



NEWS RELEASE

Quarterhill Announces Second Quarter Fiscal 2021 Financial Results

2021-08-05

TORONTO, Aug. 5, 2021 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three and six months ended June 30, 2021. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q2 Fiscal 2021 Highlights

- Consolidated Revenue was \$18.9 million
- Consolidated Adjusted EBITDA¹ was (\$3.0) million. The Intelligent Transportation Systems ("ITS") segment generated \$2.7 million of positive Adjusted EBITDA
- Consolidated cash generated from operations was \$1.7 million
- Cash, cash equivalents, and short-term investments were \$122.7 million at June 30, 2021
- Working capital was \$138.5 million at June 30, 2021
- Acquired VDS GmbH ("VDS"), a German Intelligent Transportation Systems ("ITS") provider of high precision traffic monitoring devices
- Ongoing integration of Sensor Line (acquired in January 2021) and VDS, which has already led to revenue and cost synergies

"In Q2, we continued to make progress on our M&A strategy acquiring VDS, which was our second acquisition of the year," said Paul Hill, President and CEO of Quarterhill. "The two acquisitions were tuck-ins for our wholly-owned subsidiary International Road Dynamics Inc. ("IRD") and the integration of both companies is going very well. Already, we are generating new revenue opportunities, realizing cost synergies and laying the groundwork for IRD's further expansion into Europe. Looking out through the remainder of the year, we have a robust pipeline of M&A opportunities of all sizes and are intent on completing more transactions, with a particular focus right now on larger sized deals."

"On the operational front, IRD delivered solid revenue and Adjusted EBITDA in Q2 and the two tuck-in acquisitions demonstrate the global platform potential of the business and their ability to identify, acquire, integrate and grow acquired companies. Our other wholly-owned subsidiary, WiLAN Inc. ("WiLAN"), has generated licensing activity year-to-date despite challenges posed by the COVID-19

pandemic, but overall, its financial results so far in 2021 reflect the episodic nature of the IP industry business model. On an annual basis, WiLAN has historically delivered significant cash flows and we continue to expect that for 2021. This means we are looking for a strong second half from the business and we remain encouraged by the pipeline of opportunities the team is working on."

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on October 8, 2021, to shareholders of record on September 10, 2021.

Q2 Fiscal 2021 Financial Review

The Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2021 and for the respective comparison periods have been prepared to reflect continuing operations and therefore exclude results in 2020 during those periods from VIZIYA, which was sold by Quarterhill on May 15, 2020. The 2020 operating results from VIZIYA, up to the date of sale on May 15, 2020, are reported as net loss from discontinued operations in accordance with IFRS 5.

Quarterhill's revenue is broadly segmented into Licensing, reflecting the WiLAN business, and ITS, reflecting the IRD business. Quarterhill's Management's Discussion and Analysis and Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2021 are available at the [Company's website](#) and at its profile at [SEDAR](#).

Consolidated revenues for the three months ended June 30, 2021 ("Q2 2021") were \$18.9 million, compared to \$16.8 million in Q2 2020. Consolidated revenues for the six months ended June 30, 2021 ("YTD 2021") were \$38.2 million, compared to \$38.4 million in the same period last year. Revenue at IRD increased in Q2 2021 and YTD 2021 due primarily to the two acquisitions completed in 2021 as well as resilience in its core business, which has performed well throughout the COVID-19 pandemic. WiLAN's revenue increased in Q2 2021 and was lower in the YTD 2021 period compared to the respective periods in the prior year. The majority of WiLAN's licenses are one-time in nature and significant fluctuations in revenue, gross margin, and Adjusted EBITDA can result when the volume or dollar value of licenses changes from one period to the next. Despite headwinds related to the COVID-19 pandemic, WiLAN continues to show it can complete licensing agreements in a challenging environment and a stronger second half to 2021 is expected as pandemic-related restrictions ease.

Gross margin for Q2 2021 was 18% compared to 25% in Q2 2020. Gross margin for the YTD 2021 period was 26% compared to 30% in the same period last year. Gross margin at IRD was 37% in Q2 2021 compared to 42% in Q2 2020, and for the YTD 2021 period was 39%, compared to 35% in the same period last year. IRD margins may fluctuate on a quarterly basis depending primarily on the nature of projects underway during the period and the related margin profile. WiLAN gross margins decreased in the quarter and YTD period primarily due to higher litigation and contingent legal and partner costs compared to the same periods last year.

Operating expenses include selling, general and administrative costs ("SG&A"), research and development costs ("R&D"), depreciation and amortization and special charges. Operating expenses for

Q2 2021 were \$12.2 million compared to \$12.6 million in Q2 2020. Operating expenses for the YTD 2021 period were \$24.7 million compared to \$25.2 million in the same period last year. Operating expenses were lower for the quarterly and YTD 2021 periods primarily due to lower amortization of intangibles and special charges, which were offset, in part, by the addition of expenses from the acquired ITS companies.

Consolidated Adjusted EBITDA for Q2 2021 was (\$3.0) million compared to (\$2.0) million in Q2 2020. Consolidated Adjusted EBITDA for the YTD 2021 period was (\$3.4) million compared to (\$1.8) million in the same period last year. IRD generated Adjusted EBITDA of \$2.7 million in Q2 2021 and \$4.1 million for the YTD 2021 period. WiLAN's Adjusted EBITDA for Q2 2021 was (\$3.9) million and for the YTD 2021 period was (\$2.7) million.

Cash generated from (used in) continuing operations for Q2 2021 was \$1.7 million compared to (\$4.3) million in Q2 2020. Cash generated from (used in) continuing operations for the YTD 2021 period was (\$4.1) million compared to \$5.4 million in the same period last year. Cash and cash equivalents and short-term investments were \$122.7 million at June 30, 2021, compared to \$141.3 million at December 31, 2020. Working capital at June 30, 2021, was \$138.5 million compared to \$159.7 million at December 31, 2020.

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=1479850&tp_key=3c86cac3c6

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=1479850&tp_key=3c86cac3c6

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on May 13, 2021 at: 1.888.390.0541 (Toll Free North America) or 1.416.764.8677 (International). The telephone replay requires the passcode 353765.

¹ Non-IFRS Disclosure

Quarterhill has historically used a set of metrics when evaluating our operational and financial performance. We continually monitor, evaluate and update these metrics as required to ensure they provide information considered most useful, in the opinion of our management, to any decision-making based on Quarterhill's performance. This section defines, quantifies and analyzes the key performance indicators used by our management and referred to elsewhere in this press release, which are not recognized under IFRS and have no standardized meaning prescribed by IFRS. These indicators and measures are therefore unlikely to be comparable to similar measures presented by other issuers.

In this press release, we use the Non-IFRS term "Adjusted EBITDA" to mean net income (loss) from continuing operations before: (i) income taxes; (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) special charges and other one-time items; (v) depreciation of right-of-use assets and property, plant and equipment; (vi) stock-based compensation; (vii) foreign exchange (gain) loss; and (viii) equity in earnings and dividends from joint ventures. Adjusted EBITDA is used by our management to assess our normalized cash generated on a consolidated basis and in our operating segments. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill and our operating segments. Adjusted EBITDA should not be interpreted as an alternative to net income and cash flows from operations as determined in accordance with IFRS or as a measure of liquidity.

About Quarterhill

Quarterhill is focused on acquisition, management and growth of companies in the intelligent transportation systems ("ITS") and innovation and licensing industries. Our goal is to execute an investment strategy that capitalizes on attractive growth opportunities within ITS - and its adjacent markets - to become a global leader in that industry. Quarterhill is listed on the TSX under the symbol QTRH and on the OTCQX Best Market under the symbol QTRHF. For more information: www.quarterhill.com

Forward-looking Information

This news release contains forward-looking statements regarding Quarterhill and its business. Forward-looking statements are based on estimates and assumptions made by Quarterhill in light of its experience and its perception of historical trends, current conditions, expected future developments and the expected effects of new business strategies, as well as other factors that Quarterhill believes are appropriate in the circumstances. The forward-looking events and circumstances discussed herein may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting Quarterhill, including: potential risks and uncertainties relating to the ultimate geographic spread of the novel coronavirus ("COVID-19"); the severity of the disease; the duration of the COVID-19 outbreak; actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact; the potential negative impacts of COVID-19 on the global economy and financial markets and any resulting impact on Quarterhill and/or its business. Other factors include, without limitation, the risks described in Quarterhill's March 11, 2021 annual information form for the year ended December 31, 2020 (the "AIF"). Copies of the AIF may

be obtained at www.sedar.com. Quarterhill recommends that readers review and consider all of these risk factors and notes that readers should not place undue reliance on any of Quarterhill's forward-looking statements. Quarterhill has no intention, and undertakes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Quarterhill Inc.

Interim Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income (Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
CONTINUING OPERATIONS				
Revenues				
Licensing	\$ 1,750	\$ 320	\$ 9,598	\$ 10,520
Intelligent Transportation Systems	17,125	16,504	28,593	27,917
	18,875	16,824	38,191	38,437
Direct cost of revenues				
Licensing	4,854	3,062	10,723	8,830
Intelligent Transportation Systems	10,711	9,594	17,521	18,013
	15,565	12,656	28,244	26,843
Gross profit	3,310	4,168	9,947	11,594
Operating expenses				
Depreciation of right-of-use assets	304	237	583	481
Depreciation of property, plant and equipment	256	247	489	471
Amortization of intangible assets	4,351	4,848	8,838	9,590

Selling, general and administrative expenses	6,336	5,826	13,411	12,121
Research and development expenses	579	555	973	1,424
Impairment losses on intangible assets	—	233	—	233
Special charges	343	659	382	872
	12,169	12,605	24,676	25,192
Results from operations	(8,859)	(8,437)	(14,729)	(13,598)
Finance income	(33)	(160)	(54)	(382)
Finance expense	112	118	181	214
Foreign exchange loss (gain)	107	(3)	(18)	(585)
Other income	(556)	(431)	(1,186)	(809)
Loss before taxes	(8,489)	(7,961)	(13,652)	(12,036)
Current income tax expense	230	78	774	1,344
Deferred income tax recovery	(2,343)	(3,052)	(3,763)	(3,481)
Income tax recovery	(2,113)	(2,974)	(2,989)	(2,137)
Net loss from continuing operations	(6,376)	(4,987)	(10,663)	(9,899)
Net income from discontinued operations	—	14,455	—	14,255
Net (loss) income	\$ (6,376)	\$ 9,468	\$ (10,663)	\$ 4,356
Other comprehensive (loss) income that may be reclassified subsequently to net (loss) income:				
Foreign currency translation adjustment	(3,112)	(11,188)	(6,846)	9,875
Comprehensive (loss) income	\$ (9,488)	\$ (1,720)	\$ (17,509)	\$ 14,231

(Loss) income per share								
From continuing operations	\$	(0.06)	\$	(0.04)	\$	(0.09)	\$	(0.08)
From discontinued operations		—		0.12		—		0.12
(Loss) income per share - Basic								
From continuing operations	\$	(0.06)	\$	(0.04)	\$	(0.09)	\$	(0.08)
From discontinued operations		—		0.12		—		0.12
(Loss) income per share - Diluted								
	\$	(0.06)	\$	0.08	\$	(0.09)	\$	0.04

Quarterhill Inc.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

As at	June 30, 2021	December 31, 2020
Current assets		
	\$	\$
	119,863	135,700
Cash and cash equivalents	2,848	5,550
Short-term investments	3,025	—
Restricted short-term investments	12,298	13,747
Accounts receivable	10,922	13,549
Unbilled revenue	239	264
Income taxes recoverable	10,971	9,068

Inventories (net of obsolescence)	3,537	8,264
Prepaid expenses and deposits	163,703	186,142
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Non-current assets		
	494	506
Accounts receivable	534	338
Prepaid expenses and deposits	4,484	3,780
Right-of-use assets, net	2,844	2,783
Property, plant and equipment, net	53,405	59,261
Intangible assets, net	7,776	6,704
Investment in joint venture	30,045	28,202
Deferred income tax assets	19,096	16,093
Goodwill	118,678	117,667
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TOTAL ASSETS	\$ 282,381	\$ 303,809
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Liabilities		
Current liabilities		
	\$ 17,105	\$ 20,038
Accounts payable and accrued liabilities	892	631
Income taxes payable	1,332	1,012
Current portion of lease liabilities	5,909	4,800
Current portion of deferred revenue	25,238	26,481
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Non-current liabilities		
	3,096	2,573
Deferred revenue	3,157	2,747
Long-term lease liabilities	—	78
Deferred income tax liabilities		
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	6,253	5,398
TOTAL LIABILITIES	31,491	31,879
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Shareholders' equity		
	543,977	547,537
Capital stock	49,133	46,250
Contributed surplus	(3,265)	3,581
Accumulated other comprehensive (loss) income Deficit	(338,955)	(325,438)
	250,890	271,930
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 282,381	\$ 303,809
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Quarterhill Inc.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(in thousands of Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	<hr/>		<hr/>	
Cash generated from (used in) operations				
Net loss from continuing operations	\$ (6,376)	\$ (4,987)	\$ (10,663)	\$ (9,899)
Non-cash items				
Stock-based compensation expense	586	221	1,010	196
Depreciation of right- of-use assets	304	237	583	481
Interest expense on lease liabilities	34	56	84	112
Depreciation and	4,607	5,095	9,327	10,061

amortization				
Foreign exchange gain (loss)	78	(478)	(18)	(194)
Equity in earnings from joint venture	(557)	(431)	(1,187)	(809)
Gain on disposal of intangible assets	(53)	—	—	—
Impairment losses on intangible assets	—	233	—	233
Gain on disposal of assets	—	(6)	—	(10)
Deferred income tax recovery	(2,343)	(3,052)	(3,763)	(3,481)
Long-term accounts receivable	12	—	12	—
	(1)	121	5	(101)
Embedded derivatives				
Changes in non-cash working capital balances	5,454	(1,267)	481	8,817
Cash generated from (used in) continuing operations	1,745	(4,258)	(4,129)	5,406
Net cash flows attributable to discontinuing operations	—	(2,478)	—	(3,075)
Net cash generated from (used in) operating activities	1,745	(6,736)	(4,129)	2,331
Financing				
	(1,473)	—	(2,854)	(1,481)
Dividends paid	—	4,796	—	2,984
Bank indebtedness				
Payment of lease liabilities	(269)	(271)	(562)	(586)
Repayment of long-term debt	—	(13)	—	(120)
Exercise of stock options	—	14	—	14
Repurchase of shares for cancellation	(1,741)	—	(2,065)	—
Common shares issued for cash on the exercise of options	57	—	234	—
Common shares issued from performance stock units	—	—	—	24
Cash (used in)				

generated from continuing operations	(3,426)	4,526	(5,247)	835
financing activities				
Net cash (used in) generated from financing activities	(3,426)	4,526	(5,247)	835
Investing				
Proceeds from disposition of a subsidiary	—	49,400	—	49,400
Cash sold on disposition of a subsidiary	—	(1,825)	—	(1,825)
Proceeds from short-term investments	3,000	—	3,000	—
Purchase of restricted short-term investments	(3,025)	—	(3,025)	—
Proceeds from sale of property, plant and equipment	—	12	—	16
Purchase of property, plant and equipment	(51)	(586)	(88)	(887)
Acquisition of business, VDS	(2,780)	—	(2,780)	—
Purchase of intangibles	—	(8)	—	(25)
Cash (used in) generated from continuing operations investing activities	(2,856)	46,993	(2,893)	46,679
Net cash flows attributable to discontinuing operations	—	(11)	—	(81)
Net cash (used in) generated from investing activities	(2,856)	46,982	(2,893)	46,598
Foreign exchange on cash held in foreign currency	(2,037)	(4,853)	(3,568)	3,881
Net (decrease) increase in cash and cash equivalents	(6,574)	39,919	(15,837)	53,645
Cash and cash equivalents, beginning of	126,437	101,596	135,700	87,870
Cash and cash				

equivalents, end of	\$ 119,863	\$ 141,515	\$ 119,863	\$ 141,515
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**Quarterhill
Inc.**

Interim Condensed Consolidated Statement of Equity (Unaudited)

(in thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total Shareholders' Equity
January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
Net income	—	—	—	4,356	4,356
Other comprehensive income	—	—	9,875	—	9,875
Stock-based compensation expense	—	196	—	—	196
Exercise of options	14	—	—	—	14
Common shares issued from performance stock units	24	—	—	—	24
Dividends declared	—	—	—	(2,943)	(2,943)
June 30, 2020	\$ 570,591	\$ 32,207	\$ 20,811	\$ (336,884)	\$ 286,725
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

Quarterhill Inc.

Reconciliation of Net loss to Adjusted EBITDA (Unaudited)

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

Three months ended June 30,			
2021		2020	
\$	Per Share	\$	Per Share

Net loss from continuing operations	\$ (6,376)	\$ (0.06)	\$ (4,987)	\$ (0.04)
Adjusted for:				
Income tax expense (recovery)	(2,113)	(0.01)	(2,974)	(0.03)
	107	—	(3)	—
Foreign exchange gain	79	—	(42)	—
Finance expense (income), net	343	—	659	0.01
Special charges	—	—	233	—
Impairment losses on intangible assets	4,911	0.04	5,332	0.04
Depreciation and amortization	586	—	221	—
Stock based compensation expense (recovery)	(556)	—	(431)	—
Other income				
Adjusted EBITDA	\$ (3,019)	\$ (0.03)	\$ (1,992)	\$ (0.02)

Weighted average number of Common Shares

	114,054,045	118,861,166
Basic		

Six months ended June 30,

	2021		2020	
	\$	Per Share	\$	Per Share
Net loss from continuing operations	\$ (10,663)	\$ (0.09)	\$ (9,899)	\$ (0.08)
Adjusted for:				
Income tax recovery	(2,989)	(0.03)	(2,137)	(0.02)
Foreign exchange gain	(18)	—	(585)	—

	127	—	(168)	—
Finance expense (income), net	382	—	872	0.01
Special charges	—	—	233	—
Impairment losses on intangible assets	9,910	0.09	10,542	0.08
Depreciation and amortization	1,010	0.01	196	—
Stock based compensation expense	(1,186)	(0.01)	(809)	(0.01)
Other income				
Adjusted EBITDA	\$ (3,427)	\$ (0.03)	\$ (1,755)	(0.02)

Weighted average number of
Common Shares

	114,230,204	118,846,724
Basic		

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