# FINAL TRANSCRIPT

**Quarterhill Inc.**

**First Quarter 2018 Financial Results Conference Call**

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Doug Taylor**
*Canaccord Genuity — Analyst*

**Gavin Fairweather**
*Cormark — Analyst*

**Todd Coupland**
*CIBC — Analyst*

## PRESENTATION

**Operator**

Good morning, and welcome to Quarterhill's first quarter 2018 financial results conference call.

On this morning's call, we have Doug Parker, Quarterhill's President and Chief Executive Officer, and Shaun McEwan, Quarterhill's Chief Financial Officer.

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 analyst 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 three months ended March 31, 2018. 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 SEDAR and EDGAR.

Certain matters discussed in today's conference call, or answers that maybe 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 that are made available on SEDAR and EDGAR.

During this 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 SEDAR and EDGAR.

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

I'd 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. I'll start off the call with an overview of Q1, followed by some comments on our M&A-related activity. Shaun will then take a more detailed look at some of the key numbers, and then we'll open it up to questions.

For Q1, revenue was $12 million, of which 35 percent was recurring revenue. Adjusted EBITDA was negative $7.4 million. Cash used in operations was $6.5 million. And we ended the quarter with cash and cash equivalents of $75.1 million, a solid cash position with which to fund our existing businesses, and continue to pursue our acquisition strategy.

The numbers in the quarter clearly reflect the variability in the higher-margin WiLAN business that we've spoken about in the past, and illustrate why we made the decision in 2017 to pursue a diversified M&A growth strategy.

Q1 numbers also reflect some of the seasonality in the IRD and VIZIYA businesses, where Q1 is typically a softer quarter.

All that said, we made some important progress on the M&A strategy in Q1, which I'll get to in a moment. But first I'll spend a few minutes on each of the businesses highlighting some of the respective developments in the quarter.

Staring with WiLAN, we continue to have a strong pipeline of licence opportunities with many active licensing programs and ongoing litigations, and have a number of trials dates set through the end of 2019.

A few of the notable trials coming up in 2018 include May with LG in Germany regarding wireless technology; July with Apple in California, also regarding wireless technology; November with OmniVision in Delaware regarding CMOS imaging; and December with Sharp and VIZIO, also in Delaware regarding our TV portfolio.

We also acquired a patent portfolio from Panasonic in the quarter which relates to semiconductor memory technologies used in dynamic random-access memory, DRAM, as well as NAND flash memory.

DRAM is used in markets that include PCs, gaming, mobile handsets, servers, and automotive. NAND flash memory is used in markets that include mobile handsets, solid state drives, and USB flash drives. This was acquired as part of our partner program where we share in the licensing proceeds in lieu of up-front purchase costs.

As you've heard us say before, WiLAN's performance is best judged over a longer period of time as opposed to quarter to quarter, and Q1 was no exception. As WiLAN's successful long-term track record suggests, by continuing to focus on its disciplined and patient licensing strategy the business can deliver significant cash flows. In fact, it has had 12 years of positive cash flow.

But as is the case today throughout patent licensing industry, those types of results are likely to be delivered with quarterly variability.

Variability is inherent in the business model and the natural outcome of deploying a prudent strategy of garnering the best long-term returns for WiLAN patent portfolio.

We also know that this variability can be a positive factor, as was it in Q3 of 2017 with significant revenue and adjusted EBITDA generated by WiLAN.

But the bottom line is lumpiness will continue with the business and will have an impact, both positive and negative, on Quarterhill until we build out our portfolio of businesses such that WiLAN is a smaller component of our overall consolidated operational results.

IRD's results reflect some of the natural seasonality in their business in part winter weather-related, as well as the slippage of a few orders and a large renewal outside of Q1. We're confident those opportunities can be made up as the year progresses, and we expect the business levels overall at IRD to improve throughout the year.

In fact, a large renewal with the State of California was received shortly after quarter-end.

In general, IRD's ability to maintain the loyalty of its existing customer base is very encouraging, and a testament to their solid operational DNA.

We also have continued to invest additional resources related to the development and promotion of VectorSense, which was launched late last year. We expect this investment will subside over the next few quarters, and we continue to believe that VectorSense will be an important driver of new business opportunities for IRD this year and well into the future.

In Q1, IRD initiated installation of the first commercial TACS system, which is a system built on the VectorSense platform in Illinois. TACS is a data collection system embedded in roadways that captures a host of data when vehicles pass over it.

Among other things, in commercial vehicles it can detect missing tires, over or under inflation of tires, lane position, and unequal wheel loading. It provides valuable information for road structure designers, road management agencies, and toll authorities, among others.

In what is also traditionally a slow quarter for VIZIYA, Q1 had some good customer wins, and a solid adjusted EBITDA margin; new customer wins, including a licence deal with Outokumpu, a large steel manufacturer based in Finland. The contract includes licence, consulting, and maintenance revenue, and is valued at approximately $1.25 million.

VIZIYA also signed a deal with Arab Potash, with similar revenue components valued at approximately $550,000.

VIZIYA also continued its positive progress on the partner side, first with its ongoing implementation at The Wonderful Company, which is its partner Oracle's first customer for cloud maintenance; and secondly, VIZIYA continues to strengthen its relationship with SAP, and had a strong showing in March at the leading SAP trade show, SAP-Centric 2018, the second SAP trade show attended in the quarter.

I continue to see very real upside potential in this business, and remain impressed with the team’s entrepreneurial spirit and customer-centric focus.

Looking at the overall operations for the Quarterhill business, we are prudently managing expenses in such periods of more modest revenue performance. But we are not going to do anything severe in the short term that could unduly hamper our ability to invest in the long-term growth opportunities for our portfolio businesses.

That said, we are carefully watching cash balances and cash flows and emphasizing a disciplined prudent investment culture throughout the organization.

On the M&A front, since we have focused on verticalized enterprise software, we’ve seen an increase in quality pipeline deal flow, and are intelligently segmenting those opportunities to ones that meet our sweet-spot criteria and are actionable. Our pipeline is growing, but we will remain patient.

We are not going to do a deal for a deal’s sake. We’re going to do the right deal, which means remaining disciplined with our criteria. But when we see the right opportunity, we won’t hesitate to aggressively pursue it and execute to deploy our capital.

To reiterate the terms of general criteria, 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.

In Q1, we added two experienced executives who will help in acquiring and integrating companies into our portfolio. Russ Stuebing is our SVP, Corporate Development, and Neil Urquhart is our new SVP, Human Resources. As I mentioned on our last call, I've worked with Russ and Neil in the past, and believe that they are bringing 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.

In closing, while Q1 reflect some of the growing pains that can occur as an M&A strategy takes hold, we continue to believe wholeheartedly in Quarterhill's vision to create substantial value by acquiring, integrating, and building companies in the area of the tech sector where there's ample opportunity to capitalize on permanent consolidation and convergent trends.

There's an established playbook here that if well executed has been shown to deliver attractive returns to shareholders.

As I said last time, but it is worth repeating, 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. One of our top priorities this year as well is to effectively manage the businesses we have to help them grow.

On this point going forward, I'm going to be more actively involved in partnering with the business leaders to drill into their operations, and assess together opportunities for improved growth and operational efficiencies.

Other top priorities for 2018 include building out and advancing our M&A pipeline, ensuring we have the right talent on the team, and of course acquiring businesses that fit our financial model. 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. And we look to make significant progress in these other areas during the remainder of the year. Please stay tuned on that front.

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 we have mentioned on previous calls, Q1 saw the new US GAAP accounting rules, specific to revenue recognition introduced, that does have an effect on our business.

These changes will impact WiLAN more than the other business, and going forward are expected to make the variability in the WiLAN business specifically slightly more pronounced.

Basically what the changes mean is that all the 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 quarter.

In the past, WiLAN would have recognized revenues on such agreements over the period of a licence as the cash flows were received. Again, this is one reason that we believe you have to look at that 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, which we saw in Q1, as revenues from our acquired businesses were more than $10 million.

Looking at Q1 revenue in a little more detail, top-line revenue was 12 million, which was up 58 percent year on year, driven largely by IRD and VIZIYA, as I just mentioned.

On a segment basis, revenue in the licence category represented 21 percent of total revenue compared to Q1 last year when it represented more than 90 percent. This change is due to lower revenue in the patent licensing business, but also the positive contribution from our acquired businesses.

WiLAN generated 1.8 million of revenue in the quarter. While we experienced one end of WiLAN variability here in Q1, I do think it's important to remember that this variability can also lead to very positive outcomes, as it did in Q3 of 2017.

Systems revenue, which generally includes revenue earned on contracted projects and recognized on a percentage completion basis, was 39 percent of total revenue in Q1 compared to zero last year, again, reflecting revenues from acquired businesses.

Recurring revenue, a key focus at Quarterhill, was 35 percent of total revenue in Q1, up from 8 percent last year. This increase is largely driven by acquired companies. Recurring revenue in Q1 last year was comprised of running royalties from the WiLAN business.

And finally, services revenue, which relates to professional services-type activities, was nominal in Q1 at about 5 percent of total revenue.

Adjusted EBITDA, as Doug outlined, was negative 7.3 million in Q1 compared to negative 2.2 million in Q1 of last year. This decrease is due primarily to lower revenue in the higher-margin patent licensing business and also due to seasonally lighter revenue at IRD.

VIZIYA generated positive adjusted EBITDA with a margin of more than 23.5 percent.

Cash used in operations was 6.5 million in Q1 compared to cash generated from operations of 8.4 million in first quarter last year. Cash flow in Q1 2018 primarily reflects the impact of the variability in the financial performance of our WiLAN business.

On the balance sheet, cash, cash equivalents, and short-term investments, including restricted investments, totalled 75.1 million at the end of Q1 compared to 86.6 million at the end of 2017. We still have substantial cash in the balance sheet to pursue our M&A strategy, but as Doug's outlined already, we're obviously mindful of the importance of contributing to that number from our own operations over time in order to help continue to fund our strategy.

As Doug said earlier, we are keeping a close eye on our expenses during these variable periods when revenue can be considered lower. But we again encourage people to view the patent licensing business in particular over a longer period of time as an indicator of its ability to generate positive financial metrics, such as cash flow.

Its history and track record would suggest it's more than capable of such.

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 July 6, 2018, for shareholders of record on June 15, 2018.

This concludes my review of the financial results, and I'll turn the call back to the Operator for questions.

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## Q&A

**Operator**

Thank you. At this time, I'd like to remind everybody if you do want to ask a question, press *, then the number 1 on your touch-tone phone.

Our first question comes from Doug Taylor of Canaccord Genuity. Doug, your line is open.

**Doug Taylor** — Canaccord Genuity

Thanks. Good morning. I understand that you're not just making any rash moves with the headcount. I just want to, I guess, assess your ability to rightsize the WiLAN headcount should this trend persist, and at what point either in time would you decide to make a further headcount reduction in that business?

**Doug Parker**

Thanks, Doug. Good to get that question. It's a fair question. I mean, as we've talked before, the WiLAN business has already historically taken a lot of steps towards rightsizing its cost structure. The partner program has been an important part of that managing contingency issues with law firms. So I think certainly from an industry perspective, they're really best-in-class from a cost-structure perspective.

But I will say like any business, including IRD, VIZIYA, and WiLAN, we're monitoring the cash flows in relation to growth and profitability. And if required, we won't hesitate to address any misalignment.

But we also need to plan and invest intelligently here for the long-term success, and resist being penny-wise and pound foolish in the short term. So the net-net is we think they are competitive in the NPE space from a cost perspective. But certainly we would treat WiLAN no different than any other business that if it requires any form of misalignment over long-term trends that are more modest, we would look at that carefully.

**Doug Taylor**

And so a follow-on to that, the cost structure that we saw here in Q1, does that represent—with all the things you've done to make litigation costs more contingent on success on the top line and variable payments to (phon) holders, is this rock-bottom in terms of what—like this the lowest cost base can go if you did do theoretically zero in top line?

**Shaun McEwan**

Doug, it's Shaun here—

**Doug Taylor**

(unintelligible), I mean.

**Shaun McEwan**

Yeah. The reality is this is a reasonably representative quarter. Remember, there are three or maybe four broad categories of expenses. There's sort of the fixed overhead, like people, salary cost kind of stuff. There's the variable stuff, which is the contingent litigation and contingent partner payments. Those are perfectly variable, so they'll only be there if there is the top line, so that's already very well in hand. And kind of the fourth category are I'll call them semifixed.

The Company's got a significant number of litigations ongoing. The vast majority of them are under a contingent-type relationship, but some of them have certain fixed payment amounts, and there's external experts and things of that nature. Those expenses are not very easy to change without dramatically changing your litigation profile. And that has obviously downstream significant impact on revenue-generation ability.

So I think there's some room, but I don't think I'd say they're rock-bottom, but I don't think there's no room for continued monitoring and maintenance.

**Doug Taylor**

All that to say if another quarter of like revenue came up, you'd expect the profit production to be roughly comparable to what it is now? And, therefore, we can kind of assess where the breakeven level is, based on that?

**Shaun McEwan**

Yeah. Without getting into providing detailed forward guidance on expense basis, Doug, for that I think that's probably a reasonably fair assessment.

**Doug Taylor**

Okay. Shifting to IRD for a second, I understand that there's some seasonality and a small renewal that slipped just out of the quarter. I'm glad to hear you've closed that. But I mean, also on a year-over-year basis if we look back against the pro forma a comparable numbers, it seems like a pretty material decline year over year. Can you just maybe walk me through in more detail what's at play there? And how you're expecting to get that business back on the rails?

**Doug Parker**

Yeah. So thank you, Doug. It's a fair question. I do think, as you rightly say, there is some inherent seasonality in their business. I think there were some unique circumstances. I think there were a couple projects that did slip in the US market. And it was particularly the weather-related aspects of this year, this winter in United States, were particularly challenging on a project perspective, and obviously that's a key component to starting the project and starting the revenue flow. So I think there was, when you compare to the last couple years on the trends, the unique weather challenges in the US that were clearly reflected in the results.

I will say that when we look forward, obviously once again don't want to provide that kind of granular guidance, but we're optimistic about what we see with the picking up of their business. Obviously there is lumpiness and seasonality in their business, but we don't see a fundamental shift in the underlying profile of IRD. We don't see anything on the pipeline side, on the product side that is a sea change in kind of steady state of the business.

Are we disappointed by Q1? Yes. In the grand scheme of things, though, we don't see a real … we don't see a change that results under our tutelage that is a concerning shift in the business dynamics or in their opportunities. I think it was a series of, as I said, seasonality, but also some unfortunate weather-related, and the US is an important component to their business, as you know.

**Doug Taylor**

Okay. Last question for me. On the M&A strategy you've detailed your sweet spot, so to speak; it's pretty well-defined. What is it with the pipeline that you've looked at so far that seems to be the common reason why you haven't pulled the trigger yet? I mean, is it purely a valuation thing? Or is it about you haven't found the right business that ticks the other criteria?

**Doug Parker**

Yeah. It's a good question. I mean, let me speak generally about pipeline. Since we have declared verticalized enterprise software, we've seen a significant spike in the top of our funnel, Doug, a dramatic spike just in the scale of inbound opportunities. And it's a mixture between us getting, frankly, the ecosystem at the level that I expect from an M&A background so that we can diligence effectively; we can get our message out there. So there's a little bit of a satellite delay in, frankly, me coming on board and having a new corporate development leader.

That being said, we certainly are active on a series of opportunities. Some of the delay, and I mean ideally I would have loved to have had a Q1 acquisition that hit the sweet spot, we have two or three, I would say, we are active on that meet those criteria. And some of it is just the product of the ebbs and flows in the negotiating process.

And we're seeing opportunities that hit our sweet spot in various different areas from fintech, GRC, e-discovery, life sciences. So it's not a product of the fact that we don't have the opportunities, or that we don't have an ability or bandwidth to execute on them; it's been a combination of the delay in kind of recalibrating the function. And secondly, it's just the ebb and the flow of the opportunities.

I mean, obviously, we will—I am anxious to deploy capital, but I'm very mindful that I really need to have a high … do say ratio here. And that the first deal really needs to be one that makes a lot of sense, and it really reemphasizes the playbook.

So I'm very encouraged by the expansion of the funnel and the opportunities. It's been a delight to see that happen.

**Doug Taylor**

Okay. Well, we look forward to seeing those developments. I'll pass the line.

**Shaun McEwan**

Thanks, Doug.

**Operator**

Your next question comes from Gavin Fairweather of Cormark. Gavin, your line is open.

**Gavin Fairweather** — Cormark

Hi, there. Good morning.

**Doug Parker**

Morning.

**Shaun McEwan**

Morning.

**Gavin Fairweather**

Just to start out on the patent business, you talked about the change to the accounting rules. Is there a comparable level of revenue that you could speak to either for Q1 '17, or 2017 as a whole, just as we think about how the rules have changed there?

**Shaun McEwan**

Yeah. The adoption of the rules had a marginal impact in first quarter of 2018 for WiLAN. But the adoption of those rules are under what's called a modified retrospective application, which means that we're not preparing and disclosing comparative information on exactly the same basis because under accounting rules what was a completed contract at December 31 remains a completed contract. You don't have to go back and open all that up and start restating the last 10 years for all the comparative purposes.

So the reality is when you look at our roughly $8 million in Q1 last year, we can't unbundle that any more than we already have.

**Gavin Fairweather**

Okay. That makes sense. I'm sure you're not too sad about that.

**Shaun McEwan**

Yeah.

**Gavin Fairweather**

Maybe just shifting gears to IRD, can you quantify size of that California renewal that's slipped into Q2?

**Doug Parker**

Yeah. It's a $5 million contract over five years. Natural question is, how does the revenue flow? I mean, we obviously are in total control of that, but they tend to be … the revenue tends to be a little bit bigger at kind of the front end of the contract, Gavin, and a little bit lighter at the end as a general rule.

**Gavin Fairweather**

Okay. So pretty meaningful there. And then just lastly from a corporate perspective, is this a reasonable kind of run rate of corporate operating expenses? Or do you see other areas where you kind of need to beef up the team just as you work to embark upon your diversification strategy?

**Doug Parker**

Yeah. I think it is a good run rate. I mean, I really wanted to emphasize the importance is we're doing things intelligently. We obviously realize Quarterhill overhead is something we need to be cautious and intelligent on. We're trying to—I referred to in my call in the script a piece of it is investment mentality, and we're really enforcing that at Quarterhill. Where there are circumstances where we can intelligently use a variable cost versus an expense and fixed, we're doing that.

But as a general rule, I think we don't see any massive extension of our overhead costs at Quarterhill. The key for me was getting initially the correct M&A structure in place where we had the two key hires who are very good at adding value at a reasonable price and very focused on value for money. But I don't see the run rate changing.

Shaun, I assume you agree with that perspective as well?

**Shaun McEwan**

Yup. Yeah.

**Gavin Fairweather**

Okay. That's it for me. Thank you.

**Operator**

And again, I would like to remind everybody if you do want to ask a question, just press *, 1 on your telephone keypad.

Our next question comes from Todd Coupland from CIBC. Todd, your line's open.

**Todd Coupland** — CIBC

Good morning, everyone.

**Doug Parker**

Morning, Todd.

**Shaun McEwan**

Morning, Todd.

**Todd Coupland**

I have an accounting question. So if I have the impact right, you book an entire revenue—an entire licensing deal in signed quarter regardless of when the cash flow payments are coming in. So the question on that is are there—as we think about 2018, are there any quarters where there's—you won't obviously have corresponding revenue, but there's some cash flow that's going to be coming in we should be aware of?

**Shaun McEwan**

There's certainly in Q1, 2, and 3 there are still some outstanding cash flows from previously signed contracts that will come in kind of like roughly 2 million a quarter. Also, there is a fairly significant backlog for WiLAN, if you will want to call it that—it's not a separately tracked number—

but there's a significant amount of running royalties that come in on a periodic basis. Those will continue to come even if there is no licence agreement signed.

But beyond that, we're going to—the revenues in WiLAN are going to be dependent on an actual licence agreement side.

**Todd Coupland**

Right. Okay. So, Shaun, does that just show up in—where would that show up in the cash flow statement, the 2 million a quarter?

**Shaun McEwan**

It's in unbilled revenue on the balance sheet—

**Todd Coupland**

Yeah.

**Shaun McEwan**

—because it's like the opposite of deferred revenue kind of thing. So—

**Todd Coupland**

Yeah.

**Shaun McEwan**

—as that shows up it'll flow through the unbilled revenue.

**Todd Coupland**

Okay. And are the running royalties that have to come in, could that be material?

**Shaun McEwan**

This quarter it was just over 500,000. It kind of runs in the 2 million to 3 million a year kind of range right now.

**Todd Coupland**

Okay.

**Shaun McEwan**

But again, it's volume dependent, so through sales of some of those products take off, there's some that have been … there's been some quarters where it's been well over $1 million. So I can't say for sure that that's guidance, but there are some pretty significant running royalties available.

**Todd Coupland**

Okay. Okay. And I just want to talk about IRD here for a moment as well. So you missed 1 million or 2 million in the quarter from seasonality and the pushout. What is the rest of the rhythm in the business beyond the seasonality? How is that business actually performing?

**Doug Parker**

Yeah. I mean, I think the business is performing consistent with if you take out some historic bluebirds that they get in there, there's some bluebirds that come into their business over time. If you take those occasional bluebirds, they have some back in 2014; they had one or two in 2016 as well.

I think the kind of core operational rhythm of the businesses is as we expect, and we see it continuing. I think over time VectorSense will add to that core business. It will take time to do that.

But I do think that it’s really important to realize that we don’t see Q1 as being an underlying trend in expectation of revenues for that business. It was certainly weaker than other quarters that they’ve had, Q1s they’ve had, and I spoke to that, Todd. But we see the natural rhythm, they pick up steam—typically this business pick up steam in April, May, and June; very government contract-driven type of business. The product side is steady. It’s got a reseller arrangement internationally, which is a pretty steady source of revenue, has really been a pretty consistent piece of that.

But the big driver is the activity related to project work predominantly in Europe and the United States. And right now, when we look into the future of the business we don’t really see anything that’s a fundamental concern as to what that core steady state of their business is.

I don’t know, Shaun, if you have any other perspective on any of that?

**Shaun McEwan**

Well, I think if you take a look at and it’s not a separately disclosable number, but internally we track obviously the order book and the number of contracts in-house and their pipeline, if you will, from a sales perspective, but also from a renewals prospective. And 10 out of the 11 renewal contracts are perfectly on track. The 11th is coming up for renewal in May or June. And we have strong degree of confidence in that renewal.

So when you look at all those statistics inside the businesses, it's like Doug said. It's still performing as we would expect and pretty well on track with past practice; just Q1 came in a little extra light.

**Doug Parker**

Yeah. And their Weigh-in-Motion business, I mean they never lost a customer. It's a very sticky business. They have strong relationships with some of the large US states, and we see that continuing. There's no concern as a result of the transaction that those relationships are going away. They worked many years at developing them. And there is an element of lumpiness to their business related to that, for sure. But we see that as being effectively similar, substantially the same as when we bought the business.

**Todd Coupland**

Okay. Okay. Thank you for that colour. And then just lastly on M&A. So I appreciate the colour on verticals that you're seeing that could pop through the pipeline, or pop out of the pipeline. How are you thinking about … or what kind of expectation would you set for likely sizes of these deals? Do you draw down the entire cash position with one deal? Or—

**Shaun McEwan**

No.

**Doug Parker**

No, Todd. Yeah. Bite-size. My strong preference is not to do a one-and-done. I think I want to hit, as I said, a single. So if you're thinking on the large side 50 million in revenue and above, we're not hunting in those waters. Anything below 10 million in revenue we look at those. It's not optimal, but we're looking at them if they have a profile we like, particularly in the bottom line.

So kind of the sweet spot's probably in the 10 million to 20 million revenue space, but we're certainly not shy of doing one or two smaller deals if they have all of the sweet-spot criteria.

But no, I am very hesitant. I certainly know the challenges of the one-and-done scenario. And I think that's where the discipline comes in.

Over time, my hope is that we do get a certain string of pearls approach, Todd, where we will get an opportunity for better cost synergies. Maybe in the future there will be a natural platform evolution.

But right now, we're trying to walk before we can run on the acquisition side, but really, the bite-sized ones and to build credibility here that's really where the team's focused on.

**Todd Coupland**

And geographically should we assume that it's more than likely going to be in North America and most likely in Canada as well?

**Doug Parker**

Yeah. It's a good question. We're looking. I mean where our opportunities coming in, they're predominantly in United States and Canada, but there are a few Western European opportunities as well. We're being realistic in a portfolio approach to start being close geographically as an advantage for lots of reasons: cost and just general culture.

But interestingly enough, we are seeing opportunities outside of North America, but our preference is to focus predominantly on Canada and the United States at this time.

**Todd Coupland**

Okay. That's great. Appreciate the colour.

**Shaun McEwan**

Great. Thanks, Todd.

**Operator**

And this concludes Quarterhill's first quarter 2018 financial results conference call. You may now disconnect your lines.

Thank you.

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