FINAL TRANSCRIPT

Quarterhill Inc.

Fiscal 2017 Financial Results Conference Call

Event Date/Time: March 1, 2018 — 10:00 a.m. E.T.

Length: 46 minutes

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and welcome to Quarterhill's fiscal 2017 financial results conference call. At this time, all participants are in a listen-only mode.

Following management's presentation, we will conduct a question-and-answer session during which analysts are invited to ask questions. To ask a question, please press *, 1 on your touch-tone phone to register. Should you require any assistance during the call, please press *, 0.

Earlier this morning, Quarterhill issued a news release announcing its financial results for the year-end December 31, 2017. This news release, along with the Company's MD&A and financial statements, will be available on Quarterhill's website, and will be filed on SEDGAR (sic) [SEDAR] and EDGAR.

On this morning's call, we have Doug Parker, Quarterhill's President and Chief Executive Officer, and Shaun McEwan, Quarterhill's Chief Financial Officer. Following prepared remarks by Mr. Parker and Mr. McEwan, analysts will have the opportunity to ask questions.

Certain matters discussed in today's conference call, or answers that may be given to questions could constitute forward-looking statements. Actual results could differ materially from those anticipated. Risk factors that could affect results are detailed in the Company's Annual Information Form and other public filings are made available on SEDGAR (sic) [SEDAR] and EDGAR.

During the conference call, Quarterhill will refer to adjusted EBITDA. Adjusted EBITDA does not have any standardized meaning prescribed by US GAAP. Adjusted EBITDA is defined in the Company's quarterly and annual filings that are made available on SEDGAR (sic) [SEDAR] and EDGAR.

Please note that all financial information provided is in US dollars, unless otherwise specified.

I would now like to turn the meeting over to Mr. Parker. Please go ahead, sir.

Doug Parker — President and Chief Executive Officer, Quarterhill Inc.

Good morning, everyone, and thank you for joining us on today's call. It's a pleasure to be here and to have an opportunity to update and speak with our shareholders and other stakeholders.

It's a very pivotal time and exciting time at Quarterhill, and I'm honoured to have the opportunity to join and lead the team at such a critical juncture.

I'll start off the call with a look at some 2017 highlights, followed by some observations from my first 60 days here at Quarterhill, and then an overview of our strategy and outlook. Shaun will then take a more detailed look at some of the key numbers, and then we'll open it up to questions.

Simply put, fiscal 2017 was a year of change and progress for the Company. The most significant event for us was the decision back in April of 2017 to leverage our technology background and undertake a new diversification strategy to acquire, build, and grow a portfolio of technology companies.

This resulted in the acquisition of three promising companies, IRD, VIZIYA, and iCOMS, which complement the established WiLAN business. The hard work put in by the Quarterhill board and senior management led by Jim Skippen, our Executive Chair, and Shaun, as our Interim CEO and now our CFO, played a key role in establishing the Quarterhill platform and the successful completion of these three good acquisitions.

These efforts, along with the strong efforts from all our subsidiaries, led to a record financial performance in 2017. Revenue was 134.7 million, up 45 percent; adjusted EBITDA was 64.6 million, up 20 percent; cash from operations was 70 million, up 90 percent; and we ended the year with cash and equivalents of 86.6 million, a solid cash position with which to continue to pursue our acquisition strategy.

It’s encouraging that we invested 67.4 million in acquisitions in 2017, but our cash balance year over year only dropped 21 million. A focus of ours in our acquisition strategy is to increase our recurring revenues, which rose to 13.4 million, up 163 percent.

It’s important to note that all these numbers were achieved with only a partial contribution of about seven or eight months from IRD, VIZIYA, and iCOMS. We obviously look forward to those businesses contributing a full year in 2018.

In my experience, any time a business is acquired it creates a bit of a natural dip in the short-term results as management focuses its efforts on negotiating and completing the deal and integration activities. We feel we are largely past the most challenging stage in the acquisition and integration process, and believe these newly acquired businesses will return to their typical operational cadence in 2018, gaining momentum as the year progresses.

Looking briefly at each of the businesses, I'll start with WiLAN. Driven by licence agreements with Samsung, Amazon, Ericsson, Motorola, and others, WiLAN once again delivered strong revenue and margin levels, and demonstrated why it remains one of the dominant patent licence businesses in the industry.

With an eye to the future, WiLAN added several new patent portfolios covering areas such as content delivery, streaming video bandwidth constraints, and securing data on storage devices. Both are areas of considerable interest and activity in today's tech marketplace. Finally, as in the past, WiLAN continues to be active on a significant number of litigations in multiple countries around the world.

As we stated in the past, WiLAN's performance is best judged over a longer period of time as opposed to quarter to quarter, and its 2017 results spell that out clearly. As WiLAN's long-term track record suggests, by continuing to focus on its disciplined and patient licensing strategy, the business can deliver significant cash flows.

But as is the case today throughout the patent licensing industry as a whole, those type of results are likely to be delivered with some quarterly variability. Variability is inherent in the business model and a natural outcome of deploying a prudent strategy of garnering the best long-term returns for WiLAN's intellectual property portfolio.

The bottom line is, lumpiness will continue with the business, and may in fact become more pronounced with US GAAP accounting changes introduced for 2018. Shaun will describe that in a little bit more detail in his section.

Over at IRD, we saw good sales activity in the second half of 2017 with close to 20 million of new orders, one of which in Q4 was a new weigh station in Idaho valued at almost $4 million. IRD also had some important product launches in the second half of 2017. One of these is TACS, or Tire Anomaly and Classification System, which is a data collection system embedded in roadways that capture a host of tire data, among other things, when vehicles pass over it. Our deployment in Oklahoma just finished its second round of testing with fantastic [audio gap].

IRD also launched Vehicle Information in Motion, which is their cloud-based data collection reporting and analytics tool set. In Q4, we received our first order for this solution, which came from the State of Illinois.

Both new products reflect the history of innovation at IRD and provides impetus for future growth in the business.

VIZIYA had a strong quarter to end the year and continues to see good momentum in its sales pipeline. Deployments with some key customers, such as BP, Alcoa, and Eastman, are going well and could lead to additional sales activities in 2018.

In addition, VIZIYA's relationship with SAP continues to progress, and the Company had the honour of being invited to be a gold sponsor at SAP's E-Comm Conference in 2018. E-Comm concluded a few weeks ago, and VIZIYA had great opportunities to meet one-on-one with senior SAP sales reps, and to raise its profile further within that organization.

VIZIYA's 2018 numbers will benefit from a tailwind of sorts as well, as their 2017 results included an acquisition accounting adjustment that saw quarterly recurring revenues of about 250K lighter. For fiscal 2018, this deleted deferred revenue adjustment will no longer be required, and we expect to see an uptick from a return to the normal level of recurring maintenance revenue.

In looking back, we see success in terms of financial results and tangible progress deploying capital and executing on our new strategy.

I'd now like to take a few minutes to look forward and discuss why I'm excited to be part of Quarterhill today, what I have observed in the first two months since I've joined the team, and what I view as the key elements and upcoming milestones of our acquisition strategy.

Foremost, I believe wholeheartedly in Quarterhill's vision to create substantial value by acquiring, integrating, and building companies in areas of the tech sector where there is ample opportunity to capitalize on permanent consolidation and convergence trends. There is an established playbook here that if well-executed has been shown to deliver attractive returns to shareholders.

I believe the key to success relies heavily on attracting and motivating an experienced team with a proven track record in commitment to this specific value-creation strategy, access to a sufficient volume of attractive and actionable acquisition opportunities, and a value-added integration strategy. These are areas that I will emphasize and foster at Quarterhill.

As most of you may know by now, my background is in the field of technology, M&A, and integration, and I believe that I can deploy the lessons, skills, strategies, and tactics learned in my previous roles to deliver tangible results here.

I think the work done so far to deploy the capital and build the overall framework to support additional M&A is excellent and absolutely on the right track. In my first 60 days, it has been a pleasure getting to know the board, Jim, Shaun, and the entire management team. And I am encouraged by the collective sense of resolve, focus, and commitment to the future success of the Company.

To further our strategic goals, one thing that we have done since I joined is to modify the primary focus of our acquisition targets to focus on verticalized software. What do I mean by this?

Verticalized software companies tend to be niche players in enterprise software, those serving large and established customers in specific industries or verticals. This is an attractive area of focus, as they tend to have recurring revenues, stable cash flows and margins, and sticky customer relationships.

There are a significant number of these companies to consider as acquisition targets. And they tend to be fragmented within their markets, with a sale to a buyer like Quarterhill an appropriate exit strategy.

The biggest groupings of these companies also tend to be of an ideal size for us, under 50 million in revenue, and as a result are not a big focus for the large enterprise software acquirers, such as IBM, SAP, Oracle, et cetera, or the large and very active financial sponsors in the space. These companies have well-established customers and products with decent cash flows, but often are too small revenue-wise or from an operational scale perspective to be on the radar screen of traditional aggregators.

In addition to changing the primary focus of our acquisition strategy, I've also added two experienced executives who will help in acquiring and integrating companies into our portfolio. Russ Stuebing is our new Senior Vice President of Corporate Development, and Neil Urquhart is our new Senior Vice President, Human Resources.

As you might expect, Russ's skills centre on finding the right companies to acquire and negotiating and closing deals, while Neil's are fine-tuned to assessing target management teams and setting them up to succeed post-closing. I've worked with Russ and Neil in the past, and I believe that they bring both the skill set and proven track record that we need right now, as well as the right focus and long-term commitment to the Quarterhill vision. They are seasoned hands-on professionals who quietly deliver excellence with a high say-do ratio.

Collectively, the Quarterhill team has over 20 years of M&A experience, completed over 100 transactions, and successfully deployed over 5 billion in acquisition capital. Building out our team and its capabilities will be done in a measured and financially prudent fashion. And will remain a top priority for 2018 and into the future.

In terms of the criteria we will look at for the acquisition opportunities, I think it'll be a fairly familiar list to what you would expect from Quarterhill today. In a nutshell, we're looking for businesses with solid existing fundamentals and with the promise for operational improvement and profitable growth in the future.

The key message here is that we will be very disciplined financial buyers. To execute successfully on the playbook I mentioned earlier, it is essential that the transaction metrics match up with our financial models. And we always have an eye on the business fundamentals that matter, both before and after we acquire a business.

In general—in terms of general criteria, the companies in our so-called sweet spot would have characteristics such as recurring revenue, positive EBITDA, predictable cash flows, organic and acquisitive growth potential, high customer retention, dedicated management, and an ability to enhance operations.

We believe that generating a return on invested capital in the 15 to 20 percent range per year is that type of return that this strategy should be capable of delivering.

In terms of what to expect next, there will likely be some other strategy refinements, of course, but I am fortunate to have inherited a situation where we have acquired some good assets, are coming off a strong year financially, have a significant amount of cash on the balance sheet to help us execute our plan, and a board and management team committed to our long-term vision.

Our goal is to gain credibility in the market by making smart, financially disciplined acquisitions of businesses that are more akin to hitting solid singles than monster home runs. Our near-term milestones are to build out our pipeline, ensure we have the right talent on the team, acquire businesses that fit our financial model, and effectively manage the businesses we have to help them grow.

As I said earlier, we've already taken steps to enhance our deal-making and integration capabilities and to expand the scope of where we will hunt for M&A targets.

This is a very exciting time for Quarterhill, and I'm looking forward to leading the team on an M&A strategy that I believe can deliver significant returns in the long run. Granted, we're at the early stage in our diversification journey and need consistent results over time to gain credibility. We're at the ground floor, but we're off to a good start.

Success is obviously not guaranteed, but we're very much aware of what is required to achieve success, and we're committed through discipline, focus, and tenacity to get there. With your support and patience, I am confident we will.

With that, I'll pass it over to Shaun for a closer look at the numbers.

Shaun McEwan — Chief Financial Officer, Quarterhill Inc.

Thanks, Doug, and good morning, everyone. As Doug mentioned, in 2017 we generated record numbers for our key financial metrics, we made great progress diversifying our revenue, and we fully digested three acquisitions. I'll spend some time here on the call speaking to the key financial implications of these achievements.

Our revenue is now diversified by type and by business unit. Revenue types that we track are licences, systems, services, and recurring.

The licence category represented 75 percent of total revenue in 2017, which reflects the very strong contribution from WiLAN. In 2016, licence revenue represented 94 percent of our consolidated revenues. The lower percentage in 2017 reflects the three acquisitions made during the year as part of our overall diversification strategy.

It is also important to note that when contemplating these numbers, the results for 2017 include only about seven or eight months of contributions from the businesses acquired. So all else equal, diversification by revenue type would be expected to improve in 2018.

Systems revenues, which generally includes revenue earned on contracted projects and recognized on a percentage of completion basis, was 13 percent of total revenue in 2017. And in 2016, we recorded zero of this type of revenue, as this is all from acquired businesses.

Recurring revenue was 10 percent of total revenue in 2017, up from 6 percent last year. In dollar terms, recurring revenue increased to 13.4 million from 5.1 million. As Doug stated earlier, acquiring businesses with recurring revenue streams remains a priority for our acquisition strategy, as it has been from the start.

Recurring revenue in 2017 included running royalties from the WiLAN business, as well as software and systems maintenance revenues from VIZIYA and IRD, while 2016 was comprised of running royalties received in the WiLAN business.

And finally, services revenue, which relates to professional services-type activities, was nominal in 2017 at about 2 percent of total revenues. For more detailed descriptions of these revenue types and their related costs, you can see our MD&A.

In looking at the relative revenue contribution from the business units, WiLAN had a strong year, growing its top line by just under 9 percent year over year. The WiLAN business again demonstrated its ability to generate significant cash flows, as well as highlighting the quarterly variability inherent with patent licensing businesses. As we've said in the past, this variability can lead to positive outcomes, as it did in Q3 of this year, or more modest outcomes, as it did in Q4 of this year.

This variability is expected to be more pronounced going forward as new US GAAP accounting rules are now in effect, and they impact our WiLAN business a little bit more than the other businesses of Quarterhill. Basically what it means beginning January 1 this year, all fixed-payment patent licences granted in a quarter will be recorded as revenue when signed, even if there is a stream of fixed payments that extend beyond that particular quarter. Previously, WiLAN would have recognized revenues on such agreements over the period of the licence as cash flows were received.

As Doug mentioned earlier, this is one reason I believe you have to look at this business over a longer time frame rather than quarter to quarter, in order to get a true sense of its performance capabilities. Over time, the financial performance from other businesses in the Quarterhill portfolio will help to mitigate the quarterly variability.

As I've just discussed looking at our 2017 results, this has already begun. Revenues from our acquired businesses totalled just over $34 million.

Consolidated adjusted EBITDA was 64.6 million in 2017, and this was a record amount that reflected strong performance at WiLAN, but also the contribution from the acquired companies, which were accretive to adjusted EBITDA. Of note, VIZIYA showed its ability to generate solid margins, with an adjusted EBITDA margin of close to 27 percent for the period of 2017 following its purchase by Quarterhill.

Quarterhill's 2017 consolidated net income was 10.2 million, or $0.09 per share, which is the same on a per share basis as fiscal 2016. Included in our bottom line for 2017 is a combined 26.2 million of noncash expenses related to disposal and/or impairment of certain intangible assets. And there was no similar noncash expense in 2016.

Income tax expense for the year is basically zero. This represents a current income tax expense of roughly $7.2 million, which is largely withholding taxes on revenues earned in the WiLAN business in foreign countries for which there's no treaty relief.

This current expense is offset by a similar deferred tax recovery. At year-end, we have approximately $90 million in loss carryforwards and scientific research and experimental development, or SR&ED, expenditures that can be used to reduce taxable income to zero, some of which is recorded in asset and some of which we've provided a full valuation allowance against.

As these assets are used up from the production of pretax operating profits, we will see this deferred income tax expense increase.

In addition, the acquisition accounting allocating portions of the overall purchase price to identify the intangibles that are subsequently amortized creates a deferred tax liability. And this will reverse as amortization expense is recorded. Some of this can be complicated, but ultimately it's all noncash.

Taking a look now at a few items on the balance sheet, the first that I want to draw attention to is the contingent consideration. This item reflects a current value assessment of earn-out payments in acquisition agreements that would be made if certain financial targets are met in the future.

At year-end, the amount was 4.5 million compared to 6.5 million in the previous quarter-end. An accepted approach to estimating the fair value of contingent consideration is called a Monte

Carlo simulation, which in our case uses roughly 10,000 different scenario outcomes and takes the average of all those results.

Our point here in discussing the number is that while the Monte Carlo simulation serves its purpose, it is really an estimate of fair value. The actual amounts payable will be determined in mid-2019. And between now and then, we will have to revalue this contingent liability each reporting period.

Of central importance on the balance sheet, however, is cash, cash equivalents, and short-term investments, including restricted investments, which totalled 86.6 million at year-end compared to 107.7 million at the end of last year. While the balance is lower year over year, it is important to recognize that we made those three acquisitions totalling 67.4 million largely out of our cash on hand, as well as repaying close to 20 million of our patent finance obligations and returning approximately 4.6 million to shareholders via dividends.

The reason our cash balance remained high at year-end is due to our ability to generate strong cash flows from operations, which was 17 million in 2017, up almost 90 percent from last year. As a result, with 86.6 million of cash in the bank at the start of this year, we have significant resources with which to continue pursuing our growth strategy.

And finally this morning in our earnings release, we announced details of our next dividend payment. The Board of Directors has declared an eligible dividend of C$0.0125 per share payable on April 5, 2018, for shareholders of record on March 23, 2018.

This concludes my review of the financial results. And I now will turn the call back to the Operator for questions.

Q&A

Operator

And as a reminder, if you would like to ask a question, please press *, 1 on your telephone keypad.

Your first question comes from the line of Doug Taylor from Canaccord Genuity. Please go ahead. Your line is open.

Doug Taylor — Canaccord Genuity

Yes. Thanks. Good morning, Doug and Shaun. Doug, you've outlined the criteria of what you're looking for in terms of M&A pretty well. Can you speak to what remaining pieces you'd still like to put in place with your team or the structure before embarking on some meaningful M&A again?

Doug Parker

Morning, Doug. Yeah. It's a good question. I mean, sort of in the first 60 days the focus has been to a large degree on some of just the key fundamentals that we need. We're still working through kind of the core capabilities.

I will say that that being said, there are a couple of areas that you naturally look at investing in from a capabilities perspective to create a M&A ecosystem: building capabilities on kind of your finance organization, your IT structure are very important as an aggregator. I think also looking at capabilities on the integration side. People that have skills as well to strengthen integration expertise and knowledge work well with management teams.

I think another area as well is around sort of the diligence through to integration aspects around technology and go-to-market expertise as well.

So it is a work-in-progress, Doug. But I think building kind of some of the tenets on that ecosystem and skills are important. You need the ability to scale in the back office and the integration side, and you need some of those core capabilities to be enhanced in order to assess companies effectively from a diligence perspective and look at opportunities of integration.

So nothing is cast in stone, Doug, but I think at first blush those are areas where we will continue and invest.

Doug Taylor

So is it fair to assume that you'd like to put those in place before we would see any more activity on the deal front?

Doug Parker

Not necessarily, Doug. I mean, one of the advantages we have of bringing experienced people such as Russ and Neil in is certainly to the extent to which you need support, the functional, and the technical expertise we have sort of the skills and relationships to bring that in as variable support. And in fact, certainly if you look at the history of Russ and Neil and myself, we've brought in those skill sets as required.

And that's really drawing on our relationships and our knowledge. I think focused on verticalized enterprise software is helpful, too, because there's obviously a track record with knowing the industry and knowing where to bring in support from those groups of individuals who may not be technically part of your payroll, but can provide some support.

I think I will say as well, Doug, that being in the KW area and the Ottawa area and focusing, as you'll see, that we're setting up our southern office in the KW area will also be helpful to draw in some of that support as well.

Doug Taylor

So naturally a part of adding at the corporate level is an added expense to the corporate level, and we've seen that trending up here in recent quarters. How shall we think about modelling out the expense level at the Quarterhill corporate for 2018?

Shaun McEwan

Hi, Doug. It's Shaun here. I'll try and address that. Again, we steer clear of giving direct guidance, but I think if you look at our Q4 numbers, we're talking about—and even when Doug's talking about adding resources—we're talking about adding two or three heads. We're not talking about quadrupling our payroll kind of stuff.

So Q4 feels kind of representative of what it could be, plus or minus a few bucks.

Doug Taylor

Was there anything onetime about Q4 that we should be factoring out?

Shaun McEwan

No. No.

Doug Taylor

No?

Shaun McEwan

It's kind of how (phon) it was.

Doug Taylor

Getting into—

Shaun McEwan

Yeah. Sorry, Doug. There's one thing to be cognizant of is now that we're SOX filers in the US, our audit fees have gone up pretty dramatically. And those are reflective, obviously, in our Q4 numbers. So it's unfortunately not a onetime thing, but it is definitely a shorter-term uptick.

Doug Taylor

Okay. Understood. Getting into the segments a little bit, we'll start with WiLAN. We have seen, it seems to me, a resurgence of some kind of high-profile patent licence agreements between some of the tech bellwethers of late. Have you noticed any change in the way the conversations you're having with potential licensees are going of late?

Doug Parker

No. I think you've got the same sort of cadence in the business, and I think 2017 shows you both the upside that that model can deliver. And WiLAN in '18 has got a robust business, and a lot of the nature of the activity remains as it's always been.

The value of the portfolio is still there, Doug. I mean, they had 50-plus litigations, 40 partner programs. There was a series of large licences that are coming up for renewal this year. And kind of the renewals today will mostly be driven by kind of cellular and semiconductor technologies, and efforts to renew will be focused on companies like Intel, Broadcom, Oracle, LG, Cisco, and Huawei.

But if you look at in addition to the renewals, if you look at the litigation, I mean it's the same cadence as you'd expect. There's sort of a dozen trial dates set through to the end of 2019. There's a series of Markman hearings, as you'd expect when we're going through the process.

I think we had some positive outcomes from a recent Markman hearing, including one we had with Apple in the Apple case and LTE technology in October; a series of Markman hearings coming up this year, one in February with Microsoft, April with AT&T, July with Toshiba, et cetera. And also trials that can be a catalyst, as you know, to the licence process as well.

We just completed one in February with Deutsche Telekom in Germany; waiting for results in March. Got one in May with LG in Germany in wireless; one in July with Apple in California in wireless as well; OmniVision November in Delaware, CMOS imaging; and one in December with Sharp and VIZIO in Delaware on the TV side.

So I don't think there's been a sea change or an evolving change. I think obviously, as I mentioned, some of the focus is on the renewals are slightly different, and that the focus will mostly be driven, by I said, by the cellular and semiconductor technologies.

But the business remains robust, and doing what it's always done.

Doug Taylor

Okay. And I mean there was, I guess, a bit more activity towards the beginning of Q1. I mean, should we read into that any sense of kind of a rebound after, I guess, what I would characterize as a bit of a softer Q4?

Doug Parker

Yeah.

Shaun McEwan

You're talking about activity in Q1; Doug, what are you referring to, sir?

Doug Taylor

Yeah. Well, I mean not only acquisitions of patents and partnership agreements and licensees announced at the beginning of January.

Shaun McEwan

As I think Doug said, I think that just reflects the continued progress of the business units. You can't read soft quarters and big quarters as true indicators of the level of effort and work that's going on, nor the level of opportunity that remains inside the business. But it's—

Doug Parker

Yeah. The range, sort of the cadence of investment, the ups and downs of the trial negotiation process, and licence renewal all remain the same. There's no sudden shift in the nature of it. I think it's—and some of that may just be specific to the timing of things—

Shaun McEwan

Yeah.

Doug Parker

—but kind of the nature of the business and the fundamentals I don't think have changed.

Doug Taylor

Okay. As for IRD and VIZIYA and I guess iCOMS too, to a lesser extent, IRD I noticed in the disclosure and some of your prepared remarks talked to there still being some slippage of renewals or things like that. Have we caught up at this point with the renewals that have slipped out of prior quarters?

Shaun McEwan

There's one renewal in particular that is still sliding a little bit. It's related to California in terms of a maintenance contract. And generally the government sort of slows down over a Christmas kind of period and into January, so there's a bit of a timing lag.

But we don't see any real systemic change in the business in that environment.

Doug Parker

Yeah. I think I'll echo that. It's California is the one that sticks out, and it's a timing issue. And once again, you're dealing with government organizations that have processes and procedures to go through. But I think the sort of rhythm that we've seen in the business on the maintenance renewal side is solid, and will continue into this year.

Doug Taylor

And then from—last question for me—from your commentary and obviously VIZIYA turned in a pretty strong quarter this quarter, but can you talk about the pipeline for both VIZIYA and IRD? And just confirm that what you're saying is that the metrics and the profitability you expected out of these businesses at the time of the acquisition you expect to turn up in 2018?

Doug Parker

Yeah. As I said in my remarks, I mean the businesses are doing well. You'd expect a little bit of transition in the businesses through the acquisition process. And they're delivering, to a large extent, as we expected operationally. Will there be ebbs and flows, Doug, through the year as you'd expect in the business? There's a natural amount of cyclicality in their business which we're aware of, but I will say that they're kind of … we're past the harder part of it. And they're gaining … I think they're gaining momentum. We'd expect them to gain momentum as the year evolves.

Doug Taylor

Okay. Thanks for all the colour. I'll pass the line.

Doug Parker

Thanks, Doug.

Operator

Your next question comes from the line of Todd Coupland from CIBC. Please go ahead. Your line is open.

Todd Coupland — CIBC

Oh, yeah. Good morning, everyone.

Shaun McEwan

Good morning, Todd.

Doug Parker

Morning, Todd.

Todd Coupland

I had a couple financial questions and then want to ask about the business, if I could. Just following up on the recurring businesses, firstly on IRD It seemed like you had a pretty good revenue quarter, but the EBITDA line was a fair bit weaker than I would have expected. Can you just talk about what happened in Q4 there?

Shaun McEwan

Yeah. It was couple of things. The seasonality in that business affects the kinds of projects that you can work on. And in particular, you get into some of the winter road work and stuff like that you end up on projects that aren't as high-end value in terms of driving the kind of bottom-line return. That's one of the key issues that happens in through Q4 and kind of Q1, given the seasonality in particular in North America.

But I think the second issue, to be frank, and it's not a material number, but there's a few receivable challenges down in our Chilean sub that we took a chance to address in the quarter. It's about $200,000, so that has an impact. And then we are a little bit ahead of spending on the R&D side, which has really driven against the VectorSense product and trying to drive that Tire Anomaly and Classification System that Doug talked about. The testing is going extremely well. We're starting to get our first couple of orders in. But we had to spend a little bit heavier on the R&D side over the last half of last year, in fact, not just Q4 to keep that kind of progress up (phon).

Doug Parker

And I think it's fair to say that one of the nice things about VectorSense is once you're going to pass that inflation process and it's part of the rhythm of the product mix, we kind of like the margins of it and we like the mix of the business.

So long term we see that as a good margin improvement opportunity for the business.

Shaun McEwan

Yup.

Todd Coupland

So if we think about the revenue in the quarter, is that like a decent place to start? And then you have a few of these cost headwinds that may not—or shouldn't reoccur? So I mean, do you get back to Q2 EBITDA levels or higher? Or is it going to take a while to get there?

Shaun McEwan

Subject to the seasonality comment, right, I think this is kind of what we feel is sort of the Q4, Q1-ish kind of feel to the business. You saw the EBITDA impact in the May, June, July time frame, which was quite substantially better than what we're seeing in sort of Q4 range.

Todd Coupland

Okay.

Shaun McEwan

I think we got to keep that seasonality in mind on that side.

Todd Coupland

Okay. And then on VIZIYA, obviously very significant improvement in profitability in the quarter; again, revenue kind of in the zone of where it's been. Is that sort of running at the expected level and you could see that reoccur as you go through 2018?

Doug Parker

Yeah. I think you saw a little bit to my comment, particularly in the summer a little bit of softness in their business; a couple months in the summer were softer; a few things pushed out. But yeah, I think when you look at kind of where it's delivering on the top line and bottom line, we're encouraged by what we see, Todd, and we think that's kind of the rhythm of the business.

Todd Coupland

And how much of a growth driver could be a better relationship with SAP? What could that turn into? And does that drive this business to double-digit growth? Or is it still a fairly slow—

Doug Parker

Yeah.

Todd Coupland

—growth rate business?

Doug Parker

No, I think it's a very positive event. I mean, obviously they have a strong presence with Oracle and the history of the business with the Oracle side. And I like the kind of Switzerland ERP nature of their business. But SAP is a wonderful opportunity to be going on the reseller—if you can get on the reseller arrangement, it can really significantly boost your revenue.

Of course, it's always difficult to predict these things, but you look at the history of most companies, small companies, that have a differentiated strong product that SAP AEs want to sell and add to the mix, you get a pretty significant ramp, Todd, on revenue and your margin is strong, even with the reseller erosion piece of it.

So for me, it's only upside in their business and they've—getting a lot of traction, and what we hear is SAP likes the functionality of the product and the usage of the product. And SAP is a very loyal partner, as many companies that have dealt with them have seen. So it could be a real catalyst.

But does it take time to negotiate these things and obviously a larger organization with a lot of moving pieces? Yes. But I think it's a really good start with them, but the bottom line of your question is it can be a real driver for growth, absolutely.

Todd Coupland

Fair enough. And then I just wanted to ask about patents for a second. So 40 programs; you've talked about sort of the TAM of the programs in the past, the various categories, wireless, semi, et cetera; you've made a couple of acquisitions. Have you updated that TAM opportunity of licensing potential for the patents that you have? Is that something you're willing to share?

Doug Parker

Well, I think we have—it's fair to say that we have hundreds of millions of dollars of opportunity, Todd; literally hundreds of millions of dollars of opportunity. And that's still there, and it's very attractive. And I think when we look at the pipeline of the business, we still see that.

And it is a game where your TAM depends on being disciplined and being focused on that long-term return. And that's been the strategy WiLAN has, but that TAM piece and kind of the financial aggregate opportunities in that range remains attractive.

Todd Coupland

Like in the past you had talked about 800 million, 900 million in the various categories. You made a few acquisitions. There's obviously been some big deals done. Do you still feel it's in that 500 to—

Doug Parker

I think it's probably 0.75 billion that we—

Todd Coupland

Okay.

Doug Parker

There's always a bit of a swab, as you know.

Todd Coupland

Yeah.

Doug Parker

But that's kind of range, Todd.

Todd Coupland

And so the way that you sort of stick in that range is even though you've signed the big deals with Samsung and others, which would obviously come out for a few years, the new programs and acquisitions you've made in streaming or the couple other areas you mentioned keep you in that range? Is that the way to think about that?

Doug Parker

Yeah. Yeah. I think that's right and potentially upside as well even larger. So that's correct. That'd be a good way of looking at it, Todd.

Todd Coupland

And then just these renewals, like you rhymed off obviously a lot of potential in the names you mentioned in wireless and semi. So by calling those players out, Intel, Broadcom, et cetera, are you saying you're thinking you can get those renewals done in '18? Or it's just you're going to focus and they'll happen when they happen?

Doug Parker

Yeah. I think it's a fair question. We'll focus and they'll happen when they happen. I mean, licences in 2011 were driven mostly by four technologies: Wi-Fi, Bluetooth, (unintelligible), DSL, and most licences extended until the end of 2017. So the renewals are in negotiations, and you have to be disciplined and focused on them, so our goal is to get them done as soon as we reasonably can, but on terms that make sense for us.

So the assumption that they're all going to be renewed in this year I wouldn't make, but are we trying to focus on them with purpose and get the right terms and conditions and when the stars align and we can do that, we will certainly action them.

So I think that's the way I look at it at least.

Todd Coupland

And similar to the Samsung deal with the new accounting rules, these will all come as sort of big onetime hits when they happen. Is that right?

Shaun McEwan

So, yeah, from a revenue perspective for sure.

Todd Coupland

Yes.

Shaun McEwan

If they have a payment stream over two, three, four, five, whatever years, you'll see a very substantial accounts receivable basically, right, long-term and short-term kind of stuff.

Todd Coupland

Right.

Shaun McEwan

And will shoot through the cash flow. But yeah, their revenue will basically be booked right up front.

Todd Coupland

Okay.

Shaun McEwan

When you capture that (phon), if they're running royalty agreements, right, which normally is not very often done, right? But running royalty agreements would continue to be recognized over the period of time that the reports come in.

Todd Coupland

Okay. Okay, Shaun, so just so I understand, so some of these wireless guys in the past you've signed running royalty agreements with.

Shaun McEwan

Yes.

Todd Coupland

Probably volume driven, et cetera. So we may see some deals like that in the wireless area?

Shaun McEwan

Possible.

Todd Coupland

Yeah. Okay. Great. Appreciate the colour. Thanks a lot.

Doug Parker

Thanks, Todd.

Operator

We have no further questions in the queue at this time.

Doug Parker

Thanks very much, everybody. And look forward to Quarterhill and the future together.

Shaun McEwan

Cheers.

Doug Parker

Take care.

Operator

This does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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