FINAL TRANSCRIPT

Quarterhill Inc.

Second Quarter Fiscal 2019 Financial Results Conference Call

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Brendan Chong
Canaccord Genuity — Analyst

Todd Coupland
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PRESENTATION

Operator

Good morning, and welcome to Quarterhill's second 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 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 three- and six-month periods ended June 30, 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 made available on SEDAR and EDGAR.

Please note that all financial information is provided 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 Q2, followed by some brief 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.

Q2 was another good quarter for the business, which has resulted in a strong start to 2019. WiLAN had another solid quarter, with the business generating significant revenue and adjusted EBITDA. WiLAN's results again show us the positive side of the variability inherent in its business model and its ability to generate cash flow to support our diversification strategy. IRD also had a good quarter, in which it generated record quarterly revenue.

Looking at the high-level numbers, we grew significantly over Q2 last year. Q2 revenue was 42.4 million and adjusted EBITDA was 12.9 million. All three portfolio companies contributed positive adjusted EBITDA, and we ended Q2 with 88 million of cash and equivalents on the balance sheet.

Looking now at each of the businesses, I'll start with WiLAN. WiLAN's momentum from the previous two quarters continued into Q2. The key highlight in Q2 was the signing of a licence agreement that WiLAN's subsidiary, Polaris, completed with NVIDIA, driven in large part by the successful outcome of our litigation in Germany. The Polaris patents licensed to NVIDIA relate to memory interface technology used in their very successful graphics processor business, as well as in their infotainment and artificial intelligence products.

Polaris patents have now been licensed to numerous companies, including Samsung, TSMC, Global Foundries, Cisco, and now NVIDIA, among others. As stated on our last call, the resolution with NVIDIA settled parallel litigations in both the US and Germany, but was most notable for the fact that the

German court in Düsseldorf found one of the patents in the litigation to be infringed, valid, and provisionally enforced through an injunction. Subject to the terms of the completed licence agreement, the injunction won’t be enforced, but the fact that Polaris was able to secure that decision is notable. Patent injunctions are very rarely granted in the US, and while somewhat more common in Germany, they’re still difficult to obtain there as well.

This ruling in Germany marks the very first time in WiLAN’s history that an injunction was granted with respect to one of its subsidiary’s patents. This is just one of the indicators of the strength and breadth of the WiLAN’s multiple portfolios and the expertise of the team, which executed the successful litigation and eventual licensing resolution.

In terms of an update regarding our ongoing litigation with Apple and the trial victory we secured last year, as previously discussed, after that trial victory, the court granted Apple’s motion for a retrial on the amount of monetary damages that they owe us.

As a result, we’re planning for this retrial on damages, but it’s important to remember that this retrial will focus exclusively on the damages, and the new jury will be told right at the outset that the patents have been found valid and infringed, and that all they have to decide is the amount that Apple must pay.

This retrial was originally scheduled to begin August 26th of this year, but the court recently asked the parties to reschedule it. Due to scheduling conflicts with some of the testifying experts, court witnesses, as well as the court’s availability, the earliest available date to begin the trial is January 21, 2020. While any delay is frustrating, we remain confident in our damages case, and we look forward to presenting our compelling arguments to a new jury early next year.

There are several other upcoming trials in the next six months relating to our wireless patents. A trial with LG is scheduled for late December 2020, and a trial with Canadian service providers Bell, Rogers, and Telus is scheduled for November 2019. Our team remains focused on preparing for these trials, while at the same time, we're open to any reasonable discussions with the defendants aimed at resolving these disputes.

Lastly, WiLAN's business development team continues to strengthen relationships with our existing licensing partners and is actively engaging with several other new potential partners. These potential partners have deep portfolios, based on industry-leading technology, and a clear interest in having a proven and stable licensing partner, such as WiLAN, generate revenues from these patents while enabling their internal teams to focus on other matters.

We believe that these strong and growing partnerships will continue to provide a strong pipeline of licensing opportunities that should drive future revenue and profitability for WiLAN.

IRD also had a solid Q2, generating record quarterly revenue and building on a strong Q1. Just over a year ago, we completed a restructuring at IRD, and the business today is delivering a growing base of revenue on a lower cost base. While some costs have been taken out of the business, we continue to invest in its growth potential. Year over year, IRD has increased its R&D spend, and as they continue to innovate and launch new products, such as TACS, VectorSense, and Vehicle Information in Motion, into a broad, global, and sticky customer base.

With TACS, short for Tire Anomaly and Classification System, IRD added 20 new opportunities to its sales pipeline in Q2 alone. New contract wins in Q2 for IRD included one in the Ukraine, where the Company is part of a consortium that will design, supply, and install 20 lanes of Weigh-in-Motion, covering six sites on roads around the capital, Kyiv. Overall, IRD's pipeline continues to grow both globally and in

North America, and its order book is building nicely, and tracking ahead of 2019's plan. We continue to like what we see from IRD, and we believe they are well-suited for a potential tuck-in transaction to enhance its service offerings and expand its potential growth opportunities.

In our Q2 press release today, we announced that subsequent to quarter-end, VIZIYA signed two significant software licence agreements. One is with an integrated energy and chemical company with annual revenues of more than 20 billion, and the other is with an international metals company with revenues in excess of 7 billion. Both agreements cover VIZIYA WorkAlign suite of products, including Scheduler, and are comprised of the usual perpetual licence maintenance and support elements.

We're very pleased to see this activity from VIZIYA. It shows that they can land these type of large enterprise deals and compete at that level. While the sales cycles are longer for the larger deals, when they do land, they have a significant financial impact on the business and can be a catalyst for further large enterprise sales and partnership opportunities. It should be noted clearly that these are not the only large licence opportunities in the VIZIYA pipeline.

Though these transactions were completed in July and will appear in our Q3 revenue, they did impact an element of our Q2 financials, as the agreements may contribute towards VIZIYA's earned-out (sic) [earn-out] objective. As a result, we adjusted our contingent liability related to the earn-out on our Q2 balance sheet. Shaun will speak to the numbers in more detail in his section.

While the management team at VIZIYA is certainly motivated to maximize their earn-out potential, they're also excited about the broader momentum in the business and its opportunities for growth and success in the coming years as part of Quarterhill.

Looking now at the Q2 period with VIZIYA, it was an improvement over Q1 of this year, with higher revenue and a positive contribution to adjusted EBITDA. In general, the themes trends we have spoken about on recent calls were evident in the quarter, with the graduation of VIZIYA into larger opportunities still at the forefront for the Company.

Of course, we saw subsequent to the quarter-end the conversion of a couple of these into concrete commercial wins. Beyond the larger deals, VIZIYA's pipeline for smaller opportunities also continues to grow and they're investing accordingly in their cloud-based offering. This ability to serve both large market opportunities and smaller company opportunities should benefit the Company in the long run, and we think VIZIYA remains well-suited from a technology perspective to take advantage of this dual opportunity.

On the M&A side, the top end of the pipeline continues to grow, both with candidates for stand-alone acquisitions, as well as with promising tuck-in opportunities for IRD and VIZIYA. While pleased with these developments, valuations in private markets remain stretched and it continues to be a seller's market. We remain confident in our ability to source and complete quality transactions, but in this environment, we will remain patient capital allocators and will only buy assets that meet our disciplined acquisition criteria.

In the interim, we continue to build out our network of deal flow contacts, expand our target pipeline, and work closely with our portfolio of companies to identify potential tuck-in opportunities that make sense.

In closing, to reiterate, our top priorities for the year are to, one, deploy our capital on intelligent acquisition opportunities and strategic investments in our existing businesses; and, two, drive continuous improvement among the portfolio of companies from an operational perspective, capitalize on growing opportunities, generate cash flow, and keep an eye out for additional savings. We believe Quarterhill is in a strong position today to achieve these long-term goals.

We have 88 million in cash and virtually no debt. We're seeing evidence that the diversification strategy is working, with IRD off to a good start this year, generating a record quarter of revenue in Q2, and with VIZIYA delivering two of the large enterprise style-type transactions post-quarter-end that we've been talking about for some time. All three portfolio companies contributed positive adjusted EBITDA in the quarter, and there are a variety of growth opportunities to develop and successfully launch new products and expand lucrative partnerships.

We've improved operating efficiencies as a result of the 2018 restructurings, saving approximately 6 million in costs per year. We have a growing M&A pipeline and market presence, and we have a disciplined leadership team focused on optimizing capital allocation to drive long-term shareholder value.

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.

Revenue was 42.4 million as compared to 20.4 million in Q2 of last year. Year to date, revenue was 82.2 million compared to 32.4 million in the same period last year. The increases are largely driven by WiLAN, with 52.9 million in revenue year to date, but also by IRD, which is up 20 percent in the year-to-date period to 24.1 million.

On a trailing 12-month basis, revenue is now 127.2 million, which gives you some perspective that on a 12-month basis, we are back up to and, in fact, beyond revenue levels more representative of the Company's history compared to what we saw in fiscal 2018.

Of note, on a revenue segment basis, recurring revenue was 5.7 million in Q2 compared to 6.8 million in Q2 of last year. Year to date, recurring revenue was 11.3 million, up slightly from 11 million for the same period last year. And looking out over the trailing 12-month period, recurring revenue was 22.3 million.

For Q2, gross margin was 48 percent compared to 19 percent in Q2 last year. The increase reflects the strong Q2 revenue results from both WiLAN and IRD. There was also some reduction year over year in cost of revenue from the restructurings undertaken in 2018.

Q2 2019 operating expenses included a special charge of 10.6 million related to the earn-out payment in the VIZIYA acquisition, which Doug already mentioned. This is a noncash charge in this quarter. As a result of the significant licences signed in July, VIZIYA is now expected to achieve its performance targets and earn more than 100 percent of its eligible earn-out payment. We have, therefore, revalued the contingent liability associated with this earn-out from the 0.9 million that was on the balance sheet at the end of Q1 to roughly 11.6 million at the end of Q2, which results in this $10.6 million special charge in the quarter.

This liability will be retired no later than October 31, 2019, subject to the terms of the VIZIYA acquisition agreement, through the issuance of approximately 3.6 million common shares and cash consideration in the amount of approximately 7.1 million. All of this is subject to final verification in this quarter, Q3. The revenue and cash flow impact related to these new contracts will be reflected in our Q3 financial statements.

The fact that VIZIYA is expected to exceed its earn-out target is a positive all around, as it shows us that the type of large enterprise transactions they are capable of winning and gives us a truer sense of their growth potential over the longer term.

Excluding that special charge, Q2 operating expenses were 14 million, down from 14.7 million in Q2 last year, reflecting the cost-cutting efforts undertaken last year. Q2 operating expenses also included a $0.5 million special charge, primarily related to leasehold improvement disposals or write-offs which resulted from the relocation of WiLAN to smaller, more optimal office space. This was a noncash charge, and we believe the annual cash savings as a result of this move will be approximately 300,000 per year, starting in Q3.

Adjusted EBITDA was 12.9 million in Q2 and 25.3 million year to date. This compares to negative adjusted EBITDA on the two comparison periods last year. As with the year-over-year increases in revenue, this improvement was driven by the strong start to the year for WiLAN and IRD. On a trailing 12-month basis, adjusted EBITDA is 26.1 million, representing a 21 percent margin on the trailing 12-month revenue of 127.2 million.

Cash generated from operations was 34.0 million in Q2 and 21.6 million for year-to-date period. This compares to cash used in operations for the two comparison periods last year.

Q2 cash from operations was enhanced by the collection of certain receivables that were related to licence agreements completed in Q1 of this year. Overall, the year-to-year improvement in cash flows primarily reflects the cash-generating capabilities of WiLAN and, to a certain degree, IRD. As you know, WiLAN results are variable quarter to quarter and need to be viewed over the longer time frame. Looking at the business through that lens, on a trailing 12-month basis, WiLAN has now generated approximately 68 million in revenue and 27.2 million in adjusted EBITDA.

Turning to the balance sheet briefly. Due to the strong start to the year, we ended Q2, as Doug said, with 88 million of cash and cash equivalents, up 31 percent from 67.3 million at year-end.

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 October 4, 2019 for shareholders of record on September 13, 2019.

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

Q&A

Operator

At this time, I would like to remind participants, in order to ask a question, please press *, then the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Gavin Fairweather from Cormark.

Gavin Fairweather — Cormark

Hey, there. Good morning.

Doug Parker

Good morning, Gavin.

Gavin Fairweather

Congrats on the quarter. I wanted to start out on the VIZIYA deals that were signed subsequent to the end of the quarter. You framed it as being an enterprise deal, so it sounds like it's going to be a multisite deployment with these clients. And can you just talk about whether you went to market with any partners on this one? And any kind of context on the RFP and sales process that you can provide?

Doug Parker

Sure. Thank you, Gavin, for that. These are net new customers for VIZIYA, so that's very exciting. The opportunity of the two we noted, the opportunity with the major customer was a result of an RFP process where there were several companies were involved, the cycle was over a year or longer. However, the details are subject to NTA, so for right now, we've kind of been high-level impacts. Historically, in similar opportunities, VIZIYA would be competing against larger players, as you can imagine, and the usual suspects would be Prometheus, SAP.

So the deal came—the larger deal came out of, my understanding is, another customer of VIZIYA recommending VIZIYA to the larger organization because of the quality of their team and their products, services. So from our perspective, it's exciting because, traditionally, the bread-and-butter, kind of one- or two-site approach, which VIZIYA has really exceeded at and been the core of their business, to have an enterprise-wide licence to not only sell in their existing suites, but as their products evolve into other areas and have success with that customer base, it's a natural way for them to roll out their new products and have that kind of first-mover advantage. So at a high level, that's where it is. As Shaun did say, they came in late in July, so we expect to have a lot more of the kind of financial meat of those deals spelled out in more detail in Q3.

Gavin Fairweather

And can you just remind me on kind of how the implementation works at VIZIYA? Do they need to add some implementation resources? Or are they working with some partners to help roll this out?

Doug Parker

They do a lot of the implementation directly themselves. I mean, it's got an implementation component, a maintenance component, and a licensing component, so traditionally. But a lot of those of the implementation activity they do directly themselves.

Gavin Fairweather

Okay. And then just as a follow-on to that, can you talk us through kind of how that deal was structured in terms of the earn-out? I'm not sure if you can talk about the hurdles at all, but any colour you can provide on that front in terms of how that was structured?

Shaun McEwan

Sure, Gavin. It's Shaun here. The disclosures in our statements say that the earn-out was structured such that it's cumulative eligible earnings, basically EBITDA. There's some puts and calls on the definition of EBITDA to get back to eligible earnings. But if VIZIYA achieves cumulative from April 1, 2017 until in July 31, 2019, cumulatively reaches about 11.9 million—I think it's actually 11,850,000 in cumulative eligible earnings—then it would trigger a payment equivalent to 11.850 million.

Gavin Fairweather

Okay. That's very helpful. And then maybe just shifting gears to the patent business. You talked about some trials ongoing on the wireless side. Just curious if there's any ongoing kind of trials for Polaris, and whether you think the injunction that you got against NVIDIA sets a bit of a precedent on that front.

Doug Parker

Yeah. Absolutely. I think it will be a very useful precedent for a lot of reasons and we're already, frankly, seeing a little bit of energy with our existing partners and potentially new partners around that. We've got litigation ongoing with AMD in Texas. There's a Markman hearing coming up for that in the semi area, which is important. It's an important piece of litigation for us. We've got a series of other litigations ongoing in predominantly the United States in the semi side. A lot of the larger litigation that's ongoing right now that's kind of on the eve of trial, as I said at the beginning, is more wireless-driven, LG and, obviously, Apple, and then the Canadian service providers in the fall as well. We are, as you can imagine, into a series of ongoing discussions, licensing discussions in the semiconductor space broadly.

And as I said before, particularly where we're seeing kind of revenue-driver programs, obviously, the Polaris program has been a success and we see that continuing to be a success. Our Cetus Technologies, which is based on the portfolio we purchased from Panasonic, has significant potential as well. We saw some of that in the SK hynix transaction that we did in Q1.

Our wireless program is still robust and we're actually seeing tangible trials coming up, obviously, as you know. There are some additional portfolios, innovative portfolios out there. I think the former SanDisk patents or the Innovative Memory Solutions, as well as the IPA Technologies, which is former Siri patents, are interesting areas. And we're seeing our framework agreement with TSMC that we entered into in 2017, already—it's already generated significant high-margin revenues to date, and there's—it's exciting as a basis for further discussion with other parties.

Gavin Fairweather

Okay. Thanks. I'll re-queue.

Doug Parker

Thank you.

Operator

Your next question comes from the line of Doug Taylor from Canaccord Genuity. Please go ahead.

Brendan Chong — Canaccord Genuity

It's Brendan on here for Doug. Another solid out—

Doug Parker

Good morning, Brendan.

Brendan Chong

—good morning, guys. Another solid performance here from WiLAN. You've understandably elected to not provide any guidance again. But can we expect to, I guess, to some extent, start to see similar magnitude and direction from this business moving forward?

Doug Parker

Yeah. I mean, I think lumpiness. And it's obvious, a question. Attempts are usually made in any organization to try to have a certain amount of very—consistency to the earnings and the revenue. I think a level of lumpiness, we're going to expect, Brendan, in the foreseeable future for this business. I will say that it has been three good quarters for WiLAN. Will there be soft quarters and further strong quarters? Yes. I think it's an inevitable in the business.

What I will say is that we are certainly getting traction on the partnership side. All those hard years of working and building the partnership program, to semiconductor specifically, is really paying dividends. I think our reputation with the Apple trial, and now the injunction we got with NVIDIA, has really piqued the interest on the business development side, and we're very active on the business development side, not just in our traditional semiconductor and wireless space, but in some of the logical adjacencies. And we've got a very strong leader in the business development group.

So there's no assurance that we're not going to have soft quarters along the way, but from my perspective, looking at the results compared to some of the softer quarters we had in 2018, it gives me comfort that the proverbial wheels have not fallen off WiLAN and the cadence of that organization, on a more modest OpEx structure as a result of their restructuring, is developing good results on a lower OpEx base. So we remain confident in the long-term prospects.

But as opposed to giving more traditional guidance going forward on a quarterly basis, we still struggle with that. And obviously, we've seen some of these larger licenses that have hit recently to just be proof that our patience, our patient approach is the right way to get long-term value, and frankly, long-term cash generation from the business that we really need for the (unintelligible).

Brendan Chong

Got it. That's great colour. Thank you. And I guess, staying on that topic of WiLAN, can you, I guess, quantify the—how impactful was the NVIDIA contract in Q2, if you guys are able to talk about that?

Doug Parker

Yeah. As you know, we don't give specific breakdown of it for confidentiality reasons. But it's fair to say it was a significant portion of the WiLAN revenue in the quarter, and that it was a significant licence in over the last 12-year period, as was our SNX (sic) [SK] hynix licence. That's about as much as colour as we can give.

Shaun McEwan

Sorry. SK hynix.

Doug Parker

SK hynix. SK hynix. My apologies. But it was a substantial portion of it. We're not at liberty to give the specifics, but it was an important licence for us.

Brendan Chong

Got it. Thank you. And I guess, similar to that, with the VIZIYA contracts that you guys spoke about, can you guys elaborate maybe on the magnitude or the direction of these contracts? And do you think we can expect anything similar in the near term in terms of contract announcements?

Doug Parker

Yeah. I mean, we've purposely, there's for competitive reasons and confidentiality reasons that we haven't broken that down, Brendan. It's important—it's fair to say they're significant licenses. They've got—they will have ongoing maintenance, meaningful ongoing maintenance over the course of five years as well, and there's a typical support services piece there. Yeah. I mean, to be candid, this is almost a matriculation of VIZIYA into an enterprise-wide, large licence world that they've really been on the cusp of breaking into, and they have. So there's a lot of street cred in the industry for being—succeeding at this level and delighting the customer. We have full confidence in the strength of the team on the deployment side.

But there are a lot of collateral benefits to suddenly being in that zip code, so to speak. And also, we think it enhances the credibility of VIZIYA to the extent to which it wants to talk about third-party partnerships, and they have two particularly strong ones with Oracle and SAP. They have relationships that are—we've been openly talking about getting closer to those organizations, and I think this is just, from my perspective, evidence that they have more and more credibility to open up those kind of dialogues.

So for us, it's very exciting. I think for the team, it's very exciting. There are a series of opportunities on the pipeline. They do take, as I said in my opening remarks, a long time, sometimes to the sales cycle and large enterprise deals can be longer than smaller, site-specific deals, but they do have other multimillion-dollar licence opportunities they're pursuing. The ones that they have landed are not the only one in their pipeline.

Brendan Chong

Okay. Great. And last question from me here. Aside from just on the change in timing with respect to the Apple case, has anything happened or anything changed here? Has Apple potentially, I guess, approached you guys to negotiate a settlement at all?

Doug Parker

I don't think, at a high level, no. I don't think that there has been a change. There was a nonbinding mediation process. Regularly, as you go through this, the court occasionally says, why don't you get together in a nonbinding way, and we haven't to date had much success with Apple around that. Obviously, we remain open to a reasonable solution here. But we're confident about the strength of our IP and that we have a meaningful damages entitlement here. There are interlocutory activities around confirming your expert witnesses and related points of that. But as it stands right now, we remain open to that, but really, our focus now is to prepare in the most effective way we can for that January trial.

Brendan Chong

All right. Got it. Thanks. Thanks for everything. I'll pass the line there.

Doug Parker

Thanks, Brendan.

Operator

Once again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad. Your next question comes from the line of Todd Coupland from CIBC. Please go ahead, sir.

Todd Coupland — CIBC

Good morning.

Doug Parker

Good morning, Todd.

Shaun McEwan

Morning, Todd.

Todd Coupland

I had a few questions, and I joined a little late, so apologize if you got into this detail. Just from an OpEx perspective, you did 14 million, down a little bit year on year. Is this a pretty good number to use as we think about the business on a run rate basis?

Shaun McEwan

There's about a $0.5 million of adjusted or special charges related to asset write-off over and above the 10.6 million on the VIZIYA adjustment. So take that out and then you're probably looking at something that seems reasonable to me.

Todd Coupland

Okay.

Shaun McEwan

It's Shaun here, by the way.

Todd Coupland

Okay. Thanks, Shaun. In terms of the WiLAN upside in the quarter, so I assume by the answer to the last question that it was NVIDIA and hynix that drove the bulk of that upside. Is that right? And is it all the business from those two players been booked now and so you're back into the pipeline to sign deals that have to be booked in the quarter they're signed. Is that the right way to think about it?

Doug Parker

I think it's fair to say that in Q1 and Q2, those two licences were substantial contributions. There is a technical, I believe, still a potential amount of consideration to follow with NVIDIA. Shaun maybe you can give a little bit more detail around that.

Shaun McEwan

Yes. There's a guaranteed fixed payment amount on the NVIDIA contract. It's in the couple of million dollar range. But given the way accounting rules are now, it's related to a performance obligation that the customer gets to determine, so we can't book that revenue. Despite the fact that it's committed, guaranteed, we can't book it. So technically, I think, if we had less obscure rev rec rules nowadays, WiLAN would have had about a $2 million better quarter. And, unfortunately, that 2 million is kind of extended out for it could be as much as three years.

Todd Coupland

Okay. Okay. But that was—

Shaun McEwan

That's for the—

Todd Coupland

—you're back to closing and reporting in-quarter as a principal driver for the accounting and licensing?

Shaun McEwan

Yep. Correct.

Doug Parker

Yep. Correct.

Todd Coupland

Okay. In terms of the VIZIYA, so I mean, you did 5 million in the quarter, I guess. You're calling out these multimillion-dollar larger enterprise deals. So you give us the guide, I guess, for that, or we'll see it in the numbers as we look forward. But I don't know if you can say this. Is it adding to the growth, double digits go to triple-digits growth? Is it that material? Is it single digits now going to double-digits growth? Any ability to give any colour along those lines?

Doug Parker

Yeah. I think it's a challenge to be that specific. I think it's of a magnitude—they're of a magnitude comfortably in the millions. I think there will be inherent lumpiness in a perpetual licence business, Todd, as you know, and that will remain. I do think you're seeing some real progress on the cloud side with VIZIYA, and it's still kind of middling in their development of their cloud strategy but we fully expect that to overlay. But I—this, for us, is a—from a getting into that large enterprise deal, multimillion-dollar, enterprise-wide, broader opportunity, this is a new world that they've succeeded in. So our hope is that it will trigger additional opportunities there.

The timing of them, though, when you're in the perpetual licence world is to be determined. And some of the industries that they have been in, as you can imagine—oil and gas and mining and energy—have had a difficult few years and certain projects have been on hold. So there are a series of opportunities in VIZIYA's pipeline that are not lost as such, but they're on hold. And they can—the business need is still there; it's just a question of when an RFP process will be commenced or restarted. And there are a few there that are kind of in that large enterprise licence zip code, and VIZIYA remains on the hunt for those as soon as the dynamic changes with the potential customer.

Todd Coupland

And maybe you said this earlier, but if you don't mind repeating it. Why did VIZIYA make this step function into this new world? What was the edge that got you to the enterprise level?

Doug Parker

I think it's been an area where they've been very, very close. I mean, think it's been frustrating, frankly, for their management team as they've been having, over the last couple of years, they've been at the table or close to the table and got very far on some and lost some, frankly. I think it's just the quality of their product and service. I really think they're in the market highly differentiated with the functionality of their Scheduler product in particular and are really service-oriented on the deployment side team.

This is a very entrepreneurial, hardworking, customer-focused team, and I think there's been lot of educating the market. And they've had opportunities in the smaller case where they've had customers come back to them and say, listen, your solution is just better. And that's—when you see that, or you get one of the largest licensing opportunities that we alluded to was a referral from another customer to a much larger customer, a customer that they landed that said, this team and the quality of these products are first-rate. So it—people say that, but I think in this case, it's very much true. And this—the fact that they're in this—matriculated, as I said earlier, into this area, I think will give them a lot of visibility in the EIM space, and it's difficult when you're a smaller company sometimes to get that visibility, but the marketing opportunity that's through these deals is very substantial, in my view.

Todd Coupland

And I think you said you won this on your own. It was your referral from your own existing customer. So should the takeaway be, this kind of win is also going to help drive sales through the partnership with Oracle?

Doug Parker

I think it's going to help in general on the partnership side, Todd. And I would argue potentially with SAP as well. And that's—there is always that decision is, how much you go direct and how much you prepare to give a bit of margin up for the broader upside of a really substantive partnership. But I think this is a very positive for any partnership opportunity. I would think, particularly on the—just a conjecture on the SAP side—I think this will be seen as that they can compete and these size customers have confidence in them.

Todd Coupland

And then just on IRD, I mean, that was a pretty high number in the quarter as well. Is that seasonality? Or is that just a new level of business? What happened there?

Doug Parker

I think it's—there's always seasonality in their business, but I think there—we've seen a very promising increase in their pipeline. And I'd say it applies, Todd, we're seeing broad improvement in all business segments for them. Interestingly enough, the international projects and service is doing particularly well. So the business is benefitting also little bit from the margin improvements from the cost-cutting. And also, although modest as an aggregate amount, the TACS side, I alluded in my opening remarks, the 20 new opportunities on the TACS side, that pipeline has gone from zero to pushing 3 million and over in a very short period of time. And that has a 60 to 70 percent margin. So there's been a lot of customer interest and uptake in that.

So I look at all elements of the IRD business and I'm incredibly encouraged. And I will say also that it's—you didn't ask the question, but I will give you more colour—that we're also seeing some really interesting tuck-in opportunities in IRD—security and surveillance, their existing Weigh-in-Motion, some licence plate-reading technology.

The ITS space right now has some really interesting inorganic opportunities as well, and you've got a very strong professional management team. The new leader, Randy Hanson, is an excellent professional, and there's a lot of exciting upside in that business, I think. It struggles with, right now, with a lot of the core business of that lower 30 percent margin, but we're seeing real progress in increasing that margin mix. But to your point, it's not a single element of their business; it's the pipeline broadly growing in most geographies and in most areas.

Todd Coupland

Just on the management point, I meant to ask this on VIZIYA. So if you wanted to be cynical for a second, you could say, they close this deal in their contract year and they get their buyout; what happens to the founders or the managers post this buyout?

Doug Parker

Well, obviously, we get that question internally and externally. I really think you've got a management team that's excited in continuing to build their business. I think you have a management team, not only the founder, but that core team that's built it with him that really want to take it. So I think there's a question of pride that they can take this business to the second level.

I think they like the capital allocator model, the fact that we can give them access and have an M&A ability to build their business inorganically. I think that's harder to do in an earn-out scenario where maybe sometimes you're focusing a little bit myopically on the corporate goal, and to a certain degree, maximizing your earn-out. But if anything, I think these recent licence wins just have invigorated this team, so we see no immediate sign that this team doesn't want to continue to engage, and I think they really want to be a major player in EIM and it's certainly easier to do it inside a federation as part of a public company. So there's no assurances in life, Todd, but we remain cautiously optimistic that this team is engaged, and we are certainly proud of what they've been achieving recently.

Todd Coupland

Really appreciate the colour. Thanks a lot.

Doug Parker

Thank you.

Operator

As we have no further questions at this time, this concludes Quarterhill's Q2 2019 financial results conference call. You may now disconnect your line. Thank you.