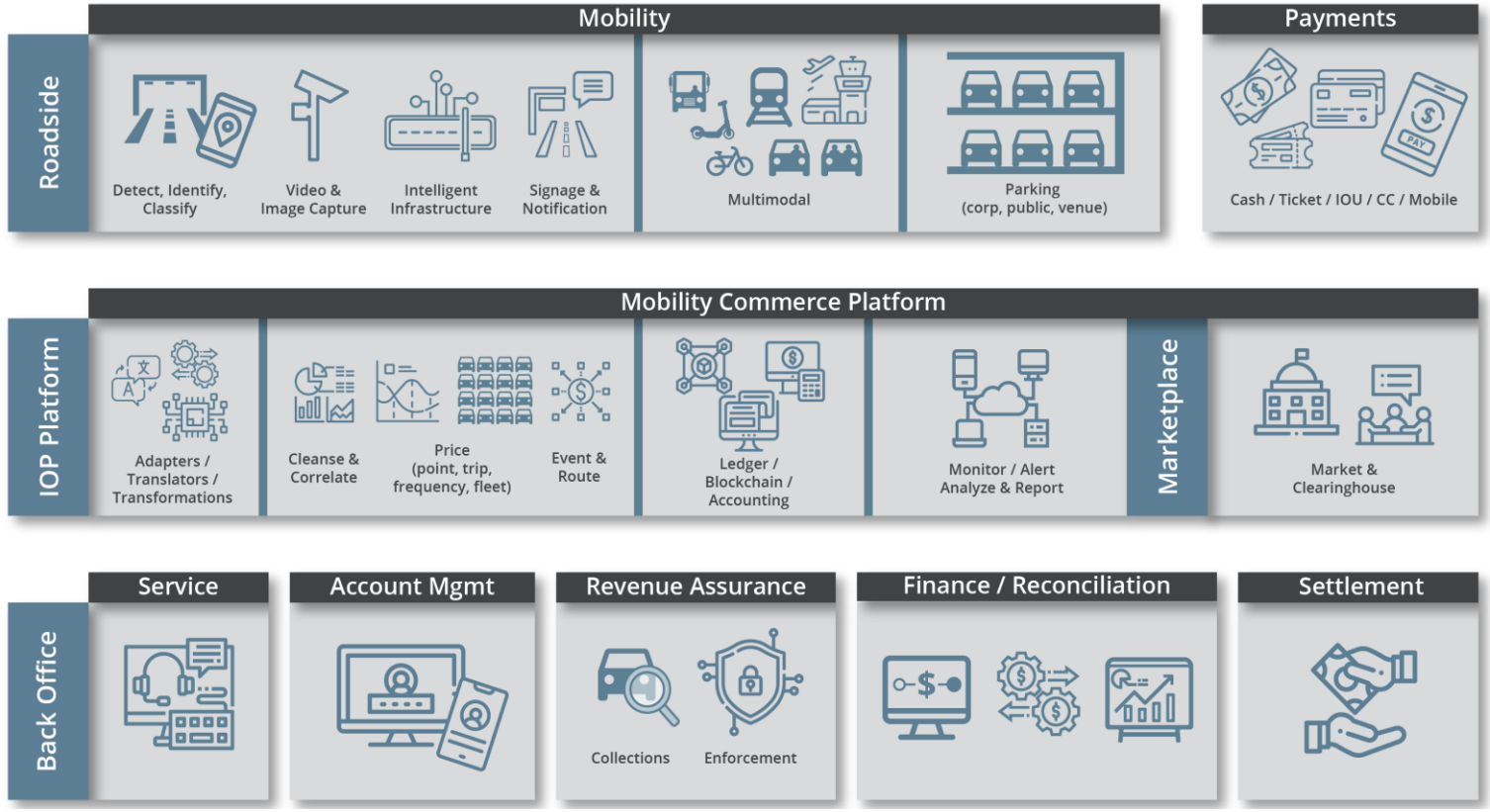
Strategic Rationale

1. **Entry into Tolling Sector**
   - Tolling and broader "user-funded infrastructure" market has significant tailwinds
   - Complementary to IRD's capabilities in tolling
2. **Experienced Management Team**
   - Executive team well established; ~100 years experience in Tolling & ITS
   - Major recent hires in CTO & COO positions to support the next phase of growth
3. **Compelling Market Position**
   - Best-in-class solutions with proprietary software platform is key differentiator
   - Poised for expansion into adjacent segments and Mobility as a Service market
4. **Significant Growth Opportunities**
   - Core business with +$4 billion U.S. sales pipeline; international expansion possible
   - Tuck-in M&A opportunities in core and adjacent markets
5. **Desirable Financial Profile**
   - Long-term contracts supported by recent wins drives confidence in annual forecasts
   - Attractive return metrics

Business Model & Product Overview

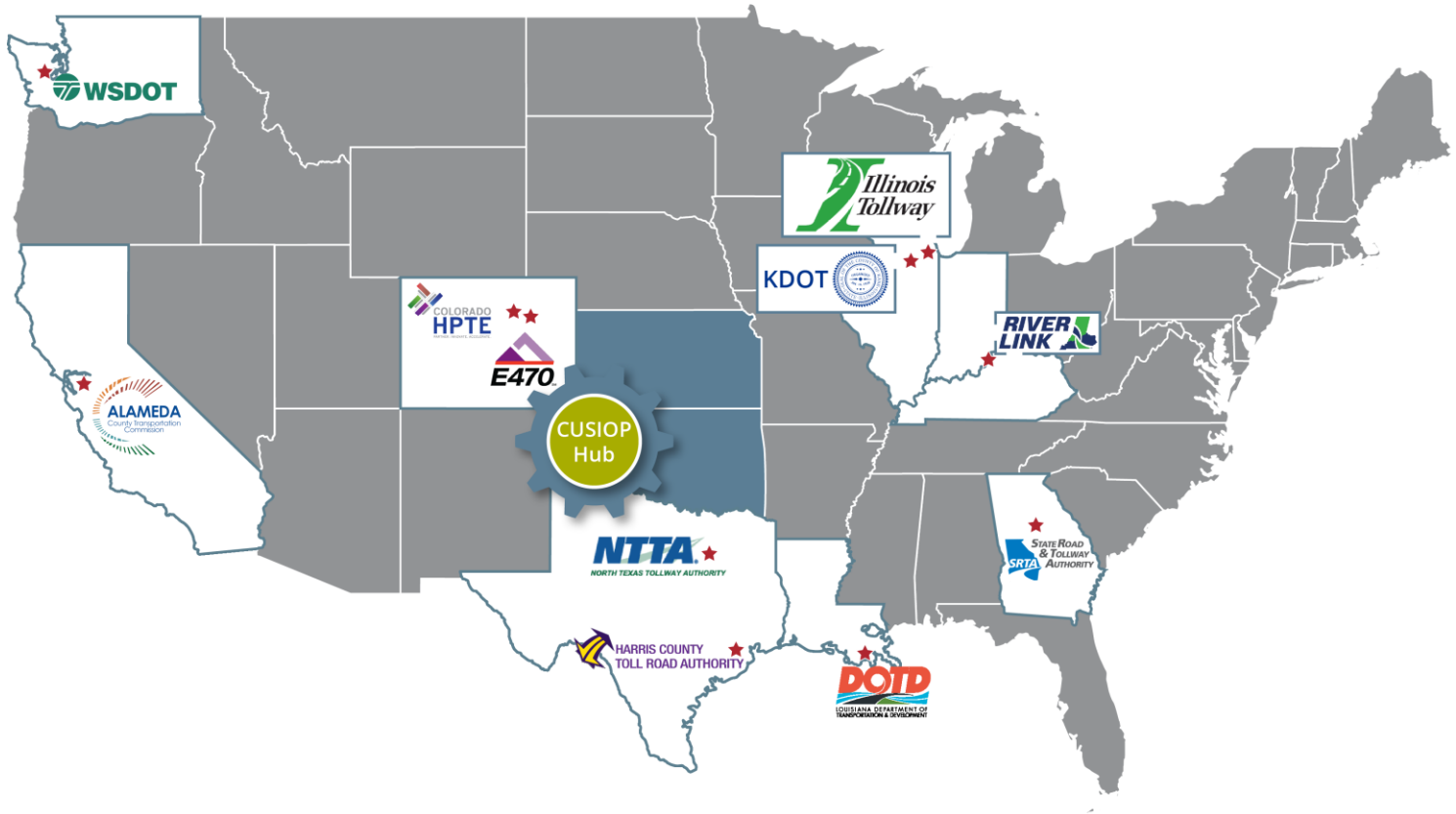
- Core product is the “riteSuite” platform, a highly scalable solution
- Applications in Roadside, Back Office & Interoperability Systems
- Strengths in vehicle identification, tracking/usage charging & interoperability (IOP)
- Supports Integration, Maintenance & Operations functions
- ETC’s platform uses modern architecture principals: cloud-based, open-source, analytical

ETC Product/Service Overview



Customer strategy: land-and-expand

Average contract duration of **12 years** and **8.8x** total lifetime revenue vs. original contract value

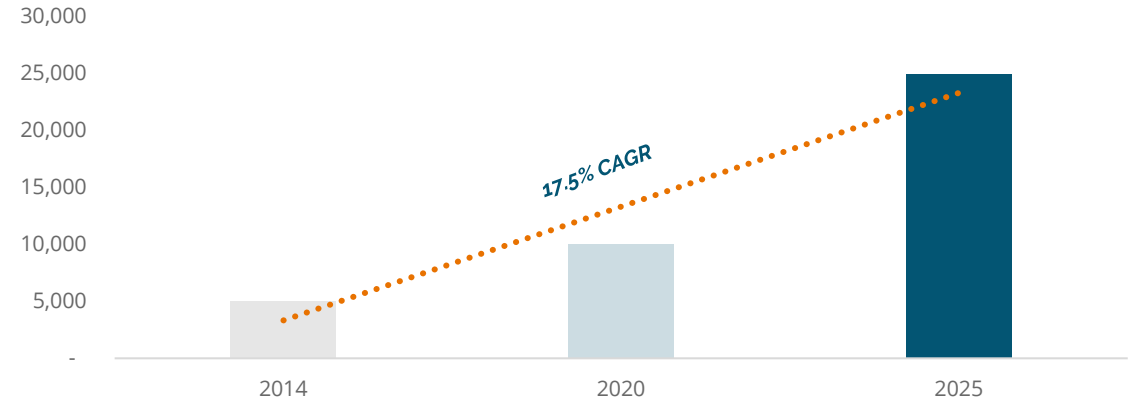


Lifetime Customer Revenue as Multiple of Original Contract

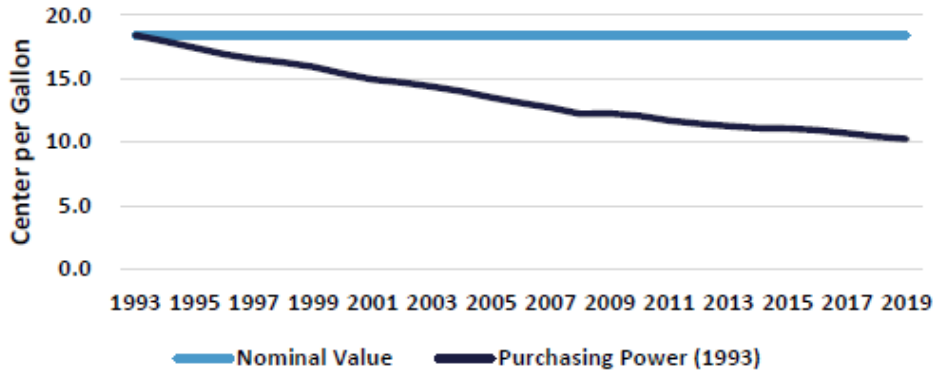
NTTA NORTH TEXAS TOLLWAY AUTHORITY	23.6x Increase
WSDOT	6.3x Increase
Illinois Tollway	3.8x Increase
HARRIS COUNTY TOLL ROAD AUTHORITY	15.0x Increase

Market Dynamics: Growth in Tolling

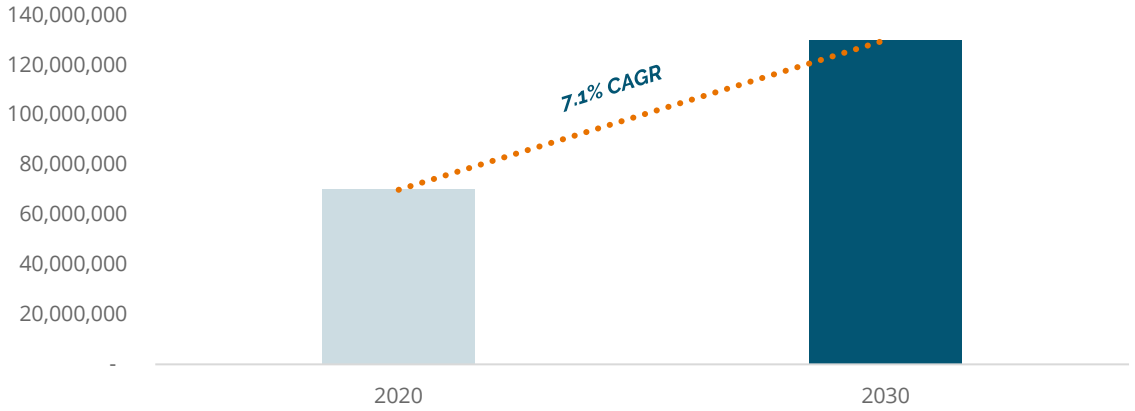
Growth in Miles of Toll Roads (Miles)



Gas Tax Purchasing Power Nearly Halved



Toll Enabled Vehicles (# Vehicles)



Tolling and broader Road Usage Charging are becoming the **preferred method to pay for infrastructure**

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** IBIS World & FRED Economic Research. ** Fitch & IBTTA.*

Swift Execution of M&A Strategy



Smart cities



Aviation



Marine



Rail

Other ITS segments

Road sub-segments



CVO & Enforcement



Route Optimization



Mobility as a Service

Public Transit



Tolling



Traffic Flow

Target capital deployment

up to **$400M**

over the next 5 years*

Achieved in 2021

$159M

~40% of target in year 1

Acquisitions completed in 2021

SENSORLINE	Closed January 5, 2021
VDS	Closed April 28, 2021
ETC	Closing expected September 2021

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Financial Highlights

John Rim

CFO, Quarterhill

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Financial Summary

Financial Highlights

- ETC's core business of existing customers provides strong visibility into "base" performance
- +$4Bn US market pipeline & recent "win-rate" of +40% drive confidence in management's ability to deliver growth
- Change Orders provide high-margin "upside"; lifetime value is multiples of base contract value
- Total Purchase Price: $150M Purchase Price plus Transaction Costs
- Funded by $75M in Debt & $75M of QTRH cash

Valuation Overview *

Purchase Price	EBITDA Multiple *	Revenue Multiple *
$150M	10x - 12x	~1.25x
+ Transaction Costs	*Post-synergy EBITDA Multiple*	*Near-term Proforma Revenue Multiple*

- Accounting for growth and synergies, Quarterhill estimates* within the next 12-18 months ETC will generate annualized:
  - Revenue of $95.0-120.0M
  - Adjusted EBITDA of $12.5-$15.0 million

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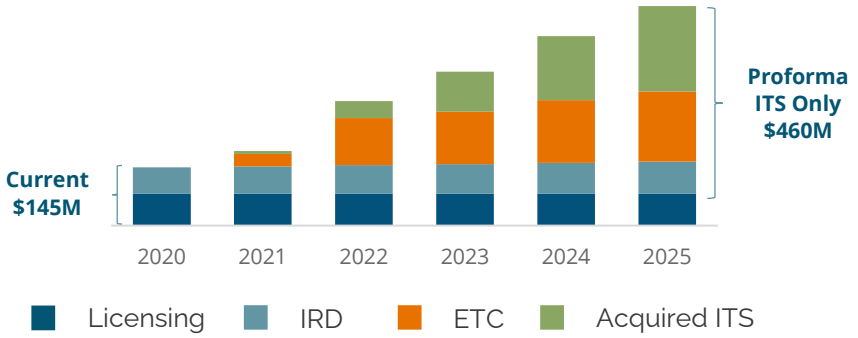
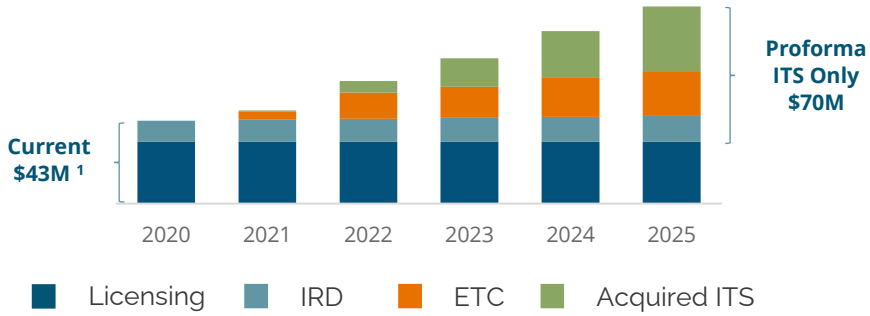
Unlocking value through scale

Target Proforma Acquired Growth *

Revenue

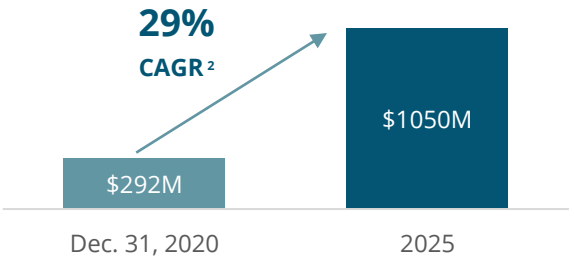


Adjusted EBITDA



1 Does not include Quarterhill corporate cost centre overheads

Market Cap Potential*



2 Assumes 114M total shares outstanding

Certain Key Assumptions

- **Licensing held constant; IRD and Acquired ITS at conservative growth rate and ETC at planned growth rate**
- Current market cap reflects sum of parts valuation: ~10x Adj. EBITDA for ITS business + cons. net working capital
- Tuck-in targets acquired at 5x to 9x EBITDA; larger or high-growth targets may be acquired at higher multiples
- Quarterhill valuation multiple expected to grow to ITS market average of 15x as ITS operations scale
- Acquisitions will be partially financed through conservative levels of debt / Adj. EBITDA of acquired entities

Market Cap / Adj. EBITDA

15x

Average Market Cap / EBITDA of select comparable public companies within ITS and IOT/Telematics industries between $100M to $800M of annual revenue

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Q&A

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