



NEWS RELEASE

Quarterhill Announces Third Quarter Fiscal 2021 Financial Results

2021-11-10

TORONTO, Nov. 10, 2021 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three and nine months ended September 30, 2021. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Q3 Fiscal 2021 Highlights

- Consolidated Revenue was \$36.3 million
- Consolidated Adjusted EBITDA¹ was \$7.6 million
- Cash, cash equivalents, and short-term investments were \$37.0 million at September 30, 2021
- Working capital of \$60.0 million at September 30, 2021
- Completed acquisition of Electronic Transaction Consultants, LLC ("ETC") a leading provider of tolling and mobility systems to some of the largest tolling authorities in the U.S.
- Subsequent to quarter-end, completed a \$57.5 million bought-deal public offering of convertible debentures, which included the exercise of the full over-allotment option

"In Q3, we acquired ETC, an ITS leader in tolling, which represents significant progress on two fundamental objectives of our M&A growth strategy," said Paul Hill, President and CEO of Quarterhill. "First, it brings scale to our ITS business which enhances the overall financial profile of Quarterhill with more visible and consistent revenue and Adjusted EBITDA. Second, it positions us in a vertical - tolling - that we think has significant tailwinds behind it and it also provides us with a second platform in the ITS industry from which we can further accelerate growth via tuck-in acquisitions. So far in 2021 we have deployed approximately \$160.0 million on three acquisitions and with our recently completed convertible debenture financing, we look forward to building on our M&A track record in the coming quarters."

"Q3 was a good quarter operationally with both WiLAN, our licensing business, and our ITS segment generating positive Adjusted EBITDA. WiLAN signed multiple licensing agreements and made a patent portfolio acquisition during the quarter, while IRD signed new agreements in Oklahoma, Illinois and

Idaho. With ETC, its Q3 contribution reflects only a one-month period post-closing of the acquisition, however, during the quarter the company signed a contract with the Louisville-Southern Indiana Ohio River Bridges Joint Board to provide back-office technology for services such as billing and account management for a ten-year period. So far the integration of ETC is going well and already here in Q4 they are making good progress advancing opportunities in their pipeline."

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on January 10, 2022, to shareholders of record on December 10, 2021.

Q3 Fiscal 2021 Financial Review

The Interim Condensed Consolidated Financial Statements ("financial statements") for the three and nine months ended September 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 income 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 and ETC businesses. ETC was acquired September 1, 2021 and as a result, the financial statements for the three and nine months ended September 30, 2021 include approximately one-month of ETC's financial results.

Quarterhill's Management's Discussion and Analysis and financial statements for the three and nine months ended September 30, 2021 are available at the [Company's website](#) and at its profile at [SEDAR](#).

Consolidated revenues for the three months ended September 30, 2021 ("Q3 2021") were \$36.3 million, compared to \$88.0 million in Q3 2020. Consolidated revenues for the nine months ended September 30, 2021 ("YTD 2021") were \$74.5 million, compared to \$126.4 million in the same period last year. ITS revenue increased in Q3 2021 and YTD 2021 due primarily to the three acquisitions completed in 2021. With the close of the recent quarter, the ITS segment has reported revenue growth quarter over quarter this year to date. WiLAN's revenue decreased in Q3 2021 and in the YTD 2021 period compared to the respective periods in the prior year as the majority of its 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. Despite headwinds related to the COVID-19 pandemic, WiLAN continues to show it can complete licensing agreements in a challenging environment with Q3 2021 being its strongest quarter of the year so far.

Gross margin for Q3 2021 was 42% compared to 52% in Q3 2020. Gross margin for the YTD 2021 period was 34% compared to 45% in the same period last year. Gross margin in the ITS segment was 37% in Q3 2021 compared to 50% in Q3 2020, and for the YTD 2021 period was 38%, compared to 42% in the same period last year. ITS 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

rose slightly in the quarter and decreased for the YTD 2021 period. Gross margin at WiLAN 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 special charges. Operating expenses for Q3 2021 were \$19.1 million compared to \$12.1 million in Q3 2020. Operating expenses for the YTD 2021 period were \$43.8 million compared to \$37.3 million in the same period last year. Operating expenses for Q3 2021 and YTD 2021 included special charges of \$3.7 million and \$4.0 million, respectively. Overall, operating expenses have increased in 2021 due primarily to special charges and the addition of expenses from the acquired ITS companies.

Consolidated Adjusted EBITDA for Q3 2021 was \$7.6 million compared to \$39.0 million in Q3 2020. Consolidated Adjusted EBITDA for the YTD 2021 period was \$4.2 million compared to \$37.3 million in the same period last year. Consolidated Adjusted EBITDA decreased in the 2021 periods due to the significant level of licensing activity at WiLAN in Q3 2020. On a segment basis, the ITS business generated Adjusted EBITDA of \$4.5 million in Q3 2021 and \$8.6 million for the YTD 2021 period. WiLAN's Adjusted EBITDA for Q3 2021 was \$5.4 million and for the YTD 2021 period was \$2.7 million.

Cash (used in) generated from continuing operations for Q3 2021 was (\$10.9) million compared to \$4.5 million in Q3 2020. Cash (used in) generated from continuing operations for the YTD 2021 period was (\$15.0) million compared to \$9.9 million in the same period last year. Cash and cash equivalents and short-term investments were \$37.0 million at September 30, 2021, compared to \$141.3 million at December 31, 2020, with the decrease reflecting cash deployed on the acquisitions made so far in 2021. Working capital at September 30, 2021, was \$60.0 million compared to \$159.7 million at December 31, 2020. Subsequent to quarter-end, on October 27, 2021, Quarterhill completed a \$57.5 million bought-deal public offering of unsecured subordinated convertible debentures which will be reflected in the balance sheet as 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://produceredition.webcasts.com/starthere.jsp?ei=1503336&tp_key=62b180068b

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=1503336&tp_key=62b180068b

Telephone replay will be available until 11:59 p.m. Eastern Daylight Time on November 17, 2021 at: 1.888.390.0541 (Toll Free North America) or 1.416.764.8677 (International). The telephone replay requires the passcode 671670.

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 a growth-oriented company 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 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"). In addition, readers are also urged to review the additional risk factors disclosed in our Management's Discussion and Analysis for our three and nine months ended September 30, 2021 and 2020 filed today on www.sedar.com. Quarterhill recommends that readers review and consider all of these risk factors and notes that readers should not place undue reliance on any of Quarterhill's forward-looking statements. Quarterhill has no intention, and undertakes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Quarterhill Inc.

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

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

CONTINUING OPERATIONS	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues				
Licensing	\$ 11,416	\$ 67,263	\$ 21,014	\$ 77,783
Intelligent Transportation Systems	24,927	20,734	53,520	48,651
	36,343	87,997	74,534	126,434
Direct cost of revenues				
Licensing	5,318	32,118	16,041	40,949
Intelligent Transportation Systems	15,612	10,278	33,133	28,290

	20,930	42,396	49,174	69,239
Gross profit	15,413	45,601	25,360	57,195
Operating expenses				
Depreciation of right-of-use assets	418	257	1,001	738
Depreciation of property, plant and equipment	323	250	812	721
Amortization of intangible assets	5,156	4,726	13,994	14,316
Selling, general and administrative expenses	8,831	6,424	22,242	18,545
Research and development expenses	728	390	1,701	1,814
Impairment losses on intangible assets	—	62	—	295
Special charges	3,666	—	4,048	872
	19,122	12,109	43,798	37,301
Results from operations	(3,709)	33,492	(18,438)	19,894
Finance income	(56)	(146)	(110)	(528)
Finance expense	343	153	524	367
Foreign exchange (gain) loss	(637)	72	(655)	(513)
Other income	(661)	(383)	(1,847)	(1,192)
(Loss) income before taxes	(2,698)	33,796	(16,350)	21,760
Current income tax expense	270	325	1,044	1,669
Deferred income tax (recovery) expense	(965)	8,943	(4,728)	5,462
Income tax (recovery) expense	(695)	9,268	(3,684)	7,131

Net (loss) income from continuing operations	(2,003)	24,528	(12,666)	14,629
Net income from discontinued operations	—	—	—	14,255
Net (loss) income	\$ (2,003)	\$ 24,528	\$ (12,666)	\$ 28,884
Other comprehensive income (loss) that may be reclassified subsequently to net (loss) income:				
Foreign currency translation adjustment	4,439	(4,693)	(2,407)	5,182
Comprehensive income (loss)	\$ 2,436	\$ 19,835	\$ (15,073)	\$ 34,066
(Loss) income per share				
From continuing operations	\$ (0.02)	\$ 0.21	\$ (0.11)	\$ 0.13
From discontinued operations	—	—	—	0.12
(Loss) income per share - Basic	\$ (0.02)	\$ 0.21	\$ (0.11)	\$ 0.25
From continuing operations	\$ (0.02)	\$ 0.21	\$ (0.11)	\$ 0.12
From discontinued operations	—	—	—	0.12
(Loss) income per share - Diluted	\$ (0.02)	\$ 0.21	\$ (0.11)	\$ 0.24

Quarterhill Inc.

Interim Condensed Consolidated Statements of Financial

Position (Unaudited)

(in thousands and in Canadian dollars)

As at	September 30, 2021	December 31, 2020
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Current assets		
	\$ 33,925	\$ 135,700
Cash and cash equivalents	3,124	5,550
Short-term investments	3,095	—
Restricted short-term investments	27,745	13,747
Accounts receivable	26,254	13,549
Unbilled revenue	425	264
Income taxes recoverable	12,317	9,068
Inventories (net of obsolescence)	6,033	8,264
Prepaid expenses and deposits	112,918	186,142
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Non-current assets		
	2,696	844
Accounts and other long-term receivables	8,371	3,780
Right-of-use assets, net	5,753	2,783
Property, plant and equipment, net	152,787	59,261
Intangible assets, net	7,173	6,704
Investment in joint venture	30,921	28,124
Deferred income tax assets	53,542	16,093
Goodwill	261,243	117,589
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TOTAL ASSETS	\$ 374,161	\$ 303,731
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Liabilities		

Current liabilities		
	\$ 12,727	\$ —
Bank indebtedness		
	26,571	20,038
Accounts payable and accrued liabilities		
	747	631
Income taxes payable		
	2,135	1,012
Current portion of lease liabilities		
	7,519	4,800
Current portion of deferred revenue		
	3,182	—
Current portion of long-term debt		
	52,881	26,481
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Non-current liabilities		
	1,735	2,573
Deferred revenue		
	6,234	2,747
Long-term lease liabilities		
	59,744	—
Long-term debt		
	1,241	—
Other long-term liabilities		
	68,954	5,320
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TOTAL LIABILITIES	121,835	31,801
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Shareholders' equity		
	544,065	547,537
Capital stock		
	49,465	46,250
Contributed surplus		
	1,174	3,581
Accumulated other comprehensive income		
	(342,378)	(325,438)
Deficit		
	252,326	271,930
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 374,161	\$ 303,731
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Quarterhill Inc.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(in thousands and in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cash generated from (used in) operations				
Net (loss) income from continuing operations	\$ (2,003)	\$ 24,528	\$ (12,666)	\$ 14,629
Non-cash items				
Stock-based compensation expense	374	248	1,384	444
Depreciation of right- of-use assets	418	257	1,001	738
Interest expense on lease liabilities	66	59	150	171
Depreciation and amortization	5,479	4,976	14,806	15,037
Foreign exchange gain	(637)	(38)	(655)	(232)
Equity in earnings from joint venture	(587)	(383)	(1,774)	(1,192)
Impairment losses on intangible assets	—	62	—	295
Loss on disposal of assets	—	14	—	4
Deferred income tax (recovery) expense	(965)	8,943	(4,728)	5,462
Accounts and other long-term receivables	(573)	—	(561)	—
Other long-term liabilities	158	—	158	—
Embedded derivatives	49	69	54	(32)
Changes in non-cash working capital balances	(12,693)	(34,231)	(12,212)	(25,414)
Cash (used in) generated from continuing operations	(10,914)	4,504	(15,043)	9,910
Net cash flows attributable to discontinuing	—	—	—	(4,349)

operations				
Net cash (used in) generated from operating activities	(10,914)	4,504	(15,043)	5,561
Financing				
	(1,420)	(1,443)	(4,274)	(2,924)
Dividends paid				
Advances from (repayment of) revolving credit facility	12,727	(3,596)	12,727	(612)
Net proceeds from long-term debt	62,926	—	62,926	—
Payment of lease liabilities	(523)	(274)	(1,085)	(860)
Repayment of long-term debt	—	(8)	—	(128)
Repurchase of shares for cancellation	—	(9,322)	(2,065)	(9,322)
Common shares issued for cash on the exercise of options	46	—	280	14
Common shares issued from performance stock units	—	—	—	24
Net cash generated from (used in) financing activities	73,756	(14,643)	68,509	(13,808)
Investing				
Proceeds from disposition of a subsidiary	—	—	—	49,400
Cash sold on disposition of a subsidiary	—	—	—	(1,825)
Proceeds from short-term investments	—	—	3,000	—
Purchase of short-term investments	—	(4,054)	—	(4,054)
Purchase of restricted short-term investments	—	—	(3,025)	—
Proceeds from sale of property, plant and equipment	—	16	—	32
Purchase of property, plant and equipment	(331)	(309)	(419)	(1,196)
Acquisition of business, VDS	—	—	(2,780)	—

Acquisition of business, ETC - net of cash acquired	(151,469)	—	(151,469)	—
Dividends received from joint venture	1,348	—	1,348	—
Purchase of intangible assets	(252)	(30)	(252)	(55)
Cash (used in) generated from continuing operations investing activities	(150,704)	(4,377)	(153,597)	42,302
Net cash flows attributable to discontinuing operations	—	—	—	(81)
Net cash (used in) generated from investing activities	(150,704)	(4,377)	(153,597)	42,221
Foreign exchange on cash held in foreign currencies	1,924	(2,869)	(1,644)	2,286
Net (decrease) increase in cash and cash equivalents	(85,938)	(17,385)	(101,775)	36,260
Cash and cash equivalents, beginning of	119,863	141,515	135,700	87,870
Cash and cash equivalents, end of	\$ 33,925	\$ 124,130	\$ 33,925	\$ 124,130

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Interim Condensed Consolidated Statement of Equity (Unaudited)

(in thousands and in Canadian dollars)

Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
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January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
Net income	—	—	—	28,884	28,884
Repurchase of shares for cancellation	(9,322)	—	—	—	(9,322)
Other comprehensive income	—	—	5,182	—	5,182
Stock-based compensation expense	—	444	—	—	444
Exercise of options	14	—	—	—	14
Common shares issued from performance stock units	24	—	—	—	24
Dividends declared	—	—	—	(4,441)	(4,441)
September 30, 2020	\$ 561,269	\$ 32,455	\$ 16,118	\$ (313,854)	\$ 295,988
January 1, 2021	\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930
Net loss	—	—	—	(12,666)	(12,666)
Repurchase of shares for cancellation	(4,027)	1,962	—	—	(2,065)
Other comprehensive loss	—	—	(2,407)	—	(2,407)
Stock-based compensation expense	—	1,384	—	—	1,384
Exercise of options	387	(107)	—	—	280
Common					

shares issued from restricted stock units	156	(12)	—	—	144
Common shares issued from performance stock units	12	(12)	—	—	—
Dividends declared	—	—	—	(4,274)	(4,274)
September 30, 2021	\$ 544,065	\$ 49,465	\$ 1,174	\$ (342,378)	\$ 252,326

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Reconciliation of Net loss to Adjusted EBITDA (Unaudited)

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

	Three months ended September 30,			
	2021		2020	
	\$	Per Share	\$	Per Share
Net (loss) income from continuing operations	\$ (2,003)	\$ (0.02)	\$ 24,528	\$ 0.21
Adjusted for:				
Income tax (recovery) expense	(695)	(0.01)	9,268	0.08
Foreign exchange (gain) loss	(637)	(0.01)	72	—
	287	—	7	—
Finance expense, net	3,666	0.04	—	—
Special charges	—	—	62	—
Impairment losses on intangible assets	—	—	62	—
Depreciation and	5,897	0.06	5,233	0.05

amortization				
Stock based compensation expense	374	—	248	—
Dividends received from joint venture	1,348	0.01	—	—
	(661)	(0.01)	(383)	—
Other income				
Adjusted EBITDA	\$ 7,576	\$ 0.06	\$ 39,035	\$ 0.34

Weighted average number of Common Shares

	113,756,329	115,990,313
Basic		

Nine months ended September 30,

	2021		2020	
	\$	Per Share	\$	Per Share
Net (loss) income from continuing operations	\$ (12,666)	\$ (0.11)	\$ 14,629	\$ 0.13
Adjusted for:				
Income tax (recovery) expense	(3,684)	(0.03)	7,131	0.06
	(655)	—	(513)	—
Foreign exchange gain	414	—	(161)	—
Finance expense (income), net	4,048	0.04	872	0.01
Special charges	—	—	295	—
Impairment losses on intangible assets	15,807	0.15	15,775	0.13
Depreciation and amortization	1,384	0.01	444	—
Stock based compensation expense	1,348	0.01	—	—
Dividends received from joint venture	(1,847)	(0.02)	(1,192)	(0.01)
Other income				
Adjusted EBITDA	\$ 4,149	\$ 0.05	\$ 37,280	\$ 0.32

Weighted average number of
Common Shares

	114,109,298	117,884,124
Basic		

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