

Quarterhill Announces Q2 Fiscal 2022 Financial Results

2022-08-11

TORONTO, Aug. 11, 2022 /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- and six-month periods ended June 30, 2022. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q2 Fiscal 2022 Highlights

- Consolidated Revenue was \$43.9 million
- Consolidated Adjusted EBITDA¹ was (\$9.0) million
- Cash, cash equivalents, and short-term investments were \$122.9 million at June 30, 2022
- Working capital² was \$138.1 million at June 30, 2022
- Appointed Kim Stevenson to the board
- Appointed John Karnes as Quarterhill's Chief Financial Officer
- Appointed Andrew Parolin as WiLAN's Chief Executive Officer

"Q2 was a mixed quarter with revenue more than doubling, expected revenue backlog³ in the ITS segment reaching a record level of US\$573.0 million and our cash on the balance sheet growing to more than \$120.0 million. At the same time, the slower ramp with certain ITS project implementations and delays in new contract awards continued to persist, which impacted the quarter's overall level of revenue growth and margin performance," said Bret Kidd, CEO at Quarterhill. "The factors impacting project implementations were primarily shifts in customer priorities and preferences that can occur in the early stages of a large infrastructure project, labour scarcity and supply-chain disruptions. Fortunately, we saw some of these factors begin to abate towards the end of the quarter with resultant progress seen with certain key implementations."

"Including Q3, our ITS business has signed contracts totaling more than US\$345.0 million in value in the past 18 months and what we've seen here so far in 2022 are some of the challenges of launching a significant level of activity in an economic environment characterized by tight access to materials and labour and rising prices in general."

"We expect our top-line and margin performance to improve in the future. These are long-term infrastructure projects with stable customers and important public policy objectives, designed to deliver a valuable set of services and outcomes for decades to come. Further, these are projects that would continue to move forward should the economy enter a prolonged recession. In summary, with the significant contract wins we have completed in the past 18 months, the liftoff we are now seeing in certain of our implementation-stage projects and the new project awards that we expect to be made in the next several quarters, we believe that our ITS model for revenue growth and margin expansion remains firmly in place."

Mr. Kidd added: "WiLAN, our licensing business, completed several license agreements in Q2, building on its strong Q1 results. On a year-to-date basis, WiLAN's results reflect its cash flow generating potential and build on its long-term track record for doing so. The strategic review process for WiLAN remains ongoing and we will announce material developments in due course."

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on October 7, 2022, to shareholders of record on September 9, 2022.

Q2 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 and six months ended June 30, 2021 do not include results from ETC.

Quarterhill's Management's Discussion and Analysis and financial statements for the three and six months ended June 30, 2022 ("Q2 2022" and "2022 year-to-date") are available at the [Company's website](#) and at its profile at [SEDAR](#).

Consolidated revenues for the three and six months ended June 30, 2022 were \$43.9 million and \$212.4 million, compared to \$18.9 million and \$38.2 million in the same periods of the prior year. ITS revenue has increased in 2022 due primarily to the acquisition of ETC in September 2021. WiLAN's revenue increased in Q2 2022 and the 2022 year-to-date period due to stronger license activity than in the prior year periods. 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 the three and six months ended June 30, 2022 was 13% and 46%, compared to 18% and 26% in the same periods of the prior year. Gross margin in the ITS segment was 15% in Q2 2022 compared to 37% in Q2 2021. ITS margins reflect the addition of the ETC business and 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. Licensing gross margin in the quarter was negative 3% compared to negative 177% in Q2 2021. For the 2022 year-to-date period, licensing gross margin was 60% compared to negative 12% in the same period last year. 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.

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 the three and six months ended June 30, 2022 were \$37.4 million and \$59.2 million, compared to \$12.2 million and \$24.7 million in the same periods of the prior year. Operating expenses for Q2 2022 and the 2022 year-to-date period included a one-time \$14.6 million charge to settle litigation and arbitration disputes with the former owners of VIZIYA. Operating expenses have increased in 2022 due primarily to the addition of expenses from the acquisition of ETC in September 2021 as well as inflationary pressures on materials and personnel experienced in 2022.

Consolidated Adjusted EBITDA¹ for the three and six months ended June 30, 2022 was negative \$9.0 million and \$70.1 million, compared to negative \$3.2 million and negative \$3.4 million in the same periods of the prior year. Q2 2022 consolidated Adjusted EBITDA decreased year-over-year due primarily to a greater portion of ITS revenue coming from implementation-stage projects as lower gross margin is generated at that phase of the project, lower revenue due to implementation delays on certain ITS projects and the higher cost of materials and personnel in the current inflationary environment. Consolidated Adjusted EBITDA¹ for the 2022 year-to-date period increased year-over-year due to the strong performance in Q1 2022 from the licensing business.

Net income (loss) for the three and six months ended June 30, 2022 was (\$23.8) million, or (\$0.21) per diluted share, and \$33.1 million, or \$0.25 per diluted share, compared to (\$6.4) million, or (\$0.06) per diluted share, and (\$10.7) million, or (\$0.09) per diluted share, in the same periods of the prior year.

Cash generated from (used in) operations for the three and six months ended June 30, 2022 was \$77.8 million and \$68.6 million, compared to \$1.7 million and (\$4.1) million in the same periods of the prior year. Cash and cash equivalents and short-term investments were \$122.9 million at June 30, 2022, compared to \$72.6 million at December 31, 2021. Working capital at June 30, 2022, was \$138.1 million compared to \$105.1 million at December 31, 2021.

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/38vZ7ERG16j>

Dial-in Information

- To access the call from Canada and U.S., dial 1.888.220.8474 (Toll Free)
- To access the call from other locations, dial 1.647.484.0475 (International)

Replay Information

Webcast replay will be available for 365 days at:

<https://app.webinar.net/38vZ7ERG16j>

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on August 18, 2022 at: 1.888.203.1112 (Toll Free North America) or 1.647.436.0148 (International). The telephone replay requires the passcode 7443681.

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.

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, 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, 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, its operating subsidiaries and/or their respective businesses. 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 ended June 30, 2022 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenues				
Licensing	\$ 4,639	\$ 1,750	\$ 135,377	\$ 9,598
Intelligent Transportation Systems	39,230	17,125	76,997	28,593
	43,869	18,875	212,374	38,191
Direct cost of revenues				
Licensing	4,790	4,854	53,493	10,723
Intelligent Transportation Systems	33,235	10,711	60,381	17,521
	38,025	15,565	113,874	28,244
Gross profit	5,844	3,310	98,500	9,947
Operating expenses				
Depreciation of right-of-use assets	567	304	1,135	583
Depreciation of property, plant and equipment	478	256	1,007	489
Amortization of intangible assets	6,204	4,351	12,546	8,838
Selling, general and administrative expenses	14,228	6,336	27,875	13,411
Research and development expenses	797	579	1,437	973
Other charges	15,107	343	15,203	382
	37,381	12,169	59,203	24,676
Results from operations	(31,537)	(8,859)	39,297	(14,729)
Finance income	(91)	(33)	(495)	(54)
Finance expense	2,458	112	5,507	181
Foreign exchange (gain) loss	(810)	107	(260)	(18)
Other income	(4,236)	(556)	(8,257)	(1,186)
(Loss) Income before taxes	(28,858)	(8,489)	42,802	(13,652)
Current income tax expense	555	230	1,157	774
Deferred income tax (recovery) expense	(5,576)	(2,343)	8,581	(3,763)
Income tax (recovery) expense	(5,021)	(2,113)	9,738	(2,989)
Net (loss) income	\$ (23,837)	\$ (6,376)	\$ 33,064	\$ (10,663)
Other comprehensive loss that may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	5,992	(3,112)	2,054	(6,846)
Comprehensive (loss) income	\$ (17,845)	\$ (9,488)	\$ 35,118	\$ (17,509)
Net (loss) income per share				
Basic	\$ (0.21)	\$ (0.06)	\$ 0.29	\$ (0.09)
Diluted	\$ (0.21)	\$ (0.06)	\$ 0.25	\$ (0.09)

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

As at	June 30, 2022		December 31, 2021	
Current assets				
Cash and cash equivalents	\$	121,361	\$	70,746
Short-term investments		1,550		1,851
Restricted short-term investments		6,611		3,095
Accounts receivable		21,848		30,176
Unbilled revenue		32,517		35,926
Income taxes recoverable		457		385
Inventories (net of obsolescence)		14,145		13,731
Prepaid expenses and deposits		6,512		5,192
		205,001		161,102
Non-current assets				
Accounts receivable		513		505
Prepaid expenses and deposits		1,415		945
Right-of-use assets, net		6,678		7,761
Property, plant and equipment, net		5,783		5,694
Intangible assets, net		141,826		151,355
Investment in joint venture		8,138		7,458
Deferred compensation asset		1,546		1,524
Deferred income tax assets		28,333		37,786
Goodwill		53,583		53,065
		247,815		266,093
TOTAL ASSETS	\$	452,816	\$	427,195
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		52,753		42,008
Income taxes payable		784		700
Current portion of lease liabilities		1,884		2,166
Current portion of deferred revenue		8,260		7,989
Current portion of long-term debt		3,228		3,181
		66,909		56,044
Non-current liabilities				
Deferred revenue		2,632		2,839
Long-term lease liabilities		4,875		5,626
Long-term debt		45,409		58,968
Convertible debentures		47,302		45,959
Derivative liability		3,026		9,441
Deferred compensation liability		1,370		1,350
Deferred income tax liabilities		5,710		5,852
		110,324		130,035
TOTAL LIABILITIES		177,233		186,079
Shareholders' equity				
Capital stock		546,098		544,345
Contributed surplus		50,373		49,937
Accumulated other comprehensive income		2,198		144
Deficit		(323,086)		(353,310)
		275,583		241,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	452,816	\$	427,195

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Cash used in operations				
Net (loss) income	\$ (23,837)	\$ (6,376)	\$ 33,064	\$ (10,663)
Non-cash items				
Stock-based compensation expense	222	586	951	1,010
Depreciation of right-of-use assets	567	304	1,135	583
Interest expense on lease liabilities	—	34	—	84
Depreciation and amortization	6,682	4,607	13,553	9,327
Foreign exchange loss (gain)	(810)	78	(260)	(18)
Other income	(383)	(557)	(1,842)	(1,187)
Loss on disposal of intangible assets	—	(53)	—	—
Loss on disposal of assets	—	—	70	—

Deferred income tax expense (recovery)	(5,576)	(2,343)	8,581	(3,763)
Embedded derivatives	(323)	(1)	(540)	5
Gain from change in fair value of derivative liability	(3,783)	—	(6,415)	—
Changes in non-cash working capital balances	105,084	5,466	20,344	493
Net cash generated from (used in) operating activities	77,843	1,745	68,641	(4,129)
Financing				
Dividends paid	(1,432)	(1,473)	(2,840)	(2,854)
Payment of lease liabilities	(558)	(269)	(1,070)	(562)
Repayment of long-term debt	(13,720)	—	(14,503)	—
Repurchase of shares for cancellation	—	(1,741)	—	(2,065)
Common shares issued for cash on the exercise of options	971	57	1,095	234
Net cash used in financing activities	(14,739)	(3,426)	(17,318)	(5,247)
Investing				
Proceeds from short-term investments	—	3,000	301	3,000
Proceeds from sale of property, plant and equipment	—	—	211	—
Purchase of property, plant and equipment	(1,096)	(51)	(1,096)	(88)
Purchase of intangible assets	(678)	—	(1,220)	—
Net cash used in investing activities	(5,290)	(2,856)	(5,320)	(2,893)
Foreign exchange on cash held in foreign currencies	4,885	(2,037)	4,612	(3,568)
Net increase (decrease) in cash and cash equivalents	62,699	(6,574)	50,615	(15,837)
Cash and cash equivalents, beginning of	58,662	126,437	70,746	135,700
Cash and cash equivalents, end of	\$ 121,361	\$ 119,863	\$ 121,361	\$ 119,863

Quarterhill Inc.

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

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total Shareholders' Equity
January 1, 2021	\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930
Net loss	—	—	—	(10,663)	(10,663)
Repurchase of shares for cancellation	(4,027)	1,962	—	—	(2,065)
Other comprehensive loss	—	—	(6,846)	—	(6,846)
Stock-based compensation expense	—	1,010	—	—	1,010
Exercise of options	331	(97)	—	—	234
Common shares issued from restricted stock units	124	20	—	—	144
Common shares issued from performance stock units	12	(12)	—	—	—
Dividends declared	—	—	—	(2,854)	(2,854)
June 30, 2021	\$ 543,977	\$ 49,133	\$ (3,265)	\$ (338,955)	\$ 250,890
January 1, 2022	\$ 544,345	\$ 49,937	\$ 144	\$ (353,310)	\$ 241,116
Net income	—	—	—	33,064	33,064
Other comprehensive income	—	—	2,054	—	2,054
Stock-based compensation expense	—	951	—	—	951
Exercise of stock options	1,707	(612)	—	—	1,095
Common shares issued from restricted stock units	—	143	—	—	143
June 30, 2022	\$ 546,098	\$ 50,373	\$ 2,198	\$ (323,086)	\$ 275,583

Quarterhill Inc.

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

	2022		2021	
	\$	Per Share	\$	Per Share
Net (loss) income from continuing operations	\$ (23,837)	\$ (0.21)	\$ (6,376)	\$ (0.06)
Adjusted for:				
Income tax (recovery) expense	(5,021)	(0.04)	(2,113)	(0.01)
Foreign exchange (gain) loss	(810)	(0.01)	107	—
Finance expense, net	2,367	0.02	79	—
Other charges	15,107	0.14	343	—
Depreciation and amortization	7,249	0.06	4,911	0.04
Stock based compensation expense	222	—	586	—
Other income	(4,236)	(0.04)	(556)	—

Adjusted EBITDA^[1]	\$ (8,959)	\$ (0.08)	\$ (3,019)	\$ (0.03)
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Weighted average number of Common Shares Basic		114,389,952		114,054,045
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Quarterhill Inc.

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

	Six months ended June 30,			
	2022		2021	
	\$	Per Share	\$	Per Share
Net loss from continuing operations	\$ 33,064	\$ 0.29	\$ (10,663)	\$ (0.09)
Adjusted for:				
Income tax expense	9,738	0.09	(2,989)	(0.03)
Foreign exchange (gain) loss	(260)	—	(18)	—
		—		—
Other charges	15,203	0.13	382	—
	—	—	—	—
Amortization of intangible assets	14,688	0.13	9,910	0.09
	—	—	—	—
Stock based compensation expense	951	—	1,010	—
Dividends received from joint venture	—	—	—	—
Other income	(8,257)	(0.07)	(1,186)	(0.01)
Adjusted EBITDA^[1]	\$ 70,139	\$ 0.62	\$ (3,427)	\$ (0.03)

Weighted average number of Common Shares Basic		114,154,645		114,054,045
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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.

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