Quarterhill Inc.

First Quarter Fiscal 2019 Financial Results Conference Call

Event Date/Time: May 9, 2019 — 10:00 a.m. E.T.

Length: 37 minutes

CORPORATE PARTICIPANTS

Doug Parker
Quarterhill Inc. — President and Chief Executive Officer

Shaun McEwan
Quarterhill Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Doug Taylor
Canaccord Genuity — Analyst

Gavin Fairweather
Cormark Securities — Analyst

Todd Coupland
CIBC World Markets — Analyst

PRESENTATION

Operator

Good morning, and welcome to Quarterhill's first quarter fiscal 2019 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 the 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 three months ended March 31, 2019. 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 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 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 also made available on 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. I'll start things off with an overview of business activity in Q1, followed by some comments on our M&A efforts. Shaun will then take a more detailed look at some of the key numbers, and then we'll open it up to questions.

Q1 was a strong start to the year and continued our operational momentum for Q4 of last year. WiLAN had a good quarter, with the business generating strong revenue and adjusted EBITDA. WiLAN's results showed us the positive side of the variable inherent in its business model and its ability to ultimately generate good cash flow in a given quarter.

IRD also had a good quarter with strong year-over-year growth in what is typically a seasonally slow period for that business.

Looking at the high-level numbers, we grew significantly over Q1 last year. Q1 revenue was 39.8 million, ahead of the forecast range of 33 million to 36 million we had provided with our year-end results, and adjusted EBITDA was 12.5 million.

We ended the quarter with cash and equivalents of 53.8 million, which was down from year-end, but that was due primarily to a 27.1 million increase in receivables in Q1. The majority of that increase was collected post-quarter-end, so Shaun will provide an update later on the call as to the cash balance on hand today.

Looking briefly at each of our businesses, I'll start with WiLAN. WiLAN did 28.1 million of revenue in the quarter and 14.8 million of adjusted EBITDA. These numbers were up significantly year over year, and also well ahead of this 10.6 million in revenue and 2.3 million of adjusted EBITDA we did in Q4 last year.

As mentioned at our last call, in Q1 we appointed Mike Vladescu, WiLAN's former Chief Operating Officer and a licence industry veteran, to the role of President and CEO of WiLAN. Michael oversaw the development of our very successful licensing partnership model and has led successful licensing programs in both semiconductors, as well as telecommunication technologies, both at WiLAN and elsewhere.

Through his team's efforts, WiLAN pivoted several years ago from focusing primarily on standards-related wireless patents to also covering wide aspects in the semiconductor industry. His proven revenue-generating track record speaks for itself, and I'm pleased to have him leading the WiLAN team going forward.

On the heels of a strong Q1, WiLAN's momentum continued into Q2, with the recently announced licence agreement that our Polaris subsidiary completed with NVIDIA. The licence patents relate to memory interface technology and are part of the portfolio that Polaris acquired from Infineon Technologies in June 2015. The Polaris portfolio has now been licensed to numerous companies and sectors, such as consumer electronics, semiconductor foundry, multimedia processors, DRAM, and now graphics processors.

The licence agreement settled litigations in both the US and Germany, but was most notable for the fact that the District Courts of Dusseldorf found that one of the German patents asserted by Polaris against NVIDIA was found infringed and would be provisionally enforced by an injunction. This is the first time in WiLAN's history that a patent that was asserted by one of its subsidiaries has been found not only valid and infringed, but also was granted the provisional right to enforce the injunction.

Subject to the terms of the completed licence agreement, the injunction won't be enforced. But injunctions are quite rare, especially in the US, and we believe that the court's ruling speaks to the strength and breadth of the Polaris patents and the expertise of our team which executed the trial strategy.

In general, a finding of an injunction provides a patent holder a critical tool with substantial leverage in negotiating a reasonable licence resolution, leverage which in many cases has been taken away from patent holders through various changes in US patent law. German patent law, however, still allows for patent holders that have valid and infringed patents the ability to attain an injunction and thereby exclude infringers from selling their products without a licence.

In terms of an update regarding our trial victory against Apple in August 2018, as most of you know, we have chosen to pursue a new trial on damages, and expect that will take place in August of this year. As we said previously, we are confident in our position and the quality of our patent portfolio, and we look forward to presenting our damages case to a new jury later this year.

IRD had a good Q1, with revenue up 26 percent year over year. Q1 is a seasonally slow period for IRD, so on a relative basis, revenue in Q1 tends to lag the other quarters in the year. We continue to like what we see from IRD, as they're making progress in key areas of the business: new contract wins, traction with product launches, pipeline expansion, and cost control. Their outlook for the remainder of the year looks solid, with opportunities in the core business, as well as in the new products such as TACS. And they continue to expand their footprint geographically in places like Africa, Mexico, and as we recently announced, in the Ukraine.

As we've been saying recently, IRD is also well suited for a potential tuck-in transaction because of the nature of the future software requirements of the business and owing to its very strong professional management team.

VIZIYA had revenue of 2.4 million, which was down year over year, but up slightly on a sequential basis. In part, what we're seeing with the business is a product of the graduation of VIZIYA into larger opportunities, particularly with SAP and Oracle. They're being brought along with those partners into larger licensing deals and are driven by the clients' corporate office—that are driven by the clients' corporate office.

In some of VIZIYA's markets historically, a software licence would be completed on a site-by-site basis, but today we're getting a lot more drive for larger transactions that are being driven corporately. The good news is that the deals are getting larger, and we think VIZIYA is well positioned from a technology perspective and a go-to-market perspective to benefit from that. The flip side is that the sales cycles are longer.

On the partner front, in November 2018, VIZIYA implemented Oracle's first customer for its cloud maintenance solution. Since then, there's been strong and growing interest with the deal funnel growing in multiple verticals. With SAP, we're now achieving sales of their mobile and maintenance budgeting project.

VIZIYA recently completed a research product with a McMaster CRC (sic) [CIRC]—that's Computing Infrastructure Research Centre—to build a machine learning module to further empower and enhance the competitive position of its leading maintenance scheduling solution.

Now to be crystal clear, VIZIYA continues to go after smaller opportunities and are investing in the cloud piece of their service, which should give an overall boost to the business long term. So we remain very positive on the business, and in fact, we think that there are opportunities there for tuck-in acquisitions too, which could help them capitalize on their opportunities, both large and small. Overall, VIZIYA is in the category of verticalized software firms that we like, and we remain optimistic for its scale and profitable growth potential.

On the M&A side, while still somewhat of a seller's market, we're experiencing good activity with deal flow and continue to make progress moving a number of opportunities through our pipeline and diligence process. With a focus on expanding our overall M&A coverage in general, we're seeing good opportunities to add stand-alone businesses to the portfolio, and we're also seeing promising tuck-in opportunities for IRD and VIZIYA which could help to further accelerate their growth prospects.

Overall, while there are no certainties, we still expect activity to pick up this year. Developing and scaling a sustainable M&A ecosystem takes time and patience. And a long-term, relationship-based, disciplined approach is necessary to be an effective deployer of capital and to deliver long-term shareholder value. There are no short cuts.

As stated in our last call, our key priorities for 2019 are:

One, deploy our capital on intelligent acquisition opportunities. We feel the sense of urgency, but we need to stay disciplined with our criteria.

Two, continuous improvement among our portfolio of companies from an operational performance perspective is part of the DNA that I take very seriously. Throughout 2019, we will remain focused on cash flow and expenses in our businesses and keep an eye out for additional savings.

And three, I've been working closely with the board to introduce a plan that better aligns our compensation with our long-term share price performance. Full details will be available in our 2019 Management Circular, which will be mailed in a couple of weeks, but we're effectively looking to shift more of the variable executive compensation from short-term cash focus to a long-term return that more directly correlates to an increase in share price.

If the share price doesn't go up, a meaningful portion of executive compensation will not be paid. I think that this model will work. It's very important that we stand shoulder to shoulder with shareholders in this regard.

And finally, we announced subsequent to quarter-end that John Gillberry is now Chairperson of the Board, with Jim Skippen stepping into the Vice Chairperson role. John has been a—has an extensive background in the tech industry here in Canada, including involvement with a number of M&A transactions. So we look to draw on that expertise further, as we build out our portfolio of companies.

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

Shaun McEwan — Chief Financial Officer, Quarterhill Inc.

Thanks, Doug, and good morning, everyone. I'll start off with a look at revenue in a little more detail.

Q1 revenue was 39.8 million, up significantly from 12 million in Q1 last year. The growth was driven, as Doug said, primarily by WiLAN, but a little bit by IRD as well. On a trailing 12-month basis, revenues of 105.2 million, with close to 47 million being generated by each of WiLAN and IRD, and just over 11 million from VIZIYA. This just gives you some perspective that on a 12-month basis, we are back up to revenue levels that are more representative of the Company's history compared to what we saw in fiscal 2018.

Q1 combined revenue for IRD and VIZIYA was 11.7 million, up 15 percent from 10.2 million a year ago, reflecting a stronger start for IRD this year.

Overall, on a revenue segment basis, Q1 segment numbers were up in each category. Revenue in the licence category, which includes contributions from WiLAN and VIZIYA, was 28 million compared to 2.5 million in Q1 of last year. Recurring revenue was 5.6 million in Q1, up 35 percent compared to 4.2

million in Q1 of last year. This is a component of revenue, as you'll recall, that we said we are looking to grow over time as we acquire other businesses.

Looking back over the trailing 12-month period, recurring revenue has been 23.4 million, roughly 22 percent of our overall revenue total.

Systems revenue, which generally includes revenue earned on contracted projects and recognized as services are delivered, was 5.6 million in Q1, up 19 percent compared to 4.7 million last year.

And finally, services revenue, which relates to professional services-type activities, was flat and again nominal at approximately 650,000.

For Q1, gross margin was 50 percent compared to 2 percent in Q1 of last year. The increase reflects the strong WiLAN revenue in the quarter, as well as the slight increase at IRD. There was also some reduction year over year in costs of revenue from the restructuring at both WiLAN and IRD that was completed in 2018.

On a sequential basis, gross margin increased from 38 percent in Q4 2018, which is a comparison period that had a broad contribution from all of the businesses.

On the operating expense side, Q1 SG&A was down 7 percent year over year, primarily due to the 2018 restructurings.

One item of note under operating expenses, in Q1 2019, we incurred a onetime $1.3 million expense related to organizational changes made at WiLAN. This is expected to be the final charge related to the changes there. And as we said on our last call, the restructurings at WiLAN and IRD are expected to save approximately 6 million annually going forward.

Adjusted EBITDA was 12.5 million in Q1, which again was a significant improvement from the negative 7.3 million in Q1 of '18 and from 3.2 million in Q4 of '18. The year-over-year improvement was due to higher revenue at WiLAN and lower expenses across all businesses.

On a trailing 12-month basis, adjusted EBITDA is 16 million, or approximately 15 percent of margin on the trailing 12-month revenue of 105.2 million.

Historically, I haven't spent much time discussing tax expense, but this quarter, at nearly 100 percent effective rate, I think it warrants a little more attention. At a high level, the tax expense of 5.3 million is comprised of 4 million in current tax expense and 1.3 million in noncash deferred tax expense. But unpacking that a little bit, we see that WiLAN generated approximately 10 million in pretax income and almost 5.9 million in income tax expense. Of that expense, 3.9 million was actually foreign withholding taxes paid in foreign jurisdictions, which is directly related to the geographies of both payment and receipts.

For example, to the extent that these withholding taxes are levied against payments made to Canada, WiLAN can recover some of these through the deferred tax recovery, given we have assets on the balance sheet. So the overall tax rate in that circumstance would appear more normal.

To the extent these payments flowed to one of WiLAN's US entities, where we do not have any deferred tax assets against which to recover those amounts, we end up with both the withholding tax and then, in this case, the Canadian deferred tax related to Canadian profitability. The tax amounts for the other entities in the Quarterhill group are really not material when you compare them to the WiLAN amounts for this quarter.

Cash used in operations was 12.3 million in Q1 compared to cash used in operations of 6.5 million in Q1 of last year. The use of cash in Q1 ‘19 was due to working capital adjustments and the timing of collections that really saw an incremental investment in accounts receivable of 27.1 million in the quarter.

As a result, cash, cash equivalents, and short-term investments, including restricted investments, ended the quarter at 53.8 million, down from year-end. However, as Doug mentioned earlier, the bulk of this increase in AR was collected post-quarter-end. So our cash on hand today is actually north of $70 million. I will remind you that that’s subject to change, obviously, over the balance of this quarter as things continue to materialize in our business.

So to summarize, Q1 was a strong start to the year for Quarterhill, and momentum with WiLAN has carried into Q2 with its agreement with NVIDIA. In the trailing 12-month period, Quarterhill has generated revenue of more than 105 million and adjusted EBITDA net revenue of more than 16 million. And we continue to have a strong balance sheet to support our M&A strategy, a balance sheet that has in fact grown stronger since the beginning of the year.

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$0.125 per share payable on July 5, 2019, for shareholders of record on June 14, 2019.

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

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, you can press *, and the number 1 on your telephone keypad. And we'll pause for just a moment to compile the Q&A roster.

And your first question comes from the line of Doug Taylor with Canaccord Genuity. Please go ahead.

Doug Taylor — Canaccord Genuity

Yeah. Thank you, and good morning.

Doug Parker

Morning, Doug.

Shaun McEwan

Morning, Doug.

Doug Taylor

WiLAN obviously continues to dominate the quarterly results here. No guidance provided, which I understand, but is there any way you can help us think about the coming quarter in terms of the magnitude or the directionality of WiLAN's results vis-à-vis Q1, to help us understand the momentum that you talked about with the NVIDIA deal?

Doug Parker

Yeah. It's Doug here. Thanks, Doug, for the question. I mean, we're still in the position where we're not comfortable providing on a regular basis guidance in particular for WiLAN. I mean, I think there's some good, broad strokes. I mean, I think we have a good leader there. We're already exceeded in Q1 the revenues that we had last quarter—last year, rather.

Shaun McEwan

Year.

Doug Parker

We have some—NVIDIA's a significant licence for us, an important one at many levels, including the injunction in Germany. So it has some collateral benefits to our business. And obviously, there are operational things coming up, such as our litigation pipeline is as strong as it has been; our licence discussions are ongoing.

So we're hopeful that there will be a good aggregate year for WiLAN, but we've made the decision not to sort of try to crystal ball-gaze with that business on a regular basis. I mean, the reason that we provided guidance last quarter was to a certain degree because of the timing of two months into the quarter and our year-end financial process that we had a lot of insight laid into our businesses.

And we've also done some significant restructuring, particularly with WiLAN. So we felt there was a lot of insight we could give in that respect. But when we're in a position to do it, we'll do it. But we're not right—as it stands right now, we're not comfortable to give it right now.

Doug Taylor

Yeah. I understand that. The cost savings from the restructuring program, just you went through it quickly. I just want to make sure I understand. Is the run rate for the expenses in Q1 a good representation of what we should expect going forward? Or is there some half-baked savings in there?

Shaun McEwan

The savings—it's Shaun here—the savings are most definitely already evident in there. And in our MD&A, which was filed earlier today, you can pick out some of these numbers.

But for example, in WiLAN in particular, there's some contingent partner payments and contingent litigation payments that total in the range of about 9.2 million, 9.3 million. So if you take those out of the expense base, both cost of revenue and SG&A, you get something that's much more in line with the normal spend pattern at WiLAN, which is down significantly, down probably 1.5 million, 1.6 million year on year same quarter, right? So when you look at our targeted 3.5 million savings, we've already got about 1.5 million of that in Q1 alone on WiLAN.

So we think that they're well in hand on that front. The IRD front, we said before we expected sort of $2 million of savings. That's already starting to materialize in there, and you can see that in terms of increased gross margin percentage from 25 percent in Q1 to 28.5 percent in Q2. That's where the lion's share of those cost savings are starting to flow through, despite the fact that we have a slight increase in R&D spend out at IRD; they continue advancing its tax and other product portfolios. So the reality is we're well on track for that. And even if Q1 was just representative and not an aberration, the reality is we're more than ahead of the 6 million target on the year.

Doug Taylor

Okay. Moving on to the, I mean, the Apple suit or trial. Are you—I mean, are you still on—I suspect I know the answer to this already—but are you still in negotiation with Apple about potentially settling ahead of trial? Or is it right now as it stands is it kind of we'll see you in court in August, I think you said?

Doug Parker

Yeah. I mean, it goes without saying we're always open to a reasonable settlement discussion, a reasonable licence. We're not in active settlement negotiations. We don't have a formal process at this stage. It's more likely than not, in the short term at least, it's headed down to prep for that August 26th trial, which is coming up.

And we remain as confident as ever on the strength of our damages claim. We do like the fact that the infringement's banked. It's now just a question of putting your best foot forward on damages.

But we would clearly remain open, but it has to—the first jury trial really gives you a sense as to the strength of these patents. And we're not feeling any pressure here to provide a settlement cents on the dollar. As long as it's fair and reasonable, we would talk with Apple. But as it stands right now, I think we're in the let's prep and put our best foot forward side of the process.

Doug Taylor

And I mean, do you see some of the other high-profile patent assertion cases that have gone on, I mean, with Apple included and around the world as providing any better or worse or any change to your position regarding your own?

Doug Parker

No. I think we—our position is on the merits of our position. It doesn't—we're not trying to read the tea leaves as to what Apple's master consolidated litigation strategy is. We're just sitting to the soups and nuts of our case. But as I said, if Apple knocked on our door—and we are always open to reasonable discussion with them—but I mean we feel confident in the merits and that we should be getting a very fair and reasonable return on the value of these homegrown patents.

Doug Taylor

Okay. Last question for me. You commented on the building pipeline of M&A opportunities. We're still yet to see a first transaction under your leadership there, Doug. Can you talk a little bit about whether the gap in the seller expectations or pricing versus your own comfort level if that's narrowing in the current environment? Or how we should think about that? Thank you.

Doug Parker

Yeah. That's a good – thanks, Doug. It's a good question. And I mean, obviously, I'm eager and the team is eager to do our first deal and a first series of deals. In terms of the macro environment, yeah, I mean valuations are historically at an all-time high and that dynamic you're starting to also see in the smaller acquisitions too. There's a bit of frothiness for sure.

But my perspective on the opportunities that are still out there as a value buyer, and you're seeing some of the more well-established aggregators continuing to succeed. They've been at the game a lot longer than we have, although they are disciplined, and the playbook's very similar.

And so we do lose and we do bow out of opportunities for valuation in the market, current market. There's no question. But there are other processes where we bow out because we want to make sure that we have a management team that's behind this and that the assets fits, particularly with the tuck-ins, that the asset fits really well with our business strategy.

So the bottom line is we have to work harder and smarter to find them, but there are encouraging signs. Our pipeline is over double where it was last year, so the top of the filter is there for businesses that fit our criteria. We are seeing—I think we've refined, kind of, our outbound focus a little bit over the last couple months to being significantly focused on the ITS space and the enterprise asset management space, on adjacencies—so the businesses that we already have, because in many respects it just maximizes the scale of your pipeline for people that know their industries, and you work on the business' networks to build your pipeline up. And those have been in various areas, so.

So to give you a sense of it, for VIZIYA, we're seeing environmental, health, and safety being an interesting area—shutdown turnaround, not surprising—control of work. For ITS, we're seeing some good assets in the playbook ZIP code in traditional wind, but also detection and traffic data management.

So I do know that this is a tougher M&A market to immediately start acquiring companies as a—as a new beginning entity around the value aggregator strategy. But we still believe in our strategy, and we have a patient approach to it. And it's not to a point where I look at the M&A market valuations and throw up my hands.

And we and the board—I openly discuss this with the board. We obviously are pragmatic about delivering on a strategy that enhances value through acquisition. But as it stands right now, we believe in the strategy and the patience around it, and we're seeing enough pipeline flow that I'm more confident we're going to be in a greater position to do a deal or more this year, if the stars align.

I think we're at the top of the M&A valuation market right now. I—and we're trying—and I think we are succeeding in making progress. It just takes longer and, Doug, it's a little bit more of an effort than it would be if it were a pure buyer's market.

Doug Taylor

All right. Thank you. I'll cede the floor.

Doug Parker

Thank you.

Shaun McEwan

Thanks.

Operator

Your next question comes from the line of Gavin Fairweather with Cormark Securities. Please go ahead.

Gavin Fairweather — Cormark Securities

Hey, there. Good morning.

Doug Parker

Morning, Gavin.

Shaun McEwan

Morning.

Gavin Fairweather

I wanted to start out on the WiLAN business. You guys have certainly gotten a lot of traction recently with your semiconductor portfolio. I was hoping you could just put that into context for us and how are you thinking about the potential for that particular portfolio over the next couple years in the context of the overall WiLAN business?

Doug Parker

Yeah. And I mean, we're very, very happy about both our wireless business, which is kind of the beginning of WiLAN, and then obviously semiconductor has grown, and where do we see the growth prospects and kind of the overall trend revenue drivers in that space? I mean, we certainly believe that the Polaris program—and that was the program established with the portfolio purchase in 2015, as I mentioned, from Infineon Technologies—it's proven to be a substantial revenue generator. And we expect to continue to see a number of transactions coming out of that program.

I think the Cetus Technologies area—that's based on a portfolio we purchased from Panasonic in 2017—has also shown some early signs, Gavin, of significant potential; the hynix transaction, which is being concluded in part from that portfolio, and that was within a year from acquisition. And we also see for future applicability of that portfolio to our unlicensed memory device vendors.

And we also see some accretive value coming from some of the framework-type agreements we have in place on the partnership side, and the TSMC one in 2017 is an area that generates significant high-margin revenue to date. So those are examples.

You win—and I think part of the strength as well is that when you have success like you have with an injunction in Germany, and you show your partners that it—you very much draw partners to your ecosystem and your skill set as a team to monetize IP. And we've show in spades our ability in semiconductor to do that.

And let's not also lose track of the fact that our wireless program, which was built on homegrown WiLAN technology, remains a key revenue driver as well. And the Apple case obviously has got the ups and downs of the cut and thrust of litigation, but just the success of getting that trial judgment just shows you the strength of the patents, in my view, but also the team and its capabilities.

So that's a flavour of areas, but we're very excited about the semiconductor area. And we're also very excited about the traction we're getting with our partner program. I think it's an excellent strategy. It was a refinement of a lot of the traditional licensing company approaches, and it's starting to pay dividends.

Gavin Fairweather

Okay. That's helpful. And then just quickly on VIZIYA. I mean, I think we've been talking for a couple quarters now about how sales cycles have moved out as they're chasing some larger deals. Just curious if we're starting to get to the point where some of those could start hitting and we could see a quarter where a large licence hits and maybe you could just put some colour around what that would look like?

Doug Parker

Yeah. I mean, there, as you can imagine—and some of this is there's a bit of headwind, current headwind. They obviously have licences big in the oil and gas and mining areas, and those are areas going through a lot of change and consolidation right now. So you're also getting a bit of delay. Where projects aren't being iced, they're just being delayed.

But we would envision, there's multiple of those opportunities that are very advanced in their pipeline. And a lot of these, they're being driven to the table by strong partners who have a lot of respect and are obviously pushing to get the win.

But you could be looking at those things being in at one point in time 3 million to $5 million in licence just hitting at any point in time. So they could be—you could have a significant spike in a quarter. But there's a lot of moving pieces right now in their pipeline around that. There's—but we're confident that in the foreseeable future, we're going to see one of those hit. But that's the kind of scale. It could be a onetime licence hit that is of a size that, really, they've never seen before.

I don't know, Shaun, if you have any other comment or agree with—

Shaun McEwan

I—

Doug Parker

—colour around that?

Shaun McEwan

Yeah. Not to oversell it, of course, but the reality is if it was a 3 million to 5 million licence, you can't lose sight of the fact that there is maintenance revenue and—

Doug Parker

Correct.

Shaun McEwan

—often a services revenue component around it. So if we're talking about licences revenues in that magnitude, the revenue and earnings potential for the business could be significantly higher than strictly that number.

Again, I'm not trying to oversell it, and I'm not trying to forecast or overshadow it, but, yeah.

Gavin Fairweather

Yeah. No. That's quite helpful. And, Shaun, I'm sure it was probably mentioned in the MD&A somewhere, but was there a significant impact from IFRS 16 on the EBITDA line? Or was it pretty minimal for you guys?

Shaun McEwan

Let's just see—we're talking about lease accounting?

Gavin Fairweather

Yeah. Yes.

Shaun McEwan

ASC 842? Yeah. Now, it's like we have it at 350,000 bucks of lease cost that flow through the P&L. There's no P&L—

Gavin Fairweather

Okay.

Shaun McEwan

—at this time. The only impact is on the balance sheet. We've got a couple of million dollars' worth of net new assets and a couple of million dollars almost the same number of liability on the balance sheet. We call them right-of-use assets and right-of-use liabilities—

Gavin Fairweather

Yeah.

Shaun McEwan

—so everybody can look at them and say they're related, and they don't matter.

Gavin Fairweather

Okay. Thanks so much. That's it for me.

Shaun McEwan

Okay.

Doug Parker

Thanks, Gavin.

Operator

As a reminder, if you'd like to ask a question, you can press *, and the number 1 on your telephone keypad.

And your next question comes from the line of Todd Coupland with CIBC. Please go ahead.

Todd Coupland — CIBC World Markets

Hi. Good morning, everyone.

Doug Parker

Morning, Todd.

Shaun McEwan

Morning, Todd.

Todd Coupland

I wanted to ask about the, I guess, funding power in the balance sheet. So if you have 70 million on cash, you probably need 25 million or so to run the business. So is the acquisition potential in the sort of up to 45 million or something like that?

Doug Parker

Yeah. I mean, assuming that we don't see something, Todd, which for whatever reason we think there's a compelling basis to lever ourselves up or to raise equity. And our goal is to do that judiciously and carefully. But at a high level, I think that would be a fair way of looking at it.

Shaun, do you kind of share that view?

Shaun McEwan

Yeah. I was just going to—you mentioned it on our concept of—

Doug Parker

Yes.

Shaun McEwan

—leverage, right? We're sitting on a balance sheet with 70 million-plus in cash. We're sitting on a business that does generate on the longer term—

Doug Parker

Yeah.

Shaun McEwan

—significant cash flow. We certainly have a leverage capacity, given we've got in reality there's a couple of hundred thousand in true long-term debt sitting on the balance sheet. So there's probably significantly more powder available when we find that right deal than just strictly current cash.

Todd Coupland

Mm-hmm. And just sort of qualitatively, Company act—if it were to be larger than the cash on hand, presumably it would have some stability and recurring revenue in order to sort of allow that to happen, I'm assuming?

Doug Parker

Correct. Correct.

Todd Coupland

Yeah. Okay.

Shaun McEwan

So case in point, Todd, just to go back and highlight. When we looked at—when we did the IRD acquisition, clearly, we had significant cash in the balance sheet, but we also did explore the opportunity of obtaining a bit of leverage on the back of the IRD cash flows. When you look at IRD, around roughly 4.5 million, 4.7 million trailing-12 EBITDA on that business. You can lever that. And we know we can lever that at 3 times without materially impacting the business.

So we know in that case, we've got 12 million bucks' worth of possible dry powder. We know the same circumstances exist against in—at the VIZIYA team as well, albeit on a slightly smaller trailing-12 EBITDA number.

But the reality is those are on existing businesses, let alone, like you point out, if we acquire something that's more sizable and more stable and more predictable, the reality is we've got even more powder available against that particular entity's EBITDA flow as much as against our existing assets.

Todd Coupland

Mm-hmm. And so that sort of begs the question, in the funnel you're looking at, I mean if it were 50 million to 100 million in size, that's somewhat transformational for the Company. Is that on the list of possibilities as well?

Doug Parker

It's on the list of possibilities. Right now we're focusing in what I said before, Todd, primarily on the singles or the doubles that make sense. But we're pragmatic, and we're open, but it's got to make industrial logic sense, and it's got to make financial sense. But we're trying to be as focused as we can be.

But the M&A game is—opportunism is always in the back of everyone's mind. But if we came—another way of looking at it—if there was a compelling acquisition like that, and it had industrial logic and had financially held together, it's not something we'd say no, we're so dogmatic, sticking to these smaller deals and these tuck-ins, that we're not going to consider it. But we're not leading with those type of opportunities right now.

Todd Coupland

Okay. And then, I mean I get—so this is—and now would—you may do one, you maybe do two, you may do three tuck-ins, smallish deals but with these sort of like ranges of options? You aren't necessarily just do one and you're finished. You could do two, three—probably not more than that because of integration—

Doug Parker

Mm-hmm.

Todd Coupland

—but you could do more than one, anyway, I would have thought.

Doug Parker

Yeah. Absolutely, absolutely, Todd. Yes.

Todd Coupland

Okay. Okay. That's all the question—those are all my questions. Thanks a lot.

Doug Parker

Thank goodness.

Todd Coupland

Really nice quarter.

Doug Parker

Thanks, Todd.

Shaun McEwan

Thank you.

Operator

We have no further questions at this time. This concludes Quarterhill's Q1 2019 Financial Results Conference Call. You may now disconnect your line. Thank you.