



NEWS RELEASE

Quarterhill Announces Q1 Fiscal 2022 Financial Results

2022-05-12

TORONTO, May 12, 2022 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three-month period ended March 31, 2022. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q1 Fiscal 2022 Highlights

- Consolidated Revenue was \$168.5 million
- Consolidated Adjusted EBITDA¹ was \$79.1 million
- Cash, cash equivalents, and short-term investments were \$60.2 million at March 31, 2022
- Working capital² was \$176.9 million at March 31, 2022
- ITS segment had significant new contract wins totaling approximately \$75.0 million
- We appointed Rusty Lewis and Pamela Steer to the board in Q1 and subsequent to quarter end, appointed Kim Stevenson to the board
- WiLAN signed license agreements with Apple and Kyocera
- Stout hired as lead financial advisor for the WiLAN strategic review process

"Driven by strong results from WiLAN, our licensing segment, Quarterhill generated significant revenue and Adjusted EBITDA in Q1," said Bret Kidd, President and CEO at Quarterhill. "With a long history of generating cash flow, WiLAN's results in Q1 will further strengthen our balance sheet and add substantial capital resources to support our organic and M&A growth plans."

"The top-line for our ITS business was up significantly year-over-year led primarily by the addition of ETC, though revenue and margin results for the quarter were impacted by seasonality in the IRD business, the timing of the rollout for certain projects and inflationary pressures. Overall, our outlook for the year is unchanged at this time and remains favourable. We expect results to pick up in subsequent quarters as IRD moves into its seasonally stronger periods and as ITS implementation activity increases."

"On the cost front, we expect expenses to trend down this year as integration efforts are underway at both the corporate level and between IRD and ETC. The decline will be modest in 2022 as we still have three portfolio companies and are running the review process for WiLAN, but we expect deeper savings to come in 2023. The broader tailwinds in the ITS industry remain in place and with our significant financial resources, we believe we are well positioned to capitalize on the opportunities in our US\$4.0 billion sales pipeline and to accelerate growth via M&A."

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on July 8, 2022, to shareholders of record on June 17, 2022.

Q1 Fiscal 2022 Financial Review

Quarterhill's revenue is broadly segmented into ITS, reflecting the IRD and ETC businesses, and Licensing, reflecting the WiLAN business. ETC was acquired September 1, 2021 and as a result, the comparative financial statements for the three months ended March 31, 2021 do not include results from ETC.

Quarterhill's Management's Discussion and Analysis and financial statements for the three months ended March 31, 2022 ("Q1 2022") are available at the [Company's website](#) and at its profile at [SEDAR](#).

Consolidated revenues for Q1 2022 were \$168.5 million, compared to \$19.3 million in Q1 2021. ITS revenue increased in Q1 2022 due to the acquisition of VDS Verkehrstechnik GmbH ("VDS") in April 2021 and ETC in September 2021. WiLAN's revenue increased significantly in Q1 2022 due to strong license activity in the quarter. The majority of WiLAN's licenses are generally 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.

Gross margin percent² for Q1 2022 was 55% compared to 34% in Q1 2021. Gross margin increased in Q1 2022 due primarily to a number of agreements having been completed by the licensing business. Licensing gross margin rose significantly in the quarter to 63% compared to 25% in Q1 2021. Licensing gross margin will fluctuate depending primarily on the level of litigation and contingent legal and partner costs incurred in a respective period relative to revenue generated. Gross margin in the ITS segment was 28% in Q1 2022 compared to 40% in Q1 2021. ITS margins reflect the addition of the ETC business and may fluctuate on a quarterly basis depending primarily on the nature of projects underway during the period, their related margin profile and the timing for which associated costs and revenue are recognized.

Operating expenses include selling, general and administrative costs ("SG&A"), research and development costs ("R&D"), depreciation and amortization and other charges. Operating expenses for Q1 2022 were \$21.8 million (13% of revenue) compared to \$12.5 million (65% of revenue) in Q1 2021. Operating expenses have increased year-over-year due primarily to the addition of expenses from the ITS companies acquired in 2021 [as well as inflationary pressures on materials and personnel].

Consolidated Adjusted EBITDA¹ for Q1 2022 was \$79.1 million compared to negative \$408 thousand in

Q1 2021. Consolidated Adjusted EBITDA increased due primarily to strong Q1 2022 revenue generated by the licensing segment, offset in part by higher operating expenses. On a segment basis, in Q1 2022, the ITS business generated Adjusted EBITDA of \$1.0 million and the licensing business generated Adjusted EBITDA of \$81.0 million.

Net income before tax in Q1 2022 was \$71.7 million and income tax expense was \$14.8 million, of which \$14.2 was deferred income tax expense and \$0.6 million was current income tax expense. This compares to net loss before tax of \$5.2 million and an income tax recovery of \$0.9 million in Q1 2021. Q1 2022 net income was \$56.9 million, or \$0.50 per basic share and \$0.44 per diluted share, compared to net loss of (\$4.3) million, or (\$0.04) per basic share and (\$0.04) per diluted share in Q1 2021.

Cash used in operations for Q1 2022 was (\$9.2) million compared to (\$5.9) million in Q1 2021. Cash and cash equivalents and short-term investments were \$60.2 million at March 31, 2022, compared to \$72.6 million at December 31, 2021. Working capital at March 31, 2022, was \$176.9 million compared to \$105.1 million at December 31, 2021. A significant portion of the accounts receivable outstanding at March 31, 2022, were collected subsequent to quarter-end.

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=1544749&tp_key=0b55de646a

Dial-in Information

- To access the call from Canada and U.S., dial 1.888.664.6392 (Toll Free)
- To access the call from other locations, dial 1.416.764.8659 (International)

Replay Information

Webcast replay will be available for 365 days at:

https://produceredition.webcasts.com/starthere.jsp?ei=1544749&tp_key=0b55de646a

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on May 19, 2022 at: 1.888.390.0541 (Toll Free North America) or 1.416.764.8677 (International). The telephone replay requires the passcode 185837.

Non-IFRS Financial Measures and Non-IFRS Ratios

Quarterhill uses both IFRS and certain non-IFRS financial measures to assess performance. Non-IFRS financial measures are financial measures disclosed by a company that (a) depict historical or expected future financial performance, financial position or cash flow of a company, (b) with respect to their composition, exclude amounts that are included in, or include amounts that are excluded from the composition of the most directly comparable financial measure disclosed in the primary financial statements of the company, (c) are not disclosed in the financial statements of the company and (d) are not a ratio, fraction, percentage or similar representation. Non-IFRS ratios are financial measures

disclosed by a company that are in the form of a ratio, fraction, percentage or similar representation that has a non-IFRS financial measure as one or more of its components, and that are not disclosed in the financial statements of the company.

These non-IFRS financial measures and non-IFRS ratios are not standardized financial measures under IFRS, and, therefore, are unlikely to be comparable to similar financial measures presented by other companies. Management believes these non-IFRS financial measures and non-IFRS ratios provide transparent and useful supplemental information to help investors evaluate our financial performance, financial condition, and liquidity using the same measures as management. These non-IFRS financial measures and non-IFRS ratios should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS.

Adjusted EBITDA - Non-IFRS Financial Measures

We use the non-IFRS financial measure "Adjusted EBITDA" to mean net (loss) income adjusted for (i) income taxes, (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) other charges and other on-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) other income which includes equity in earnings from joint ventures, and (ix) dividends received 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 loss and cash flows from operations as determined in accordance with IFRS or as measure of liquidity. The most directly comparable IFRS financial measure is Net (loss) income.

Adjusted EBITDA per share – Non-IFRS ratio

Adjusted EBITDA per share is calculated as Adjusted EBITDA divided by the basic weighted average of common shares. Adjusted EBITDA per share is used by our management and investors to analyze cash generated by Quarterhill on a per share basis. The most comparable IFRS measure is earnings per share.

Supplementary Financial Measures

Supplementary financial measures are financial measures disclosed by a company that (a) are, or are intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of a company (b) are not disclosed in the financial statement of the company, (c) are not non-IFRS financial measures, and (d) are not non-IFRS ratios. Key supplementary measures disclosed are as follows:

Gross margin %

Calculated as gross profit as a percentage of revenue.

Working capital

Calculated as total current assets minus total current liabilities.

About Quarterhill

Quarterhill is a leading provider of tolling and enforcement solutions in the Intelligent Transportation System (ITS) industry, as well as, through its Wi-LAN Inc. subsidiary, a leader in Intellectual Property licensing. Our goal is global leadership in ITS, via organic growth of the Electronic Transaction Consultants, LLC (ETC) and International Road Dynamics, Inc. (IRD) platforms, and by continuing an acquisition-oriented investment strategy that capitalizes on attractive growth opportunities within ITS and its adjacent markets. 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 20, 2022 annual information form for the year ended December 31, 2021 (the "AIF"). In addition, readers are also urged to review the additional risk factors disclosed in our Management's Discussion and Analysis for our three months and year ended December 31, 2021 and 2020 filed today on 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 Income (Loss) and Comprehensive Income (Loss)
(Unaudited)
(in thousands and in Canadian dollars, except share and per share amounts)

	Three months ended March 31,	
	2022	2021
Revenues		
Licensing	\$ 130,738	\$ 7,848
Intelligent Transportation Systems	37,767	11,468
	168,505	19,316
Direct cost of revenues		
Licensing	48,703	5,869

Intelligent Transportation Systems	27,146	6,829
	75,849	12,698
Gross profit	92,656	6,618
Operating expenses		
Depreciation of right-of-use assets	568	279
Depreciation of property, plant and equipment	529	233
Amortization of intangible assets	6,342	4,487
Selling, general and administrative expenses	13,647	7,056
Research and development expenses	640	394
Other charges	96	39
	21,822	12,488
Results from operations	70,834	(5,870)
Finance income	(404)	(21)
Finance expense	3,049	69
Foreign exchange loss (gain)	550	(125)
Other income	(4,021)	(630)
Income (loss) before taxes	71,660	(5,163)
Current income tax expense	602	544
Deferred income tax expense (recovery)	14,157	(1,420)
Income tax expense (recovery)	14,759	(876)
Net income (loss)	\$ 56,901	\$ (4,287)
Other comprehensive loss that may be reclassified subsequently to net income (loss):		
Foreign currency translation adjustment	(3,938)	(3,734)
Comprehensive income (loss)	\$ 52,963	\$ (8,021)

Net income (loss) per share				
Basic	\$	0.50	\$	(0.04)
Diluted	\$	0.44	\$	(0.04)

Quarterhill Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)
(in thousands and in Canadian dollars)

As at		March 31, 2022		December 31, 2021
Current assets				
Cash and cash equivalents	\$	58,662	\$	70,746
Short-term investments		1,550		1,851
Restricted short-term investments		3,047		3,095
Accounts receivable		158,057		30,176
Unbilled revenue		28,100		35,926
Income taxes recoverable		418		385
Inventories (net of obsolescence)		13,508		13,731
Prepaid expenses and deposits		5,662		5,192
		269,004		161,102
Non-current assets				
Accounts receivable		497		505
Prepaid expenses and deposits		1,263		945
Right-of-use assets, net		7,067		7,761
Property, plant and equipment, net		5,376		5,694
Intangible assets, net		143,276		151,355
Investment in joint venture		7,911		7,458
Deferred compensation asset		1,501		1,524

Deferred income tax assets	22,878	37,786
Goodwill	52,189	53,065
	241,958	266,093
TOTAL ASSETS	\$ 510,962	\$ 427,195
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	78,025	42,008
Income taxes payable	649	700
Current portion of lease liabilities	2,009	2,166
Current portion of deferred revenue	8,336	7,989
Current portion of long-term debt	3,132	3,181
	92,151	56,044
Non-current liabilities		
Deferred revenue	2,429	2,839
Long-term lease liabilities	5,114	5,626
Long-term debt	57,332	58,968
Convertible debentures	46,597	45,959
Derivative liability	6,809	9,441
Deferred compensation liability	1,329	1,350
Deferred income tax liabilities	5,677	5,852
	125,287	130,035
TOTAL LIABILITIES	217,438	186,079
Shareholders' equity		
Capital stock	544,546	544,345
Contributed surplus	50,589	49,937
Accumulated other comprehensive (loss) income	(3,794)	144
Deficit	(297,817)	(353,310)

		293,524		241,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	510,962	\$	427,195

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Interim Condensed Consolidated Statement of Cash Flows (Unaudited)
(in thousands and in Canadian Dollars)

	Three months ended March 31,	
	2022	2021
Cash used in operations		
Net income (loss)	\$ 56,901	\$ (4,287)
Non-cash items		
Stock-based compensation expense	729	424
Depreciation of right-of-use assets	568	279
Interest expense on lease liabilities	—	50
Depreciation and amortization	6,871	4,720
Foreign exchange loss (gain)	550	(96)
Other income	(1,459)	(630)
Loss on disposal of intangible assets	—	53
Loss on disposal of assets	70	—
Deferred income tax expense (recovery)	14,157	(1,420)
Embedded derivatives	(217)	6
Gain from change in fair value of derivative liability	(2,632)	—
Changes in non-cash working capital balances	(84,740)	(4,973)
Net cash used in operating activities	(9,202)	(5,874)
Financing		
Dividends paid	(1,408)	(1,381)

Payment of lease liabilities	(512)	(293)
Repayment of long-term debt	(783)	—
Repurchase of shares for cancellation	—	(324)
Common shares issued for cash on the exercise of options	124	177
Net cash used in financing activities	(2,579)	(1,821)
Investing		
Proceeds from short-term investments	301	—
Proceeds from sale of property, plant and equipment	211	—
Purchase of property, plant and equipment	—	(37)
Purchase of intangible assets	(542)	—
Net cash used in investing activities	(30)	(37)
Foreign exchange on cash held in foreign currencies	(273)	(1,531)
Net decrease in cash and cash equivalents	(12,084)	(9,263)
Cash and cash equivalents, beginning of	70,746	135,700
Cash and cash equivalents, end of	\$ 58,662	\$ 126,437

Quarterhill Inc.

Interim Condensed Consolidated Statement of Equity (Unaudited)
(in thousands and in Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
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 \$	547,283 \$	46,905 \$	(153) \$	(331,157) \$	262,878
January 1, 2022 \$	544,345 \$	49,937 \$	144 \$	(353,310) \$	241,116
Net income	—	—	—	56,901	56,901
Other comprehensive loss	—	—	(3,938)	—	(3,938)
Stock-based compensation expense	—	729	—	—	729
Exercise of stock options	201	(77)	—	—	124
Dividends declared	—	—	—	(1,408)	(1,408)
March 31, 2022 \$	544,546 \$	50,589 \$	(3,794) \$	(297,817) \$	293,524

Quarterhill Inc.

Reconciliation of Net loss to Adjusted EBITDA (Unaudited)

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

	Three months ended March 31,	
	2022	2021
	\$ Per Share	\$ Per Share
Net (loss) income from continuing	\$ 56,901 \$	0.50 \$
	(4,287) \$	(0.04)

operations					
Adjusted for:					
Income tax (recovery) expense	14,759	0.13	(876)	(0.01)	
Foreign exchange (gain) loss	550	—	(125)	—	
Finance expense, net	2,645	0.03	48	—	
Other charges	96	—	39	—	
Depreciation and amortization	7,439	0.06	4,999	0.05	
Stock based compensation expense	729	0.01	424	0.01	
Other income	(4,021)	(0.04)	(630)	(0.01)	
Adjusted EBITDA	\$ 79,098	\$ 0.69	\$ (408)	\$ 0.00	

Weighted average number of Common Shares Basic	113,915,298	114,408,320
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1 Please refer to the Adjusted EBITDA Non- IFRS Financial Measures section for further information.
2 Please refer to the Supplementary Financial Measures for further information.

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