



NEWS RELEASE

Quarterhill Announces Q1 Fiscal 2023 Financial Results

2023-05-10

- Charles ("Chuck") Myers appointed to the Board of Directors, effective May 9, 2023

- Company eliminates dividend to focus capital on investment in ITS growth

TORONTO, May 10, 2023 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF) a leading provider of tolling and enforcement solutions in the Intelligent Transportation System ("ITS") industry, as well as, through its Wi-LAN Inc. ("WiLAN") subsidiary, a leader in Intellectual Property licensing, announces its financial results for the three months ended March 31, 2023. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q1 Fiscal 2023 Highlights

- Consolidated revenue was \$44.0 million (ITS revenue was \$38.3 million and Licensing revenue was \$5.7 million)
- ITS revenue backlog³ was more than USD\$500.0 million at March 31, 2023
- Consolidated Adjusted EBITDA¹ was (\$6.9) million
- Cash, cash equivalents, and short-term investments were \$51.7 million at March 31, 2023
- Subsequent to quarter-end and the AGM, Charles ("Chuck") Myers was appointed to the board of directors on May 9, 2023

"Highlights in the ITS segment in Q1 included another strong quarter from IRD, in what is typically a seasonally slow period for the business," said John Gillberry, Interim CEO of Quarterhill. "In an effort to drive more rapid integration of the ITS businesses and to accelerate improvement of the financial and operational performance in the ITS segment, a leadership change was made in Q1, and the board has since launched the search process for a new CEO."

"In the interim, Rusty Lewis, Board Chair, and I have been working to get the ITS segment on the path to more consistent revenue growth and sustainable earnings. Our focus has been on working through the ongoing tolling projects that are in implementation, fine-tuning our business development strategy and driving the businesses towards an integrated shared services model. Subsequent to quarter-end we took

further actions on our integration plan, which will result in additional savings to the Q4 2022 restructuring."

"The ITS industry has a compelling growth profile and with our world-class assets in tolling (ETC) and enforcement (IRD) we remain committed to our pure-play strategy. We expect top-line and margin improvement in the ITS segment as we move through 2023, driven largely by our integration efforts and steady progress on the seven large tolling projects that are in implementation. Several of these seven projects are expected to transition from the implementation phase to the operations phase in 2023 with the remainder doing so in 2024. This will have a favorable impact on margins and cash flows as the gross margin percentage for tolling operations revenue is substantially higher than that of implementation revenue. Ultimately, as stated on our year-end conference call, we believe that 2023 will see positive Adjusted EBITDA for the ITS business, *inclusive* of corporate segment costs."

"Regarding the strategic review for WiLAN, the process remains ongoing, and we continue to engage with interested parties. In the meantime, it's business as usual for the team as they seek to build their pipeline and execute on their various licensing programs. We will continue to keep shareholders abreast of any material developments with the business and with the strategic review."

Q1 Fiscal 2023 Financial Review

Quarterhill's revenue is broadly segmented into ITS, reflecting the tolling (ETC) and enforcement (IRD) businesses, and Licensing, reflecting the WiLAN business.

Quarterhill's Management's Discussion and Analysis and financial statements for the three months ended March 31, 2023 ("Q1 2023") are available at the [Company's website](#) and at its profile at [SEDAR](#).

Consolidated revenues for the three months ended March 31, 2023 were \$44.0 million compared to \$168.5 million in the comparative prior year period. The decrease in consolidated revenue in Q1 2023 was due primarily to the size of licensing agreements completed in Q1 2022. 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. ITS revenue in Q1 2023 was up slightly compared to Q1 2022.

Gross margin percent² for the three months ended March 31, 2023, was 11%, compared to 55% in the comparative prior year period. Gross margin in the ITS segment was 13% in Q1 2023 compared to 28% in Q1 2022. ITS gross margins may fluctuate on a quarterly basis depending primarily on the nature, and stage, of projects underway during the period, their related margin profile and the timing for which associated costs and revenue are recognized. ITS gross margin for Q1 2023 primarily reflects management reserves taken to account for the ebb and flow typical of a large infrastructure project in its early stages and the high proportion of revenue generated from tolling projects that are in the implementation phase as projects at this stage of development tend to have lower gross margin. Gross margin is expected to increase as these tolling projects transition to the operations phase in 2023 and 2024.

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. Licensing gross margins may also be impacted by litigation cost accruals related to expected future expenses for ongoing litigations.

Operating expenses include SG&A, research and development costs ("R&D"), depreciation and amortization and other charges. Total operating expenses for the three months ended March 31, 2023, were \$20.4 million, compared to \$21.8 million in the comparative prior year period. The decrease in operating expenses in Q1 2023 was driven primarily by the ITS integration and cost reduction initiatives undertaken in Q4 2022.

Consolidated Adjusted EBITDA¹ for the three months ended March 31, 2023, was (\$6.9) million, compared to \$79.1 million in the comparative prior year period. The decrease in Adjusted EBITDA for Q1 2023, compared to Q1 2022, is due to the changes in revenue, direct costs of revenue and operating expenses as previously explained.

Net loss for the three months ended March 31, 2023, was (\$15.6) million, or (\$0.14) per diluted share, compared to a net income of \$56.9 million, or \$0.50 per diluted share, in the comparative prior year period.

Cash used in operations for the three months ended March 31, 2023, was (\$10.2) million, compared to (\$8.8) million in the comparative prior year period.

Cash and cash equivalents and short-term investments were \$51.7 million at March 31, 2023, compared to \$67.9 million at December 31, 2022. Among the uses of cash in Q1 2023 was approximately \$2.4 million of non-recurring items.

Board Appointment

Quarterhill is pleased to announce that Charles ("Chuck") Myers was appointed to the board of directors, effective May 9, 2023.

Mr. Myers brings more than 25 years of leadership experience as a Chief Executive Officer, board member, and founder for private and public companies in the technology industry, including a co-founding role at Transcore, a leader in the ITS industry.

Most recently, Mr. Myers served as Chief Executive Officer and board member of Cogniac Corporation, a San Jose, California-based provider of enterprise-class AI deep learning solutions that automate visual inspection through image and video analysis. Under his leadership, Cogniac was named "2021 Global Entrepreneurial Company of the Year in Computer Vision" by Frost & Sullivan and "A Global Leader" by IDC in 2022. Since 2019, the company has grown revenue significantly and has expanded its global customer footprint in multiple verticals.

Prior to Cogniac, Mr. Myers was President, Chief Executive Officer, and Board Member of Airgain, Inc. (NASDAQ: AIRG), a leading provider of embedded antenna technologies used to enable high performance wireless networking. Earlier in his career, Mr. Myers was a co-founder of the SAIC Transportation Division and was instrumental in building the first electronic toll collection system in the United States. That single project subsequently grew into the creation of Transcore, one of the largest electronic toll collection providers in the world. During this period, Mr. Myers played significant roles in several acquisitions including Syntonic, Cubic Toll Systems, and JHK Associates.

Mr. Myers currently serves as a board advisor to Platform Science, a revolutionary fleet management platform; Rx.Health, a digital health platform company; and Energy311, a green energy and fintech startup.

Mr. Myers holds a Master of Science degree in Management of Technology from MIT and a Bachelor of Science degree in Engineering from National University, and an Organizational Leadership Certificate from Yale School of Management.

Dividend Update

After careful consideration, the board of directors has adjusted its capital allocation strategy and determined that the Company will no longer pay a dividend. This decision creates financial flexibility and will best position the business to generate value through a capital allocation strategy focused on supporting the growth of the ITS business. The dividend is a legacy of the IP licensing business and dividends are not common among publicly traded ITS companies. ITS companies tend to follow a more traditional growth-oriented model, which requires ongoing investment in areas such as R&D and other organic and non-organic growth initiatives.

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://app.webinar.net/d2Y8K3vbEpN>
- Webcast replay will be available for 365 days at: <https://app.webinar.net/d2Y8K3vbEpN>

Traditional Dial-in Information

- To access the call from Canada and U.S., dial 1.888.664.6383 (Toll Free)
- To access the call from other locations, dial 1.416.764.8650 (International)

Rapidconnect

To instantly join the conference call by phone, please use the following URL to easily register and be connected into the conference call automatically: <https://emportal.ink/3Us9bu8>

Telephone Replay

Telephone replay will be available from 1:00 p.m. ET on May 10, 2023, until 11:59 p.m. ET on May 17, 2023, at: 1.888.390.0541 (Toll Free North America) or 1.416.764.8677.

Conference ID: 60265813 and Replay Passcode: 265813#

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.

Backlog - Non-IFRS Financial Measures

We use the non-IFRS measure "backlog" to mean the total value of work that has not yet been completed but that in management's experience of similar situations has: (a) a high certainty of being performed pursuant to existing contracts or work orders specifying job scope, value and timing; (b) an expectation of expansion of existing contracts due to expected extensions; and/or (c) been awarded to one or more of our ITS operating subsidiaries as evidenced by a binding contract or where the finalization of a binding contract is reasonably assured. Activities under such contracts may cover a period of up to 15 years. We do not include in "backlog", the value of any expected but unsigned change orders that management considers may apply to such contracts.

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.

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, its operating subsidiaries and their respective businesses. 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, which include, without limitation, the risks described in Quarterhill's March 22, 2023 annual information form for the year ended December 31, 2022 (the "AIF"). In addition, readers are also urged to review the additional risk factors disclosed in our Management's Discussion and Analysis for the three months ended March 31, 2023 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 (Loss) Income and Comprehensive (Loss) Income
(in thousands and in Canadian dollars, except share and per share amounts)

Interim Condensed Consolidated Statements of (Loss) Income

	Three months ended March 31,	
	2023	2022
Revenues		
Licensing	\$5,677	\$130,738
Intelligent Transportation Systems	38,315	37,767
	43,992	168,505
Direct cost of revenues		
Licensing	6,111	48,703
Intelligent Transportation Systems	33,237	27,146
	39,348	75,849
Gross profit	4,644	92,656
Operating expenses		

Depreciation of right-of-use assets	509	568
Depreciation of property, plant and equipment	560	529
Amortization of intangible assets	6,199	6,342
Selling, general and administrative expenses	10,696	13,647
Research and development expenses	1,175	640
Other charges	1,303	96
	20,442	21,822
Results from operations	(15,798)	70,834
Finance income	(142)	(404)
Finance expense	2,266	3,049
Foreign exchange loss	535	550
Other income	(588)	(4,021)
(Loss) income before taxes	(17,869)	71,660
Current income tax expense	176	602
Deferred income tax (recovery) expense	(2,431)	14,157
Income tax (recovery) expense	(2,255)	14,759
Net (loss) income	(15,614)	56,901
Other comprehensive (loss) income that may be reclassified subsequently to net (loss) income:		
Foreign currency translation adjustment	(39)	(3,938)
Comprehensive (loss) income	(\$15,653)	\$52,963
(Loss) income per share - Basic	(\$0.14)	\$0.50
(Loss) income per share - Diluted	(\$0.14)	\$0.44

Quarterhill Inc.

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

As at	March 31, 2023	December 31, 2022
Current assets		
Cash and cash equivalents	\$50,120	\$66,357
Short-term investments	1,550	1,550
Restricted short-term investments	6,518	6,529
Accounts receivable, net	19,110	23,277
Unbilled revenue	39,626	41,423
Income taxes receivable	366	340
Inventories (net of obsolescence)	15,780	13,671
Prepaid expenses and deposits	6,024	6,852
	139,094	159,999
Non-current assets		
Accounts and other long-term receivables	538	539
Long-term prepaid expenses and deposits	1,693	1,705.00
Right-of-use assets, net	9,779	10,312
Property, plant and equipment, net	6,816	6,926
Intangible assets, net	137,007	141,335
Investment in joint venture	8,049	7,751
Deferred compensation asset	1,341	1,344
Deferred income tax assets	27,989	25,648
Goodwill	56,350	56,385
	249,562	251,945
TOTAL ASSETS	\$388,656	\$411,944
Liabilities		
Current liabilities		

Accounts payable and accrued liabilities	\$43,241	\$47,063
Income taxes payable	1,048	982
Current portion of lease liabilities	2,611	2,611
Current portion of deferred revenue	7,492	8,542
Current portion of long-term debt	28,433	29,292
	82,825	88,490
Non-current liabilities		
Deferred revenue	2,536	2,744
Long-term lease liabilities	9,058	9,655
Long-term debt	-	-
Convertible debentures	48,583	48,379
Derivative liability	1,510	1,786
Deferred compensation liabilities	1,167	1,169
Deferred income tax liabilities	2,068	2,061
	64,922	65,794
TOTAL LIABILITIES	147,747	154,284
Shareholders' equity		
Capital stock	546,482	546,482
Contributed surplus	51,293	50,958
Accumulated other comprehensive income	16,418	16,457
Deficit	(373,284)	(356,237)
	240,909	257,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$388,656	\$411,944

Quarterhill Inc.

Interim Condensed Consolidated Statements of Cash Flows
(in thousands and in Canadian dollars)

	Three months ended March 31,	
	2023	2022
Operating activities:		
Net (loss) income	(\$15,614)	\$56,901
Add (deduct) non-cash items:		
Stock-based compensation expense	335	729
Depreciation of right-of-use assets	509	568
Depreciation and amortization	6,759	6,871
Foreign exchange loss	535	550
Other income, net of change in derivative liability fair value	(312)	(1,459)
Loss on disposal of assets	-	70
Deferred income tax (recovery) expense	(2,431)	14,157
Embedded derivatives	126	(217)
Change in fair value of derivative liability	(276)	(2,632)
Non-cash interest expense	647	452
Net change in non-cash working capital balances	(469)	(84,740)
Cash used in operating activities	(10,191)	(8,750)
Financing activities:		
Dividends paid	(1,433)	(1,408)
Payment of lease liabilities	(597)	(512)
Repayment of long-term debt	(847)	(783)
Common shares issued for cash on the exercise of options	-	124
Cash used in financing activities	(2,877)	(2,579)
Investing activities:		
Proceeds from short-term investments	-	301
Proceeds from sale of property, plant and equipment	-	211
Purchase of property, plant and equipment	(450)	-

Capitalized software costs	(1,871)	(542)
Cash used in investing activities	(2,321)	(30)
Foreign exchange on cash held in foreign currencies	(848)	(725)
Net decrease in cash and cash equivalents	(16,237)	(12,084)
Cash and cash equivalents, beginning of	66,357	70,746
Cash and cash equivalents, end of	\$50,120	\$58,662

Quarterhill Inc.

Interim Condensed Consolidated Statements of Shareholders' Equity
(in thousands and in Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2022	\$544,345	\$49,937	\$144	(\$353,310)	\$241,116
Net income	-	-	-	56,901	56,901
Other comprehensive income	-	-	(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
Balance, January 1, 2023	\$546,482	\$50,958	\$16,457	(\$356,237)	\$257,660
Net loss	-	-	-	(15,614)	(15,614)
Other comprehensive (loss)	-	-	(39)	-	(39)
Stock-based compensation expense	-	335	-	-	335
Dividends declared	-	-	-	(1,433)	(1,433)
March 31, 2023	\$546,482	\$51,293	\$16,418	(\$373,284)	\$240,909

Quarterhill Inc.

Reconciliation of Net (loss) income to Adjusted EBITDA
(in thousands and in Canadian dollars, except share and per share amounts)

	Three months ended March 31,			
	2023		2022	
	\$	Per Share [2]	\$	Per Share
Net (loss) income from continuing operations	(\$15,614)	(\$0.14)	\$56,901	\$0.50
Adjusted for:				
Income tax (recovery) expense	(2,255)	(0.02)	14,759	0.13
Foreign exchange loss	535	-	550	-
Finance expense, net	2,124	0.02	2,645	0.03
Other charges	1,303	0.01	96	-
Depreciation and amortization	7,268	0.07	7,439	0.06
Stock based compensation expense	335	-	729	0.01

Other income	(588)	-	(4,021)	(0.04)
Adjusted EBITDA [1]	(\$6,892)	(\$0.06)	\$79,098	\$0.69

Weighted average number of Common Shares Basic	114,639,700	113,915,298
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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.
- 3 Please refer to the Backlog Non-IFRS Financial Measures section for further information.

View original content: <https://www.prnewswire.com/news-releases/quarterhill-announces-q1-fiscal-2023-financial-results-301820477.html>

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