

Quarterhill Announces Fourth Quarter and Fiscal 2020 Financial Results

2021-03-11

TORONTO, March 11, 2021 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three- and twelve-month periods ended December 31, 2020. The Company historically prepared its consolidated financial statements in accordance with U.S. GAAP and in U.S. dollars. Effective January 1, 2020, the Company has adopted IFRS and the Canadian dollar as its reporting currency. The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2019, and throughout all periods presented as if these policies had always been in effect. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Fiscal 2020 Financial Highlights

- Revenue was \$144.5 million
- Adjusted EBITDA¹ was \$31.2 million
- Cash generated from operations was \$35.2 million
- Cash, cash equivalents, and short-term investments were \$141.3 million at December 31, 2020
- Working capital was \$159.7 million at December 31, 2020

Fiscal 2020 Operational Highlights

- Appointed Paul Hill as President and CEO, and John Rim as Chief Financial Officer
- Launched M&A diversification strategy to acquire businesses in the Intelligent Transportation Systems ("ITS") industry. On January 5, 2021, acquired Sensor Line GmbH ("Sensor Line"), a provider of highly regarded fiber optic traffic sensors for road and rail markets
- Appointed Rish Malhotra as President and CEO of International Road Dynamics ("IRD")
- A Final Judgment was issued in WILAN's case against Apple for US\$108.98 million
- Appointed Paul Hill and Dr. Michel Fattouche to Quarterhill's Board of Directors
- Completed the sale of VIZIYA for total cash proceeds of \$49.4 million
- Repurchased 4.9 million shares via a Substantial Issuer Bid and a Normal Course Issuer Bid, reducing the total number of shares outstanding to 114.3 million

"2020 was a strong year both financially and operationally, despite the challenges posed by the COVID-19 pandemic," said Paul Hill, President and CEO of Quarterhill. "We established new leadership, launched our M&A diversification strategy in the ITS industry, significantly grew our cash balance and returned capital to shareholders via our dividend and share buybacks. Both portfolio companies had solid years with IRD delivering margin expansion and steady revenue, and with WILAN generating significant Adjusted EBITDA and cash flow."

"The recent acquisition of Sensor Line was the first under our new ITS-focused M&A strategy. As a tuck-in transaction for IRD, Sensor Line expands IRD's geographic footprint in Europe and broadens its product suite in tolling and enforcement, which are two areas of focus. ITS is an ideal market for us to pursue M&A; it is a stable and growing industry that blends technology with infrastructure in order to provide essential services to governments that are looking to improve safety, tackle environmental challenges and generate new revenue opportunities. ITS also stands to benefit from government stimulus plans targeting infrastructure, in particular in the U.S. market. As ITS becomes more inter-connected, we believe this could create opportunities that leverage WiLAN's expertise in 5G, which will be a key enabling technology for the industry in the future."

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on April 9, 2021, to shareholders of record on March 19, 2021.

Q4 2020 and Fiscal 2020 Consolidated Financial Review

Financial statements for the three- and twelve-month periods ended December 31, 2020 and for the respective comparison periods, have been prepared to reflect continuing operations and therefore exclude results during those periods from VIZIYA, which was sold by Quarterhill on May 15, 2020. The year-to-date operating results from VIZIYA, up to the date of sale on May 15, 2020, are reported as net income (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 Consolidated Financial Statements for the three- and twelve-month periods ended December 31, 2020 are available on the [Company's website](#) and on its profile at [SEDAR](#).

Consolidated revenues for the three-month period ended December 31, 2020 ("Q4 2020") were \$18.1 million, compared to \$48.3 million in Q4 2019. Consolidated revenues for the twelve-month period ended December 31, 2020 ("Fiscal 2020") were \$144.5 million, compared to \$172.9 million in Fiscal 2019. 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 revenue was lower in Q4 2020 and Fiscal 2020 due primarily to the closure of a greater volume, and value, of licensing contracts in the prior year periods. Revenue at IRD for Q4 2020 and Fiscal 2020 was relatively flat when compared with the same periods in 2019.

Gross margin for Q4 2020 and Fiscal 2020 was 9% and 41%, compared to 55% and 44% in the same periods last year. Gross margin for the licensing business in Q4 2020 was impacted by the factors noted above and to a lesser degree for Fiscal 2020. Fiscal 2020 gross margin for the ITS business increased year-over-year reflecting higher profitability on certain projects entered into by IRD during the year.

Operating expenses include selling, general and administrative costs ("SG&A"), research and development costs ("R&D"), depreciation and amortization of intangible assets, impairment loss on intangibles and special charges. Operating expenses for Q4 2020 and Fiscal 2020 were \$14.2 million and \$51.5 million, compared to \$15.4 million and \$58.1 million in the same periods last year. Q4 2020 operating expenses were 8% lower compared to Q4 2019. For Fiscal 2020, operating expenses decreased 11%, due primarily to lower amortization of intangibles compared to Fiscal 2019.

Adjusted EBITDA for Q4 2020 and Fiscal 2020 was (\$6.1) million and \$31.2 million, compared to \$18.7 million and \$48.5 million in the same periods last year. The licensing business generated \$28.8 million of Adjusted EBITDA in Fiscal 2020, reflecting WiLAN's ability to generate significant margin and cash flow on an annual basis. Adjusted EBITDA from the ITS business grew 67.0% to \$13.8 million.

Cash generated from (used in) continuing operations for Q4 2020 and Fiscal 2020 was \$25.3 million and \$35.2 million, compared to (\$4.9) million and \$8.6 million in the same periods last year. Cash and cash equivalents and short-term investments was \$141.3 million at December 31, 2020, compared to \$89.4 million at December 31, 2019. Working capital at December 31, 2020, was \$159.7 million compared to \$112.2 million at December 31, 2019.

Conference Call and Webcast

Quarterhill will host a conference call to discuss its financial results today at 10:00 AM Eastern Time.

Webcast Information

The live audio webcast will be available at:

https://produceredition.webcasts.com/starthere.jsp?ei=1425864&tp_key=cbc3a27a62

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=1425864&tp_key=cbc3a27a62

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on March 18, 2021 at: 1.855.859.2056 (Toll Free North America) or 1.416.849.0833 (International). The telephone replay requires the passcode 7395359.

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 System (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

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. 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.

Consolidated Statements of Income and Comprehensive Loss

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

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Revenues				
	\$ 474	\$ 30,591	\$ 78,260	\$ 106,052
Licensing	17,618	17,708	66,266	66,873
Intelligent Transportation Systems	18,092	48,299	144,526	172,925
Direct cost of revenues				
	5,338	11,398	46,205	53,130
Licensing	11,091	10,539	39,463	42,887
Intelligent Transportation Systems	16,429	21,937	85,668	96,017
Gross profit	1,663	26,362	58,858	76,908
Operating expenses				
	241	249	979	1,305
Depreciation of right-of-use assets	248	210	969	1,296
Depreciation of property, plant and equipment	---	---	---	---

	4,539	5,617	18,855	23,305
Amortization of intangible assets	8,323	7,491	26,868	26,719
Selling, general and administrative expenses	468	645	2,282	2,874
Research and development expenses	—	115	295	115
Impairment losses on intangible assets	355	1,046	1,227	2,448
Special charges	14,174	15,373	51,475	58,062
Results from operations	(12,511)	10,989	7,383	18,846
	(45)	(508)	(573)	(1,665)
Finance income	92	131	459	740
Finance expense	425	169	(88)	324
Foreign exchange loss (gain)	(488)	(373)	(1,680)	(869)
Other income				
(Loss) income before taxes	(12,495)	11,570	9,265	20,316
Current income tax expense	368	2,320	2,037	8,117
Deferred income tax (recovery) expense	(2,662)	611	2,800	1,106
Income tax (recovery) expense	(2,294)	2,931	4,837	9,223
Net (loss) income from continuing operations	(10,201)	8,639	4,428	11,093
Net (loss) income from discontinued operations	—	(2,266)	14,255	1,569
Net (loss) income	\$ (10,201)	\$ 6,373	\$ 18,683	\$ 12,662
Other comprehensive loss that may be reclassified subsequently to net (loss) income:				
	\$ (12,537)	\$ (3,968)	\$ (7,355)	\$ (11,176)
Foreign currency translation adjustment				
Comprehensive (loss) income	\$ (22,738)	\$ 2,405	\$ 11,328	\$ 1,486
Net (loss) income per share				
	\$ (0.09)	\$ 0.07	\$ 0.04	\$ 0.09
From continuing operations	—	(0.02)	0.12	0.01
From discontinued operations				
Net (loss) income per share - Basic	\$ (0.09)	\$ 0.05	\$ 0.16	\$ 0.10
	\$ (0.09)	\$ 0.07	\$ 0.04	\$ 0.09
From continuing operations	—	(0.02)	0.12	0.01

From discontinued operations					
Net (loss) income per share - Diluted	\$	(0.09)	\$	0.05	\$
					0.16
					\$
					0.10

Quarterhill Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

As at	December 31, 2020	December 31, 2019	January 1, 2019
Current assets			
	\$	\$	\$
Cash and cash equivalents	135,700	87,870	87,029
Short-term investments	5,550	1,550	1,551
Restricted short-term investments	—	—	2,995
Accounts receivable	13,747	42,925	14,719
Other current assets	—	108	124
Unbilled revenue	13,549	8,965	5,432
Income taxes recoverable	264	137	270
Inventories (net of obsolescence)	9,068	8,570	8,114
Prepaid expenses and deposits	8,264	2,242	2,927
	186,142	152,367	123,161
Non-current assets			
	506	3,846	565
Accounts receivable	338	—	—
Prepaid expenses and deposits	3,780	4,502	3,972
Right-of-use assets, net	2,783	2,826	3,614
Property, plant and equipment, net	59,261	89,534	119,015
Intangible assets, net	6,704	5,233	5,203
Investment in joint venture	28,202	32,737	36,948
Deferred income tax assets	16,093	32,977	34,446

Goodwill				
		117,667	171,655	203,763
TOTAL ASSETS	\$	303,809	\$	324,022
			\$	326,924
Liabilities				
Current liabilities				
	\$	—	\$	4,026
Bank indebtedness			\$	3,537
		20,038	26,264	24,644
Accounts payable and accrued liabilities		631	203	—
Income taxes payable		1,012	998	1,120
Current portion of lease liabilities		—	—	1,265
Contingent liabilities		4,800	8,638	6,357
Current portion of deferred revenue		—	59	407
Current portion of long-term debt		26,481	40,188	37,330
Non-current liabilities				
		2,573	1,513	1,954
Deferred revenue		2,747	3,550	2,604
Long-term lease liabilities		—	271	236
Long-term debt		78	3,297	5,905
Deferred income tax liabilities		5,398	8,631	10,699
TOTAL LIABILITIES		31,879	48,819	48,029
Shareholders' equity				
		547,537	570,553	570,553
Capital stock		46,250	32,011	31,252
Contributed surplus		3,581	10,936	22,112
Accumulated other comprehensive income Deficit		(325,438)	(338,297)	(345,022)
		271,930	275,203	278,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	303,809	\$	324,022
			\$	326,924

Quarterhill Inc.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Cash generated from (used in) operations				
Net income from continuing operations	\$ (10,203)	\$ 8,637	\$ 4,428	\$ 11,093
Non-cash items				
Stock-based compensation expense	571	(52)	1,015	693
Depreciation of right-of-use assets	241	249	979	1,305
Interest expense on lease liabilities	52	66	223	231
Depreciation and amortization	4,787	5,828	19,824	24,601
Foreign exchange gain	(127)	(32)	(359)	(113)
Equity in earnings from joint venture	(488)	(381)	(1,680)	(873)
(Gain) loss on disposal of intangible assets	(1)	206	(1)	206
Impairment losses on intangible assets	—	115	295	115
Loss on disposal of assets	—	(13)	4	746
Deferred income tax expense	(2,662)	611	2,800	1,106
Long-term accounts receivable	—	—	—	(85)
Embedded derivatives	222	(15)	190	11
Contingent consideration adjustment	—	—	—	(1,042)
Changes in non-cash working capital balances	32,892	(20,129)	7,478	(29,368)
Cash generated from (used in) continuing operations	25,284	(4,910)	35,196	8,626
Net cash flows attributable to discontinuing operations	—	2,817	24	3,247
Net cash generated (used in) from operating activities	25,284	(2,093)	35,220	11,873
Financing				

Dividends paid	(1,517)	(1,489)	(4,441)	(5,939)
Bank indebtedness	(3,042)	(876)	(3,654)	685
Payment of lease liabilities	(243)	(315)	(1,103)	(1,504)
Repayment of long-term debt	(393)	60	(521)	(265)
Exercise of stock options	816	—	830	—
Repurchase of shares for cancellation	(1,300)	—	(10,622)	—
	(24)	—	—	—
Common shares issued from performance stock units	(5,703)	(2,620)	(19,511)	(7,023)
Cash used in continuing operations	—	(5)	32	(32)
Net cash flows attributable to discontinuing operations	(5,703)	(2,625)	(19,479)	(7,055)
Net cash used in financing activities	(5,703)	(2,625)	(19,479)	(7,055)
Investing				
	—	—	49,400	—
Proceeds from disposition of a subsidiary	—	—	(1,825)	—
Cash sold on disposition of a subsidiary	—	—	(4,054)	—
Purchase of short-term investments	477	513	477	513
Dividends received from joint venture	—	2,772	—	2,904
Proceeds from sale of restricted short-term investments	—	13	32	43
Proceeds from sale of property, plant and equipment	(59)	(490)	(1,255)	(1,301)
Purchase of property and equipment	(1,281)	(6)	(1,336)	(1,890)
Purchase of intangible assets	(863)	2,802	41,439	269
Cash (used in) generated from continuing operations	—	(12)	—	(172)
Net cash flows attributable to discontinuing operations	(863)	2,790	41,439	97
Net cash (used in) generated from investing activities	(863)	2,790	41,439	97
Foreign exchange loss on cash held in foreign currency	(9,820)	(1,352)	(9,350)	(4,074)
Net increase in cash and cash equivalents	8,898	(3,280)	47,830	841
Cash and cash equivalents, beginning of	126,802	91,150	87,870	87,029
Cash and cash equivalents, end of	\$ 135,700	\$ 87,870	135,700	87,870

Quarterhill Inc.

Consolidated Statements of Shareholders' Equity

(in thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
January 1, 2019	\$ 570,553	\$ 31,252	\$ 22,112	\$ (345,022)	\$ 278,895
Net income	—	—	—	12,662	12,662
Other comprehensive loss	—	—	(11,176)	—	(11,176)
Stock-based compensation expense	—	759	—	—	759
Dividends declared	—	—	—	(5,937)	(5,937)
December 31, 2019	\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
Net income	—	—	—	18,683	18,683
Repurchase of shares for cancellation	(24,054)	13,432	—	—	(10,622)
Other comprehensive loss	—	—	(7,355)	—	(7,355)
Stock-based compensation expense	—	1,015	—	—	1,015
Exercise of options	1,006	(176)	—	—	830
Common shares issued from performance stock units	32	(32)	—	—	—
Dividends declared	—	—	—	(5,824)	(5,824)
December 31, 2020	\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930

Quarterhill Inc.

Reconciliations of Net income to Adjusted EBITDA

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

	Three months ended December 31,			
	2020		2019	
	\$	Per Share	\$	Per Share
Net income from continuing operations	\$ (10,201)	\$ (0.09)	\$ 8,639	\$ 0.07
Adjusted for:				
	(2,294)	(0.02)	2,931	0.02
Income tax expense (recovery)	425	—	169	—
Foreign exchange loss (gain)	92	—	131	—
Finance expense	(45)	—	(508)	—
Finance income	355	—	1,046	0.01
Special charges	—	—	115	—
Impairment losses on intangible assets	4,539	0.05	5,617	0.05
Amortization of intangible assets	248	—	210	—
Depreciation of property, plant and equipment	241	—	249	—
Depreciation of right-of-use assets	571	0.01	(52)	—
Stock based compensation expense	477	—	513	0.01
Dividend from joint venture	(488)	—	(373)	—
Other income				
Adjusted EBITDA	\$ (6,080)	\$ (0.05)	\$ 18,687	\$ 0.16

Weighted average number of Common Shares

	114,137,754	118,817,466
Basic		

Quarterhill Inc.

Reconciliations of Net income to Adjusted EBITDA

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

	Year ended December 31,			
	2020		2019	
	\$	Per Share	\$	Per Share
Net income from continuing operations	\$ 4,428	\$ 0.04	\$ 11,093	\$ 0.09
Adjusted for:				
	4,837	0.04	9,223	0.08
Income tax expense	(88)	—	324	—
Foreign exchange (gain) loss	459	—	740	0.01
Finance expense	(573)	—	(1,665)	(0.01)
Finance income	1,227	0.01	2,448	0.02
Special charges	295	—	115	—
Impairment losses on intangible assets	18,855	0.16	23,305	0.20
Amortization of intangible assets	969	0.01	1,296	0.01
Depreciation of property, plant and equipment	979	0.01	1,305	0.01
Depreciation of right-of-use assets	1,015	—	692	0.01
Stock based compensation expense	477	—	513	—
Dividend from joint venture	(1,680)	(0.01)	(869)	(0.01)
Other income				
Adjusted EBITDA	\$ 31,200	\$ 0.27	\$ 48,520	\$ 0.41
Weighted average number of Common Shares				
		116,939,833		118,817,466
Basic				

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