

## Quarterhill Announces First Quarter Fiscal 2021 Financial Results

2021-05-06

TORONTO, May 6, 2021 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three-month period ended March 31, 2021. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

### Q1 Fiscal 2021 Highlights

- Consolidated Revenue was \$19.3 million
- Consolidated Adjusted EBITDA<sup>1</sup> was (\$0.4) million. IRD generated \$1.4 million of positive Adjusted EBITDA and WiLAN generated \$1.2 million of positive Adjusted EBITDA
- Cash, cash equivalents, and short-term investments were \$132.0 million at March 31, 2021
- Working capital was \$150.3 million at March 31, 2021
- Acquired Sensor Line GmbH ("Sensor Line"), a provider of fiber optic traffic sensors for road and rail markets
- Subsequent to quarter-end, on April 28, 2021, acquired VDS GmbH ("VDS"), a German-based Intelligent Transportation Systems ("ITS") provider of high precision traffic monitoring devices

"Our portfolio companies performed well in Q1 with each generating positive Adjusted EBITDA despite the seasonality of our ITS business, a weakening of the U.S. dollar compared to Q1 2020 and the general challenges posed by the ongoing COVID-19 pandemic," said Paul Hill, CEO at Quarterhill.

"We are also very pleased to have been active in our M&A efforts, having made two acquisitions since the start of the year and we feel that we are just getting started in terms of capital deployment on our M&A strategy. Both Sensor Line and VDS were tuck-ins for IRD, which is an ideal platform for our expansion in ITS. In addition to tuck-ins, we continue to build a pipeline of larger M&A opportunities that could constitute stand-alone entities within Quarterhill and accelerate our growth into ITS."

"The M&A conditions in ITS are compelling and were given a substantial boost with the recent announcement by the Biden Administration in the U.S. regarding their plans to spend more than US\$600 billion on transportation infrastructure over the next eight years. We believe that the combination of massive new infrastructure spending and the need for governments to find new sources of revenue to pay down the debt, means there is no better time to be in ITS."

### Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on July 9, 2021, to shareholders of record on June 18, 2021.

### Q1 Fiscal 2021 Financial Review

The Interim Condensed Consolidated Financial Statements for the three-month period ended March 31, 2021 and for the respective comparison period have been prepared to reflect continuing operations and therefore exclude results in 2020 during those periods from VIZIYA, which was sold by Quarterhill on May 15, 2020. The 2020 operating results from VIZIYA, up to the date of sale on May 15, 2020, are reported as net loss from discontinued operations in accordance with IFRS 5.

Quarterhill's revenue is broadly segmented into Licensing, reflecting the WiLAN business, and Intelligent Transportation Systems, reflecting the IRD business. Quarterhill's Management's Discussion and Analysis and Interim Condensed Consolidated Financial Statements for the three-month period ended March 31, 2021 are available on the Company's website [www.quarterhill.com](http://www.quarterhill.com) and on its profile at [SEDAR](#).

Consolidated revenues for the three-month period ended March 31, 2021 ("Q1 2021") were \$19.3 million, compared to \$21.6 million in Q1 2020. The majority of WiLAN's licenses are one-time in nature and significant fluctuations in revenue, gross margin, and Adjusted EBITDA can result when the volume or dollar value of licenses changes from one period to the next. WiLAN's revenue was lower in Q1 2021 due primarily to the completion of a greater volume, and value, of licensing contracts in the prior year period. Revenue at IRD for Q1 2021 was flat when compared with the same period in 2020. The IRD and WiLAN businesses have proven to be resilient and consistent during the COVID-19 pandemic; however, some impact has been felt at

IRD with certain contract delays primarily in domestic projects and at WiLAN with the inability to hold in-person meetings causing some delays in the licensing negotiation process.

Gross margin for Q1 2021 was 34%, which was flat compared to 34% in Q1 2020. Gross margin for the licensing business in Q1 2021 was impacted by the factors noted above. Q1 2021 gross margin for the ITS business increased year-over-year reflecting higher profitability on certain projects currently under deployment and a higher proportion of product sales in revenue compared to the same prior year period.

Operating expenses include selling, general and administrative costs ("SG&A"), research and development costs ("R&D"), depreciation and amortization and special charges. Operating expenses for Q1 2021 were \$12.5 million compared to \$12.6 million in Q1 2020. Operating expenses were lower primarily due to lower R&D and amortization of intangibles.

Consolidated Adjusted EBITDA for Q1 2021 was (\$0.4) million compared to \$0.2 million in Q1 2020. The licensing business generated \$1.2 million of Adjusted EBITDA in Q1 2021, while the ITS business generated \$1.4 million.

Cash generated from (used in) continuing operations for Q1 2021 was (\$5.9) million compared to \$9.1 million in Q1 2020. Excluding changes in non-cash working capital balances, cash used in operations in Q1 2021 was (\$0.9) million. Cash and cash equivalents and short-term investments was \$132.0 million at March 31, 2021, compared to \$141.3 million at December 31, 2020. Working capital at March 31, 2021, was \$150.3 million compared to \$159.7 million at December 31, 2020.

### **Conference Call and Webcast**

Quarterhill will host a conference call to discuss its financial results today at 10:00 AM Eastern Time. Slides to accompany the call can be viewed via the webcast.

### **Webcast Information**

The live audio webcast will be available at:

[https://produceredition.webcasts.com/starthere.jsp?ei=1454081&tp\\_key=b73fdb2366](https://produceredition.webcasts.com/starthere.jsp?ei=1454081&tp_key=b73fdb2366)

### **Dial-in Information**

- To access the call from Canada and U.S., dial 1.888.231.8191 (Toll Free)
- To access the call from other locations, dial 1.647.427.7450 (International)

### **Replay Information**

Webcast replay will be available for 365 days at:

[https://produceredition.webcasts.com/starthere.jsp?ei=1454081&tp\\_key=b73fdb2366](https://produceredition.webcasts.com/starthere.jsp?ei=1454081&tp_key=b73fdb2366)

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on May 13, 2021 at: 1.855.859.2056 (Toll Free North America) or 1.416.849.0833 (International). The telephone replay requires the passcode 2367619.

### **1 Non-IFRS Disclosure**

Quarterhill has historically used a set of metrics when evaluating our operational and financial performance. We continually monitor, evaluate and update these metrics as required to ensure they provide information considered most useful, in the opinion of our management, to any decision-making based on Quarterhill's performance. This section defines, quantifies and analyzes the key performance indicators used by our management and referred to elsewhere in this press release, which are not recognized under IFRS and have no standardized meaning prescribed by IFRS. These indicators and measures are therefore unlikely to be comparable to similar measures presented by other issuers.

In this press release, we use the Non-IFRS term "Adjusted EBITDA" to mean net income (loss) from continuing operations before: (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 in earnings and dividends from joint ventures. Adjusted EBITDA is used by our management to assess our normalized cash generated on a consolidated basis and in our operating segments. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill and our operating segments. Adjusted EBITDA should not be interpreted as an alternative to net income and cash flows from operations as determined in accordance with IFRS or as a measure of liquidity.

### **About Quarterhill**

Quarterhill is a growth-oriented company in the Intelligent Transportation Systems (ITS) industry as well as a leader in Intellectual Property licensing. Our goal is to execute an investment strategy that capitalizes on attractive growth opportunities within ITS - and its adjacent markets - to become a global leader in that industry. Quarterhill is listed on the TSX under the symbol QTRH and on the OTCQX Best Market under the symbol QTRHF. For more information: [www.quarterhill.com](http://www.quarterhill.com)

### **Forward-looking Information**

This news release contains forward-looking statements regarding Quarterhill and its business. Forward-looking statements are based on 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 that Quarterhill believes are appropriate in the circumstances. The forward-looking events and circumstances discussed herein may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting Quarterhill, including: potential risks and uncertainties relating to the ultimate geographic spread of the novel coronavirus ("COVID-19"); the severity of the disease; the duration of the COVID-19 outbreak; actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact; the potential negative impacts of COVID-19 on the global economy and financial markets and any resulting impact on Quarterhill and/or its business. Other factors include, without limitation, the risks described in Quarterhill's March 11, 2021 annual information form for the year ended December 31, 2020 (the "AIF"). Copies of the AIF may be obtained at [www.sedar.com](http://www.sedar.com). Quarterhill recommends that readers review and consider all of these risk factors and notes that readers should not place undue reliance on any of Quarterhill's forward-looking statements. Quarterhill has no intention, and undertakes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Quarterhill Inc.

Interim Condensed Consolidated Statements of Loss and Comprehensive (Loss) Income (Unaudited)

(in thousands of Canadian dollars, except share and per share amounts)

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenues		
	<b>\$ 7,848</b>	\$ 10,183
Licensing	<b>11,468</b>	11,406
Intelligent Transportation Systems	<b>19,316</b>	21,589
Direct cost of revenues		
	<b>5,869</b>	5,767
Licensing	<b>6,829</b>	8,416
Intelligent Transportation Systems	<b>12,698</b>	14,183
Gross profit	<b>6,618</b>	7,406
Operating expenses		
	<b>279</b>	244
Depreciation of right-of-use assets	<b>233</b>	224
Depreciation of property, plant and equipment	<b>4,487</b>	4,743
Amortization of intangible assets	<b>7,056</b>	6,293
Selling, general and administrative expenses	<b>394</b>	870
Research and development expenses	<b>39</b>	213
Special charges	<b>12,488</b>	12,587
Results from operations	<b>(5,870)</b>	(5,181)
	<b>(21)</b>	(222)
Finance income	<b>69</b>	96
Finance expense	<b>(125)</b>	(578)
Foreign exchange gain	<b>(630)</b>	(378)

Other income		
Loss before taxes	(5,163)	(4,099)
Current income tax expense	544	1,266
Deferred income tax recovery	(1,420)	(433)
Income tax (recovery) expense	(876)	833
Net loss from continuing operations	(4,287)	(4,932)
Net loss from discontinued operations	—	(180)
Net loss	\$ (4,287)	\$ (5,112)
Other comprehensive (loss) income that may be reclassified subsequently to net loss:		
	\$ (3,734)	\$ 21,094
Foreign currency translation adjustment		
Comprehensive (loss) income	\$ (8,021)	\$ 15,982
<b>Loss per share</b>		
	\$ (0.04)	\$ (0.04)
From continuing operations	—	(0.00)
From discontinued operations		
<b>Loss per share - Basic</b>	\$ (0.04)	\$ (0.04)
	\$ (0.04)	\$ (0.04)
From continuing operations	—	(0.00)
From discontinued operations		
<b>Loss per share - Diluted</b>	\$ (0.04)	\$ (0.04)

### Quarterhill Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

As at	March 31, 2021	December 31, 2020
Current assets		
	\$ 126,437	\$ 135,700
Cash and cash equivalents	5,550	5,550
Short-term investments	16,510	13,747
Accounts receivable	1,886	—
Other assets	10,660	13,549
Unbilled revenue	58	264
Income taxes recoverable	10,262	9,068
Inventories (net of obsolescence)	—	—

	<b>2,509</b>	8,264
Prepaid expenses and deposits	<b>173,872</b>	186,142
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Non-current assets		
	<b>488</b>	506
Accounts receivable	<b>300</b>	338
Prepaid expenses and deposits	<b>3,332</b>	3,780
Right-of-use assets, net	<b>2,715</b>	2,783
Property, plant and equipment, net	<b>57,192</b>	59,261
Intangible assets, net	<b>7,192</b>	6,704
Investment in joint venture	<b>28,408</b>	28,202
Deferred income tax assets	<b>18,157</b>	16,093
Goodwill	<b>117,784</b>	117,667
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TOTAL ASSETS	<b>\$ 291,656</b>	\$ 303,809
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Liabilities		
Current liabilities		
	<b>15,347</b>	20,038
Accounts payable and accrued liabilities	<b>786</b>	631
Income taxes payable	<b>1,002</b>	1,012
Current portion of lease liabilities	<b>6,486</b>	4,800
Current portion of deferred revenue	<b>23,621</b>	26,481
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Non-current liabilities		
	<b>2,779</b>	2,573
Deferred revenue	<b>2,352</b>	2,747
Long-term lease liabilities	<b>26</b>	78
Deferred income tax liabilities	<b>5,157</b>	5,398
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TOTAL LIABILITIES	<b>28,778</b>	31,879
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Shareholders' equity		
	<b>547,283</b>	547,537
Capital stock	<b>46,905</b>	46,250
Contributed surplus	<b>(153)</b>	3,581
Accumulated other comprehensive income Deficit	<b>(331,157)</b>	(325,438)
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	<b>262,878</b>	271,930
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<b>\$ 291,656</b>	\$ 303,809
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**Quarterhill Inc.**

## Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Cash used in operations		
Net loss from continuing operations	\$ (4,287)	\$ (4,932)
Non-cash items		
Stock-based compensation expense (recovery)	424	(25)
Depreciation of right-of-use assets	279	244
Interest expense on lease liabilities	50	56
Depreciation and amortization	4,720	4,967
Foreign exchange (gain) loss	(96)	284
Equity in earnings from joint venture	(630)	(378)
Loss on disposal of intangible assets	53	—
Gain on disposal of assets	—	(4)
Deferred income tax recovery	(1,420)	(429)
Embedded derivatives	6	(222)
Changes in non-cash working capital balances	(4,973)	10,084
	<b>(5,874)</b>	<b>9,645</b>
Cash generated from (used in) continuing operations	—	(597)
Net cash flows attributable to discontinuing operations		
Net cash (used in) generated from operating activities	<b>(5,874)</b>	<b>9,048</b>
<b>Financing</b>		
	<b>(1,381)</b>	<b>(1,481)</b>
Dividends paid	—	(1,812)
Bank indebtedness	(293)	(315)
Payment of lease liabilities	—	(107)
Repayment of long-term debt	(324)	—
Repurchase of shares for cancellation	177	—
Common shares issued for cash on the exercise of options	<b>(1,821)</b>	<b>(3,715)</b>
Cash used in continuing operations	—	—
Net cash flows attributable to discontinuing operations		
Net cash used in financing activities	<b>(1,821)</b>	<b>(3,715)</b>
<b>Investing</b>		

Proceeds from sale of property, plant and equipment	—	4
	<b>(37)</b>	(301)
Purchase of property and equipment	—	(17)
<b>Purchase of intangible assets</b>	<b>(37)</b>	(314)
Cash used in continuing operations	—	(70)
<b>Net cash flows attributable to discontinuing operations</b>	<b>(37)</b>	(384)
Net cash used in investing activities	<b>(1,531)</b>	8,777
Foreign exchange on cash held in foreign currency	<b>(9,263)</b>	13,726
Net (decrease) increase in cash and cash equivalents	<b>135,700</b>	87,870
Cash and cash equivalents, beginning of	<b>\$ 126,437</b>	\$ 101,596
Cash and cash equivalents, end of		

#### Quarterhill Inc.

Interim Condensed Consolidated Statements of Shareholders' Equity (Unaudited)

(in thousands of Canadian dollars)

	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
Net loss	—	—	—	(5,112)	(5,112)
Other comprehensive loss	—	—	21,094	—	21,094
Stock-based compensation recovery	—	(25)	—	—	(25)
Common shares issued from performance stock units	24	—	—	—	24
Dividends declared	—	—	—	(1,481)	(1,481)
March 31, 2020	\$ 570,577	\$ 31,986	\$ 32,030	\$ (344,890)	\$ 289,703
January 1, 2021	\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930
Net loss	—	—	—	(4,287)	(4,287)
Repurchase of shares for cancellation	(641)	317	—	—	(324)
Other comprehensive loss	—	—	(3,734)	—	(3,734)
Stock-based compensation expense	—	424	—	—	424
Exercise of options	251	(74)	—	—	177
Common shares issued from restricted stock units	124	—	—	—	124

Common shares issued from performance stock units	12	(12)	—	—	—
Dividends declared	—	—	—	(1,432)	(1,432)
March 31, 2021	<b>\$ 547,283</b>	<b>\$ 46,905</b>	<b>\$ (153)</b>	<b>\$ (331,157)</b>	<b>\$ 262,878</b>

### Quarterhill Inc.

Reconciliation of Net loss to Adjusted EBITDA (Unaudited)

(in thousands of Canadian dollars, except share and per share amounts)

#### Three months ended March 31,

	2021		2020	
	\$	Per Share	\$	Per Share
Net loss from continuing operations	\$ (4,287)	\$ (0.04)	\$ (4,932)	\$ (0.04)
Adjusted for:				
Income tax expense (recovery)	(876)	(0.01)	833	0.01
Foreign exchange gain	(125)	—	(578)	(0.01)
Finance expense	69	—	96	—
Finance income	(21)	—	(222)	—
Special charges	39	—	213	—
Amortization of intangible assets	4,487	0.05	4,743	0.05
Depreciation of property, plant and equipment	233	—	224	—
Depreciation of right-of-use assets	279	—	244	—
Stock based compensation expense (recovery)	424	0.01	(25)	—
Other income	(630)	(0.01)	(378)	(0.01)
<b>Adjusted EBITDA</b>	<b>\$ (408)</b>	<b>\$ (0.00)</b>	<b>\$ 218</b>	<b>\$ 0.00</b>

Weighted average number of Common Shares

Basic	<b>114,408,320</b>	118,857,433
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