



NEWS RELEASE

Quarterhill Announces Q3 Fiscal 2023 Financial Results

2023-11-08

TORONTO, Nov. 8, 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, announces its financial results for the three and nine months ended September 30, 2023. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q3 Fiscal 2023 Highlights

- Revenue was \$45.7 million compared to \$42.2 million in Q3 2022.
- Adjusted EBITDA¹ was \$1.9 million compared to \$1.0 million in Q3 2022.
- Revenue backlog³ was more than USD\$500.0 million at September 30, 2023.
- Working capital was \$111.1 million at September 30, 2023.
- Appointed ITS industry veteran Charles ("Chuck") Myers as Chief Executive Officer.
- Electronic Transaction Consultants, LLC ("ETC") went live with its back-office toll operations for the Ohio River Bridges toll service.
- International Road Dynamics ("IRD") won a five-year \$13.7 million contract with the Hawaii Department of Transportation.

"Revenue and Adjusted EBITDA growth in Q3 reflected progress at both our tolling and enforcement businesses as well as the positive impact from the integration actions we have made this year," said Chuck Myers, CEO of Quarterhill. "Of note in the quarter, certain revenue from two of our tolling projects was pushed from Q3 into subsequent periods due to scheduling adjustments in the quarter. This is expected to result in a stronger Q4 and finish to the year."

"Since joining Quarterhill as CEO in September, I have done a deep dive on the company's operations, spending the majority of my time with employees, customers and partners on the ground in North America, Europe and Asia. 2023 has been a year of transition for Quarterhill and I believe further integration opportunities exist to improve our operational efficiency and effectiveness. I look to complete this assessment and to implement any changes by year-end."

"Strategically we remain focused on growing our world-class ITS franchises in tolling and enforcement and on capitalizing on the favorable growth trends in the ITS industry. This is an exciting time to be in ITS and I am honored to lead the Company at this stage of its evolution. My ultimate goal for the business is to generate robust cash flows and to manage expenses throughout all our businesses in order to build a healthy and sustainable balance sheet capable of supporting both our organic and acquisitive strategies."

Q3 and Year-to-Date Fiscal 2023 Financial Review

Quarterhill's Management's Discussion and Analysis and financial statements for the three and nine months ended September 30, 2023 are available at the [Company's website](#) and at its profile at [SEDAR+](#).

Financial statements for the three and nine months ended September 30, 2023, and for the respective comparison periods, have been prepared to reflect continuing operations and therefore exclude results during those periods from Wi-LAN Inc. ("WiLAN"), which was sold by Quarterhill on June 15, 2023. Operating results from WiLAN in 2022 and up to the date of sale on June 15, 2023, are reported as net income (loss) from discontinued operations.

Revenue for the three and nine months ended September 30, 2023, was \$45.7 million and \$135.9 million compared to \$42.2 million and \$119.2 million in the prior year comparative periods, respectively. The increase in revenue was due to growth in both the enforcement and tolling business units.

Gross profit² as a value and as a percentage of revenues may be subject to significant variance in each reporting period due to the nature and type of contract and service work currently in process, currency volatility and competitive factors, among other things. Gross profit for the three and nine months ended September 30, 2023, was \$10.6 million and \$29.1 million, or 23% and 21%, as compared to \$11.5 million and \$27.6 million, or 27% and 23% in the prior year comparative periods, respectively. The decrease in gross profit margin percentage compared to the prior year periods is primarily due to an implementation delay with one tolling project. The delay has resulted in additional anticipated costs and a reduced margin profile for the project. This decrease in gross profit margin was partially offset by continuing strong performance in our enforcement operations.

Operating expenses include sales general and administrative ("SG&A") expense, research and development costs ("R&D"), depreciation and amortization and other charges. Total operating expenses for the three and nine months ended September 30, 2023, were \$13.3 million and \$43.2 million compared to \$17.0 million and \$66.6 million in the prior year comparative periods, respectively. The decreases are primarily due to the cost reduction initiatives deployed by the Company and the allocation of certain selling, general and administrative personnel costs into cost of revenues as well as the absence of a one-time \$14.6 million legal settlement that was present in the 2022 nine-month comparative period.

SG&A for the three and nine months ended September 30, 2023, was \$8.2 million and \$25.9 million compared to \$11.2 million and \$36.7 million in the prior year comparative periods, respectively. As a percentage of revenue, SG&A in Q3 2023 was 18% compared to 27% in Q3 2022. The Company has worked to drive efficiencies in the business through its restructuring and integration efforts, which are reflected in the year-over-year decrease in SG&A.

Adjusted EBITDA¹ for the three and nine months ended September 30, 2023, was \$1.9 million and \$0.6

million compared to \$1.0 million and (\$9.0) million for the comparative prior year periods, respectively. The increase in Adjusted EBITDA compared to the prior year periods is due to the favorable changes to revenue and operating expenses as previously explained.

Net loss from continuing operations for the three and nine months ended September 30, 2023, was (\$0.02) per diluted share and (\$0.25) per diluted share, compared to a net loss from continuing operations of (\$0.04) per diluted share and (\$0.31) per diluted share, in the comparative prior year periods, respectively.

Cash used in continuing operations for the three and nine months ended September 30, 2023, was \$2.3 million and \$21.0 million, compared to cash used in continuing operations of \$23.5 million and \$75.0 million in the comparative prior year periods, respectively.

Cash and cash equivalents and short-term investments were \$60.9 million at September 30, 2023, compared to \$61.0 million at June 30, 2023 and \$67.9 million at December 31, 2022. Working capital was \$111.1 million at September 30, 2023, compared to \$109.5 million at June 30, 2023 and \$71.5 million at December 31, 2022. Due to the nature of the Company's business activities, operating cash flows may vary significantly between periods due to changes and timing in working capital balances.

Conference Call and Webcast

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

Webcast Information

- Live audio webcast will be available at: <https://app.webinar.net/R2gYoZwnlzM>
- Webcast replay will be available at: <https://app.webinar.net/R2gYoZwnlzM>

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/48C6OLQ>

Telephone Replay

Telephone replay will be available from 1:00 p.m. ET on November 8, 2023, until 11:59 p.m. ET on August 15, 2023, at: 1.888.390.0541 (Toll Free North America) or 1.416.764.8677.

Conference ID: 21772343 and Replay Passcode: 772343 #

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. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill. Adjusted EBITDA should not be interpreted as an alternative to net (loss) income 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. 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 and nine months ended September 30, 2023 filed today on www.sedarplus.ca. 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.

Interim Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss)
(in thousands and in Canadian dollars, except share and per share amounts)

Three months ended September 30,	Nine months ended September 30,
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	2023	2022	2023	2022
Revenues	\$45,685	\$42,185	\$135,865	\$119,192
Direct cost of revenues	35,120	30,663	106,785	91,549
Gross profit	10,565	11,522	29,080	27,643
Operating expenses				
Depreciation of right-of-use assets	566	546	1,537	1,580
Depreciation of property, plant and equipment	532	602	1,634	1,590
Amortization of intangible assets	2,733	2,679	8,358	8,787
Selling, general and administrative expenses	8,219	11,245	25,859	36,689
Research and development expenses	756	516	3,285	1,953
Other charges	523	1,405	2,571	16,007
	13,329	16,993	43,244	66,606
Results from operations	(2,764)	(5,471)	(14,164)	(38,963)
Finance income	(486)	(130)	(567)	(250)
Finance expense	2,193	2,095	6,730	7,177
Foreign exchange gain	(2,026)	(2,159)	(540)	(2,669)
Other income	(475)	(1,170)	(1,383)	(9,427)
Loss before taxes	(1,970)	(4,107)	(18,404)	(33,794)
Current income tax expense (recovery)	33	437	(3,417)	989
Deferred income tax expense	225	441	13,201	423
Income tax expense	258	878	9,784	1,412
Net loss from continuing operations	(2,228)	(4,985)	(28,188)	(35,206)
Net income (loss) from discontinued operations	365	(4,729)	(21,809)	58,061
Net (loss) income	(1,863)	(9,714)	(49,997)	22,855
Other comprehensive income that may be reclassified subsequently to net (loss) income:				
Foreign currency translation adjustment	6,318	15,215	903	17,764
Comprehensive income (loss)	\$4,455	\$5,501	(\$49,094)	\$40,619
(Loss) income per share - Basic				
From continuing operations	(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations	0.00	(0.04)	(0.19)	0.51
(Loss) income per share - Basic	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20
(Loss) income per share - Diluted				
From continuing operations	(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations	0.00	(0.04)	(0.19)	0.51
(Loss) income per share - Diluted	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20

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

As at	September 30, 2023	December 31, 2022
Current assets		
Cash and cash equivalents	\$60,868	\$66,357
Short-term investments	-	1,550
Restricted short-term investments	-	6,529
Accounts receivable, net	30,847	23,277
Unbilled revenue	38,246	41,423
Income taxes receivable	253	340
Inventories (net of obsolescence)	14,677	13,671
Prepaid expenses and deposits	6,283	6,852
	151,174	159,999
Non-current assets		

Accounts and other long-term receivables	5,699	539
Long-term prepaid expenses and deposits	478	1,705
Right-of-use assets, net	9,481	10,312
Property, plant and equipment, net	6,629	6,926
Intangible assets, net	111,009	141,335
Investment in joint venture	7,732	7,751
Investment in other entity	3,974	-
Deferred compensation asset	1,219	1,344
Deferred income tax assets	20	25,648
Goodwill	39,254	56,385
	185,495	251,945
TOTAL ASSETS	\$336,669	\$411,944
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$27,239	\$47,063
Income taxes payable	683	982
Current portion of lease liabilities	2,633	2,611
Current portion of deferred revenue	6,660	8,542
Current portion of long-term debt	2,886	29,292
	40,101	88,490
Non-current liabilities		
Deferred revenue	1,871	2,744
Long-term lease liabilities	8,377	9,655
Long-term debt	24,197	-
Convertible debentures	50,042	48,379
Derivative liability	1,277	1,786
Deferred compensation liabilities	1,205	1,169
Deferred income tax liabilities	1,886	2,061
	88,855	65,794
TOTAL LIABILITIES	128,956	154,284
Shareholders' equity		
Capital stock	427,060	546,482
Contributed surplus	170,960	50,958
Accumulated other comprehensive income	17,360	16,457
Deficit	(407,667)	(356,237)
	207,713	257,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$336,669	\$411,944

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

	Three months ended		Nine months ended	
	September 30, 2023	2022	September 30, 2023	2022
Operating activities:				
Net loss from continuing operations	(\$2,228)	(\$4,985)	(\$28,188)	(\$35,206)
Add (deduct) non-cash items:				
Stock-based compensation expense	345	536	710	1,305
Depreciation of right-of-use assets	566	546	1,537	1,580
Depreciation and amortization	3,265	3,281	9,992	10,377
Foreign exchange gain	(2,026)	(2,159)	(540)	(2,669)
Other income, excluding change in derivative liability	(227)	(262)	(874)	(2,104)

Loss on disposal of assets	-	-	-	70
Deferred income tax expense	225	441	9,332	423
Embedded derivatives	-	881	126	341
Change in fair value of derivative liability	(248)	(908)	(509)	(7,323)
Non-cash interest expense	727	-	2,546	452
Net change in non-cash working capital balances	(2,711)	(20,895)	(15,106)	(42,200)
Cash used in continuing operations	(2,312)	(23,524)	(20,974)	(74,954)
Net cash flows attributable to discontinued operations	-	(3,350)	(6,303)	116,721
Net cash (used in) generated from operating activities	(2,312)	(26,874)	(27,277)	41,767
Financing activities:				
Dividends paid	-	(1,420)	(2,866)	(4,260)
Payment of lease liabilities	(288)	(710)	(1,403)	(1,646)
Repayment of long-term debt	(721)	(20,777)	(2,396)	(35,280)
Common shares issued for cash on the exercise of options	107	54	107	1,149
Cash used in financing activities	(902)	(22,853)	(6,558)	(40,037)
Net financing cash flows attributable to discontinued operations	-	(67)	(135)	(201)
Net cash (used in) financing activities	(902)	(22,920)	(6,693)	(40,238)
Investing activities:				
Net proceeds from disposition of a subsidiary	497	-	43,181	-
Cash sold on disposition of a subsidiary	-	-	(10,501)	-
Proceeds from short-term investments	-	-	-	301
Proceeds from sale of property, plant and equipment	56	-	56	211
Purchase of property, plant and equipment	(360)	(1,391)	(1,220)	(2,487)
Dividend received from joint venture	-	718	-	718
Capitalized software costs	(1,057)	(2,083)	(4,179)	(3,303)
Cash (used in) generated from investing activities	(864)	(2,756)	27,337	(4,560)
Net investing cash flows attributable to discontinued operations	-	-	1,603	(3,516)
Net cash (used in) generated from financing activities	(864)	(2,756)	28,940	(8,076)
Foreign exchange on cash held in foreign currencies	3,930	5,390	(459)	10,002
Net (decrease) increase in cash and cash equivalents	(148)	(47,160)	(5,489)	3,455
Cash and cash equivalents, beginning of	61,016	121,361	66,357	70,746
Cash and cash equivalents, end of	\$60,868	\$74,201	\$60,868	\$74,201

Quarterhill Inc.

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

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2022	\$544,345	\$49,937	\$144	(\$353,310)	\$241,116
Net income	-	-	-	22,855	22,855
Other comprehensive income	-	-	17,764	-	17,764
Stock-based compensation expense	-	1,540	-	-	1,540
Exercise of stock options	1,778	(629)	-	-	1,149
Common shares issued from restricted stock units	-	289	-	-	289
Common shares issued from performance stock units	46	(46)	-	-	-
Dividends declared	-	-	-	(4,260)	(4,260)

Balance, September 30, 2022	\$546,169	\$51,091	\$17,908	(\$334,715)	\$280,453
Balance, January 1, 2023	\$546,482	\$50,958	\$16,457	(\$356,237)	\$257,660
Net loss	-	-	-	(49,997)	(49,997)
Other comprehensive income	-	-	903	-	903
Stock-based compensation expense	-	710	-	-	710
Exercise of stock options	195	(88)	-	-	107
Common shares issued from restricted stock units	308	(545)	-	-	(237)
Common shares issued from deferred stock units	75	(75)	-	-	-
Reduction of stated capital	(120,000)	120,000	-	-	-
Dividends declared	-	-	-	(1,433)	(1,433)
Balance, September 30, 2023	\$427,060	\$170,960	\$17,360	(\$407,667)	\$207,713

Quarterhill Inc.

Reconciliation of Net Loss to Adjusted EBITDA

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

	Three months ended September 30,			
	2023		2022	
	\$	Per Share [2]	\$	Per Share
Net loss from continuing operations	(\$2,228)	(\$0.02)	(\$4,985)	(\$0.04)
Adjusted for:				
Income tax expense	258	0.00	878	0.01
Foreign exchange gain	(2,026)	(0.02)	(2,159)	(0.02)
Finance expense, net	1,707	0.02	1,965	0.02
Other charges	523	0.01	1,405	0.01
Depreciation and amortization	3,831	0.03	3,827	0.03
Stock based compensation expense	345	0.00	536	0.01
Dividends received from joint venture	-	-	718	0.01
Other income	(475)	(0.00)	(1,170)	(0.01)
Adjusted EBITDA [1]	\$1,935	\$0.02	\$1,015	\$0.01

Weighted average number of Common Shares
Basic

114,785,188

114,601,779

	Nine months ended September 30,			
	2023		2022	
	\$	Per Share [2]	\$	Per Share
Net loss from continuing operations	(\$28,188)	(\$0.25)	(\$35,206)	(\$0.31)
Adjusted for:				
Income tax expense	9,784	0.09	1,412	0.01
Foreign exchange gain	(540)	(0.00)	(2,669)	(0.02)
Finance expense, net	6,163	0.05	6,927	0.06
Other charges	2,571	0.02	16,007	0.14
Depreciation and amortization	11,529	0.10	11,957	0.10

Stock based compensation expense	710	0.01	1,305	0.01
Dividends received from joint venture	-	-	718	0.01
Other income	(1,383)	(0.01)	(9,427)	(0.08)
Adjusted EBITDA [1]	\$646	\$0.01	(\$8,976)	(\$0.08)

Weighted average number of Common Shares				
Basic	114,692,086		114,305,328	

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-q3-fiscal-2023-financial-results-301981302.html>

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