

Calian Group (Q2 2024 Earnings)

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Corporate Speakers:

- Jennifer McCaughey; Calian Group; Director of Investor Relations
- Kevin Ford; Calian Group; Chief Executive Officer
- Patrick Houston; Calian Group; Chief Financial Officer

Participants:

- Doug Taylor; Canaccord; Analyst
- Robert Goff; Echelon Capital Markets; Analyst
- Paul Treiber; RBC Capital Markets; Analyst
- Scott Fletcher; CIBC; Analyst
- Benoit Poirier; Benoit Poirier; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Calian Group Q2 2024 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker, Jennifer McCaughey, Director of Investor Relations. Please go ahead.

Jennifer McCaughey^ Thank you, [Tanya]. And good morning, everyone. Thank you for joining us for Calian's Q2 2024 conference call. Presenting this morning are Kevin Ford, Chief Executive Officer; and Patrick Houston, Chief Financial Officer. They will present financial highlights on our consolidated performance and key business highlights.

As noted on Slide Two, please be advised that certain information discussed today is forward-looking and subject to important risks and uncertainties.

The results predicted in these statements may be materially different from actual results. As a reminder, all amounts are expressed in Canadian dollars, except as otherwise specified. With that, let me turn the call over to Kevin.

Kevin Ford^ Thank you, Jennifer. And good morning, everybody. We closed the first half of the year with a record quarter.

I consider this one, one of the best quarters in company history and shows we continue to reach new levels as we execute our strategic plan. Q2 revenues, gross margin and adjusted EBITDA all hit historical highs. Revenues surpassed the \$200 million mark for the first time in company history.

Gross margins are approaching 35% and adjusted EBITDA increased to over 50%. Let me repeat that. EBITDA has increased 50% as compared to one year ago. That is quite an accomplishment. Not only are we growing profitably, but we're doing so at record levels.

These results are a testament to the strength of our business model and the successful start of our three-year strategic plan, One Calian 2026.

In fact, six months into our plan, revenues were up 20%, with strong contributions from our organic engine, up 7% and our M&A agenda delivering 13% acquisitive growth. Gross margins for the first half are above 33% and adjusted EBITDA margin is close to 12%.

Let me speak to a few key highlights we had in Q2 with regards to our M&A agenda, contract signings and key management additions. With regards to our M&A agenda, we completed the acquisition of the nuclear assets from MDA in March, which will add new capabilities and services to our existing nuclear business in our Advanced Technology segment.

Our nuclear team is growing with new projects and opportunities across Canada and globally, and we are thrilled to accelerate our growth through this powerful addition to our team. Last week, we announced the acquisition of Mabway, the leading military training provider for the United Kingdom. This, coupled with our existing 25-year community military training experience makes us a leader in this domain in Canada, U.K. and NATO.

We are delighted to be acquiring a company that's such a strong offering and both complements and expands our current solutions and our learning segments.

This acquisition presents a great opportunity to leverage the capabilities of both companies, to provide a more comprehensive range of solutions to military and defense customers globally. And with the U.K. announcing the intention to increase defense spending to 2.5% of GDP by 2030, Calian will be well positioned as the strategic partner supporting their operational readiness.

If you attended our Investor Day, we said we were going to accelerate our M&A pace while continuing to be an excellent deployers of capital. We are doing exactly that.

We've acquired three companies in the first half of this year and four companies in the last 12 months. While we are increasing our remaining pace, we haven't lost sight to the importance of organic growth.

We signed \$162 million of new contracts in the quarter. I want to highlight three initiatives that are perfect examples of cross-selling between our segments, customer retention and increasing our customer footprint.

First, in learning, we signed a contract for a new military medical training program with the Canadian Armed Forces valued at \$17 million for three years with an option to extend for one year, potentially increasing the total value to \$23 million.

This is an excellent cross-selling example between our Health and Learning segments. I'm convinced we bring a unique capability to customers, and there are many companies that are able to bring these capabilities to bear and match our proven track record.

In fact, we are starting to unlock the value of cross-selling by demonstrating our full capabilities across our customer segments. Verticals like defense, health care and cyber present opportunities for us and bring unique solutions that can't be matched by our competitors.

We are currently having some very exciting discussions with potential customers for other cross-selling opportunities to stay tuned on that front. We have built a backlog of over \$1 billion by retaining our existing customers. In learning, we renewed a \$10 million contract for military training with the Canadian Defense Academy and military personal Generation Group.

We rewon this contract through a competitive bid process, and we are excited and honored to continue our partnership with CDA and MPG in supporting the women and men of the Canadian Armed Forces.

We continue to invest in people and leading in technology that makes us the ideal military partner in Canada and worldwide. In IPCS, we renewed and increased our footprint with a key customer.

We secured a 6-year \$90 million contract with General Dynamics for IT and software development services. This win continues our 5-year partnership in support of C4ISR with General Dynamics and D&D with an expanded scope and incremental value to the previous contract. This win is a testament to our strong customer relationships and quality of service.

Finally, on the people front, in early April, we welcomed Valerie Trade as the new President for Advanced Technologies.

She brings extensive leadership experience across GNSS, telecom space, cybersecurity and digital services. With their global perspective and passion for leveraging technology, she is well positioned to lead our AT business units into a new era of innovation and empower our teams worldwide to reach their full potential.

I'd like to take a moment to thank Pat Thera, the outgoing president, who played a pivotal role in shaping the success of the Advanced Technology segment.

I am immensely grateful for his 39 years of dedication sage counsel and commitment to the business and wish him nothing but the best in his retirement. Given our strong two --

Q2 results, our confident outlook for the balance of the year and recently closed acquisitions, we're increasing our fiscal '24 guidance, which puts us on track to deliver a seventh consecutive year of double-digit profitable growth.

The combination of organic growth, three recent acquisitions, a strong balance sheet position us well to make our \$1 billion revenue target by the end of fiscal year '26. So with that, I'd like to now turn it over to Patrick to discuss consolidated results and guidance for fiscal '24. Patrick?

Patrick Houston^ Thank you, Kevin. Q2 revenues eclipsed \$200 million for the first time ever. This is up 19% compared to the same period last year and represents the highest quarterly revenue in the company's history. Acquisitive growth was 16% and was generated by strong performance from Hawaii Pacific Teleport, Decisive and one month of contribution from the nuclear asset acquired from NDA. Organic growth was 3% and led by strong double-digit growth in our Health segment.

Gross margins reached a record 34.8%. This is now the eighth straight quarter above 30%. This consistent performance demonstrates we can sustain 30%-plus gross margins going forward. Adjusted EBITDA increased over 50% to \$25.7 million driven by revenue growth, margin expansion, cost efficiencies and strong performance from our recent acquisitions. Adjusted EBITDA margin reached a record 12.8%, up from 10% last year.

In Q2, we signed \$162 million in gross new contracts and ended the quarter with a backlog of \$1.1 billion, positioning us well for the second half of the year and into FY '25. Net profit in Q2 increased to \$4.9 million or \$0.41 per diluted share compared to \$4.5 million or \$0.38 per diluted share for the same period last year. The increase was mainly driven by higher adjusted EBITDA, partially offset by amortization and interest expenses related to acquisitions as well as onetime restructuring charges linked to realignment of management.

We generated cash flow from operations of \$36 million in Q2, up from \$6 million last year, and we recaptured \$15 million of working capital in the quarter, while we used working capital in Q2 of last year. Working capital performance was strong in Q2, led by strong accounts receivables and collections.

We expect some of this will reverse in Q3 for the total year. We expect our working capital to be neutral to slightly negative. That being said, our efforts to find more working capital efficiency as we grow is working. In FY '20, we required \$92 million in working capital to generate just over \$400 million in revenue.

At the end of last year, we reduced this to 14%. And at the end of Q2, we now stand at 9%. Operating free cash flow was up 67% to \$18 million in Q2 and represented a 69% conversion rate from adjusted EBITDA.

Looking at this through the lens of a shareholder, our operating free cash flow per share increased 66% to \$1.51 per share and year-to-date stands at \$2.71.

In the first half of this year, we've already generated almost 75% of free cash flow per share of what we did all of last year. As Kevin mentioned, our capital deployment agenda is accelerating.

In the second quarter, we invested in our business with the acquisition of the nuclear assets of NDA for \$8 million as well as a paid a year two earn-out payment for SimFront of \$3 million for a total of \$11 million deployed. We also made CapEx investments of \$3 million.

Our CapEx levels have remained stable despite a significant increase in the size of our business over the last few years. We also provided a return to shareholders in the forms of dividends.

We paid dividends of \$3 million or \$0.28 per share representing 19% of operating free cash flows. In Q2, we paused our share repurchase program as our capital allocation party continue to be our M&A agenda.

However, given the current level of our share price, we will consider resuming our share buyback program in the coming days as we believe we are undervalued. We will continue to moderate this in the context of the pace of our M&A agenda and debt leverage. Let's take a look at the balance sheet and liquidity capacity.

Strong operating and working capital performance means our balance sheet and leverage position is in great shape.

As of March 31, we had drawn \$69 million on our debt facility. During Q2, we repaid \$25 million of that.

We ended the quarter with net debt of \$23 million, representing a net debt to adjusted EBITDA ratio of 0.3x. Pro forma including the acquisition of Mathway which we have announced after the quarter end, we expect to have a leverage ratio of approximately 0.8x. This is well below our target of 2.5x, meaning we have ample capacity on the balance sheet to complement our strong cash flow performance. Let's take a look at our guidance for FY '24. Given our strong first half, our confidence for the balance of the year and the impact of recent acquisitions, we are increasing our guidance today.

We now expect revenues in the range of \$750 million to \$810 million for the year.

At the midpoint, this reflects revenue growth of 18%. This is driven from contributions from both our organic and acquisitive agendas. End of guidance, the acquisition of HBC, Decisive and nuclear assets of NDA for seven months and Mathway for 4.5 months represents approximately 12% acquisitive growth over FY '23.

At the midpoint of the range, organic growth would represent approximately 6%.

When taking into account the revenues of \$380 million for the first half of the year and our \$265 million of backlog earmarked for the remainder of the year, we have 83% of our FY '24 guidance of revenue covered at the midpoint.

In terms of profitability, we expect adjusted EBITDA in the range of \$86 million to \$92 million. Note that this includes approximately \$2 million of transaction expenses related to the three acquisitions we've announced this year.

At the midpoint, it reflects adjusted EBITDA growth of 35%, significantly outpacing revenue growth as we continue to expand into higher-margin businesses. This guidance reflects our base business performing in line with the guidance given at the outset of the year and incremental contributions from the two strong acquisitions net of transaction expenses.

It also implies a margin of 11.4%. With this guidance, we are on track to achieve another record year in FY '24, and we're off to a great start to achieve our \$1 billion revenue target by the end of FY '26.

As a reminder, we are expected to experience increased fluctuations in our quarterly results due to revenue mix, which is more highly skewed towards products where the timing of deliveries comes into play as well as commercial customers characterized by greater demand variability.

Looking at the second half, we see a stronger Q4 as Q3 will have partial contribution from the acquisition of Mathway and the associated transaction expenses will be recognized in Q3.

Our Q2 results were strong due to positive timing and delivery dynamics.

We continue to aim for the middle of our guidance range.

As always, we must caution that this guidance is ultimately dependent on the extent and timing of future contract awards and customer realization of existing contract vehicles. The guidance also implies no major changes to current economic environment, defense spending, supply chains as well as no major increase in interest rates and labor costs. Note that our guidance does not incorporate any additional M&A and any of them would be incremental to the numbers we've presented today.

Finally, in terms of capital deployment for the year, earn-out payments for the SIM front of \$3 million were paid in Q2.

We don't expect any other earn-out payments for the balance of this year. Expect Q3 to have cash outflow of approximately \$32 million for the acquisition of Mabway, and we expect our CapEx investment in the range of \$10 million to \$11 million for the year and our current dividend at \$1.12 per share.

We believe the guidance reflects the strength of our business and momentum coming off a very strong first half. I'll now turn the call back over to Kevin for his closing remarks.

Kevin Ford^ Thank you, Patrick. So in closing, I'd like to leave you with a few key takeaways today. The first is our M&A agenda.

Since the launch of our three-year plan at the beginning of FY '24, we have completed three acquisitions in three different segments: Decisive and ITCF, the nuclear assets from NDA and Advanced Technologies and (inaudible) and Learning.

At our Investor Day, we centered an ambitious goal of deploying up to \$300 million on our M&A agenda.

After seven months, we have already deployed a third of that target.

We were looking to get to over \$200 million of revenue and \$36 million of EBITDA from that deployment. After seven months, we have achieved 36% of our revenue targets and 50% of our EBIT targets, EBIT targets -- EBITDA targets and we're not stopping.

Our recent acquisitions are performing very well. We have the balance sheet capacity and a team poised to execute more accretive M&A. This strategy of disciplined capital deployment is delivering significant value. The second is margin expansion.

Over the past 14 quarters, our gross margins have progressed from 23% to 35% and our adjusted EBITDA margins from 9% to close to 13%. We believe gross margins above 30% are sustainable, given we have achieved this over the past eight quarters.

We have been successful at expanding both our gross margins and adjusted EBITDA margins over the past few years as we are bringing more and more higher value solutions to our customers through disciplined M&A and investments in innovation.

Our customers are valuing those solutions -- these solutions and are willing to pay for them, which translates into higher margins. Based on the midpoint of our FY '24 guidance, our adjusted EBITDA margin target is 11.4%.

Some quarters will be above that, some quarters will be below that based on revenue mix and seasonality. Our objective remains to be 12.5% EBITDA margins by the end of FY '26 as applied by our one-, three-year strategic plan. The third is talent.

We are bolstering our bench strength. Recall that over the past 18 months, we have welcomed three new segment presidents, namely Valerie Strava NAT, Met (inaudible) in ITCS and Derek Clark in Health.

I'm excited by the new energy and thought process coming into the company. Their experience of bringing solutions and scale to customers around the globe while working hand-in-hand with the seasoned management team at corporate will be key to take the

company to the next level. In closing, I want to leave you with my thoughts on our share price.

We have made tremendous progress in the first half of the year with another record performance. We have completed three strategic acquisitions since the beginning of fiscal '24, which accelerates our growth path.

In addition, we are starting to unlock cross-selling across our business segments, and we're diversifying globally and are well capitalized to execute our strategic plan. We are a company with over 20 years of profitable execution on its way to its seventh consecutive record year. And right now we are trading at less than 1x revenues.

We strongly believe that we are undervalued and present a great investment opportunity. As Patrick mentioned, given our current valuation, we'll be monitoring this and can consider resuming our share buyback activity.

On that note, I want to thank our staff for their commitment and dedication. They do make all the difference, and I also want to thank our customers for their loyalty, our suppliers for the collaboration and our shareholders for their continued support. And with that, [Tanya], I'd like to now open up the call to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will come from Doug Taylor of Canaccord.

Doug Taylor^ Congrats on a strong second quarter. I wanted to ask a question about the defense end market. It remains a pretty substantial piece of your business. I think you last quarter that sort of your 40% of your overall consolidated business being tied to that and maybe that increases a little bit with Mabway.

Looking through the defense part of the last Canadian budget and the commentary from several other NATO nations, you see a lot of discussion about significantly increasing defense budgets. And we have yet to see that really translate into organic growth for Calian.

So I wonder if you could help us think about when you'd expect to see some of that translate to bookings and ultimately, revenue expansion for the consolidated Calian enterprise?

Kevin Ford^ Yes, Doug, thanks for the question. And it's a good one. I think the -- I've mentioned on previous calls and trying to make sure working with our analysts in the market to understand the dynamics of defense spending from time announcements are made on increases to the reality of that actually hitting the street.

So we're still seeing a bit of that with just regard to the procurement process, the delays, the time it takes to go from requirement to RFP to close. So I think in the short term, the next 12 months, it will be moderately good. I think over the long term, it's going to be very good.

We see that even in Canada right now where the level government announced increase in defense spending and in the short term, is actually targeting some cuts in defense just in certain areas as they do with some of the economic realities of budgets.

So I think there's going to be a mix in the short term. But long term, we're very confident that literal supported. And I think any government in Canada is going to continue to support increasing defense spending.

I think the NATO countries, I think the U.K. have all announced their commitment to increase defense spending. So I see it as more short-term headwinds. Doug, in the long term, I think it's going to be a very strong growth.

So I'd say 12 to 18 months, for sure, at the latest, and in the short term, now with Mathway onboard, our continued pace in Europe and NATO as well as I still see a lot of good opportunities in defense.

I think it will be positive. It's just -- we're just going to have to ride through as they get organized to deploy that capital.

Doug Taylor^ Okay. Let me just ask one more question here about the guidance.

First, maybe I'll just get you to break apart what you see the change in guidance from what you see has changed to the organic business prior to Mabway and MDA, what you'd consider from the addition of that? And then what other onetime costs related to that M&A are factored into the guidance? I think it would help everyone understand what we should read from the increase in guidance overall.

And then a second question around the overall guidance profile. I think you said you got 83% of the remaining revenue for this year coming out of backlog.

So I guess I'm a bit surprised that the range halfway through the year is still as wide as \$60 million. Maybe you could speak to the elements that factor into achieving the bottom towards the top end of the range?

Patrick Houston^ Yes. I think the way to read the guidance increase is, I think for the base business, excluding the last two M&A deals we've done, I think we're on track for the guidance that we kind of put at the outside of the year.

So I think the existing business is performing. Obviously we had a very strong quarter this quarter. We got an opportunity to pull some of that demand forward as we did. So I

think that was a positive. So I think that business is performing on track, and that business is up 30% year-over-year.

So I think that translates into strong performance. The two recent acquisitions we've done, obviously will have partial contribution but we've got the transaction expenses really.

So I think those are probably going to contribute about \$3 million for the balance of this year, but obviously you see much more significant contribution going into next year for both of those acquisitions.

I think with respect to the range, yes, we do have 85% book. I think Kevin spoke to some of the defense realities here in the very short term. So I think we're just trying to be realistic there.

But obviously once those gets settled out here in the next three months, then we should be able to pretty tighten up that range and nail down where we're going to be.

But we always try to shoot for the middle of the range, and I think that's how people should read the guidance that we put out today.

Operator^ And our next question will be coming from Rob Goff of Echelon Capital Markets.

Robert Goff^ Congratulations on a very good quarter, Guys. And my question is a follow-up on Doug's. In terms of the NATO opportunities there, do you see Mabway pursuing those opportunities on a direct to contract or a partner (inaudible)?

Kevin Ford^ Good question. I think right now what I'm excited about, and I was recently visiting NATO and the U.K. Military.

What I'm excited about is our presence and brand is growing stronger in Europe and the U.K., just number one. Number two is that we continue to add portfolio to contract our portfolio with regards to whether it's NATO specific European countries and now the U.K.

So combined, we see geographically, our footprint is obviously stronger with the Mabway acquisition. We've incorporated in Belgium now.

We're looking at basically the next 12 months continuing to expand our geographic footprint and our physical presence in Europe and the U.K. And clearly, with Mabway, we've got a good start. So as far as the pursuit, the way we're organized, Rob, is that, that team, our training team in Europe is the coordinated team.

And we will definitely bid whatever capabilities required to win and deliver in whatever country in that region. And obviously with Mabway now our presence is just that much stronger to do exactly that.

Robert Goff^ Very good. And if I could turn to the health for a second with a follow-up. Can you talk to what is driving that growth in the sustainability of the 20% plus organic growth?

Kevin Ford^ Yes, absolutely. I think right now we're seeing with the health team, a few tailwinds for sure. Number one is our -- the demand on our current defense contract continues to be very high. Despite what I said earlier, we're seeing in the health segments that, that pace and capacity that the department needs to support their health agenda is not waned in any way. And if anything, it's increased.

So we're seeing very strong demand there. And it's not just the demand, frankly, it's our team is stepping up to the demand and delivering. It's not easy, and they're doing a great job with that.

We continue to see good pickup on our psychological services. We're seeing more customers come on board now as more and more people are taking leveraging our national psychological footprint, which I think is very exciting.

So I think even in the mental health services, that's growing. And we're seeing opportunities now in our digital footprint, even though it's still a relatively small part of our health business, there's some exciting discussions happening, I think, with regard to our digital health platforms getting more and more visibility out there.

And as Calian now being able to bring not only the digital footprint, but also the services capability nationally, combined with our program delivery record of very complex programs, I think that's the tailwinds we're seeing and driving that organic growth in health care.

Operator^ And our next question comes from Paul Treiber of RBC Capital Markets.

Paul Treiber^ Just wanted to follow up on '24 guidance. The question about the change in organic growth, the outlook there, I think you're looking for 6% now and it's down from 8% previously.

What changed? What do you sort of see as the incremental headwind or reason for the slightly lower organic growth outlook?

Patrick Houston^ I don't think there's anything particularly concerning there. Like I think we're just tuning it up.

I think from an EBITDA perspective, we're still on track.

So I think the margin profile is slightly better on the revenue profile we're putting forward.

So I think Kevin spoke to the defense spending a bit in the very short term.

So I think we're just being a bit cautious there.

But again, going into next year and longer term, I think that's still going to be a strong sector for us. So I think that's really what you can point to.

Kevin Ford^ Yes. And it's Kevin. I don't want any one reason in any way some concern on that longer term. We've been -- as for Investor Day averaging that 7%, 8% growth over the last couple of years, I don't think that's changing.

As Patrick said, we're just being cautious just on the sense of understanding the defense, short-term defense posture in Canada as they look at the longer-term budget increases short term right now we're seeing some slowdown in certain areas, but even then we're not convinced it's going to be for the full year.

So we're just -- we're being conservative our guidance estimates until we get better clarification from the department on expectations for the remainder of this year.

Paul Treiber^ Good to understand. The -- just turning to -- the ITCS segment, revenue was quite strong there. I think it's stemming from the acquisition of Decisive, the -- and it looks like the contribution was higher than the implied run rate. Was there anything unusual about this quarter? Or is the seasonality that we should take into account? Or -- and is this sort of the new sustainable run rate of revenue? Or was there really just something unusual in the quarter?

Patrick Houston^ Yes. Decisive has been -- to your point, has been ahead of pace, very strong contribution out of the gate for them. Q2 is our biggest quarter.

So there is some seasonality, specifically with government customers and government year-end. So I think this is seasonally their biggest quarter. So I wouldn't see it as a run rate, but I think this is a recurring thing every year now in our ITCS business due to the acquisition of Decisive.

I think the rest of the business was flat from last year, which I think -- but up 10% from kind of Q3, Q4 last year. So I think we're starting to see some return of demand there on the existing business. So I think overall, it was a good quarter for ITCS.

Paul Treiber^ And then just lastly, if I may. Just in terms of your three-year outlook, when you look at the valuations that you paid this year for acquisitions is below, I think the three-year target called to deploy capital at 6x to 8x EBITDA, and so you're doing better than that.

Is there anything -- what's driving the better prices this year? And then how do you think about it looking forward? Do you still want to try to maintain these lower purchase prices? Or do you think that gives you opportunity to potentially move up if you see the right candidate?

Patrick Houston^ It really depends on the deal fall. I think we try to do everyone the best deal we can and buy great companies at a good price and then set them up to grow. So I think it's more deal dependent. We are looking at larger transactions. I think those larger transactions will bring higher prices.

It's just a reality of business that scale with a proven track record. But keep ourself to up the pace here on capital deployment. We've done four deals in 12 months. And as Kevin said, we're not stopping.

So when we look at that target for -- that we set out at the Investor Day, I think we're well on track for that, and we can hit that number likely overachieve. So I think we're -- things are working well on M&A, and we still got a solid pipeline that targets here.

Kevin Ford^ And I think from -- and from my viewpoint, I think for me as well Pauly. The one thing that is consistent, we're seeing is that companies that are valuing their long-term post-acquisition tenure with regard to a company that's going to take care of their soft, companies that are well -- that are financially strong. Companies are doing it as a long-term investments in their -- both their employees and their customers.

I'm not sure we're always the highest price, frankly, that are being offered. But when people understand the overall value and have a passion to make sure that their team is taken care of and the customers are taking care of. That's when we're continuing to see good value. And I think those targets still exist out there that people are looking for good homes for their companies.

Operator^ Our next question will be coming from Scott Fletcher of CIBC.

Scott Fletcher^ I wanted to ask a question on the learnings booking. The bookings there have not been strong in the last number of quarters, but they did seem to sort of perform better this quarter. Was there anything -- should we read into that learnings bookings can improve going forward? I think that sort of maybe doesn't match with the commentary on the near term...

Kevin Ford^ I would say on the learning side, what I wanted to condition everyone is that long-term game. It's not a quarter-by-quarter game. And what you'll see is definitely some variability on learning signings.

We have a good backlog there. And it's characterized, especially in some of the newer countries, they do hundreds of thousands of dollars initially to get going on an exercise, and then they used to build up into a multimillion-dollar long year opportunity.

So if I can visually say, we're going to hunt rabbits while we chase the elephants. And right now you're going to see that in learning. So stronger quarters and signing a science, but we're just going to continue to, I think, to grow that backlog.

We do have a strong pipeline of opportunities, both in Canada, Europe, NATO and now with Mabway. So we're hoping the pace increases over the next 12 months, but expect some variability in our learning segmentation in the defense global defensory.

Scott Fletcher^ Yes. That makes sense. And then another segment question on the ITCS. Some of the peers in the IT services space have sort of see commented on less bullish outlook on demand recovering in the back half of the year. Are you seeing similar sort of demand headwinds, particularly on the hardware side?

Patrick Houston^ Yes. I think we're seeing similar things, Scott. So I think although we've been able to increase the demand from Q3, Q4 last year, we're still kind of in line with where we were a year ago.

So I think we're seeing that kind of -- yes, there's still demand there and for customers that we've been with for a very long time.

We're still working with them. But we're still similar to our competitors waiting to see that kind of demand uptick come in, and we'll be ready to react when that comes back.

Kevin Ford^ And for me, the exciting part for that, and Patrick is saying on that. The exciting part as well is that Micron is working with his team right now on looking at our go-to-market model, bring in a more regional focus, looking at things like AI into our offerings.

So while the market may be facing good headwinds, we're taking as an opportunity to reinvest in our platforms and come out a bit stronger under his vision.

So I'm, again, very positive on the long-term outlook for ITCS, every company is dealing with the short-term headwinds, but we still believe the customers are going to need more access to cyber capability, more access to infrastructure, more access to cloud modernization.

So we don't see this market long term being a bad place for us to be. We think it's going to be definitely a growth pillar for us.

Operator^ (Operator Instructions) And our next question will come from Benoit Poirier of Desjardins.

Benoit Poirier^ Congrats for the results and the latest acquisition. Yes. When we look at organic growth, obviously it was very impressive for health that offset the negative contribution from the other segment.

But as we look to Q3, it looks like that you might be facing a tougher comparison versus last year as organic growth was kind of up 11% with learning and ITCS above 20%.

So how should we be thinking in terms of organic growth cadence as we go into Q2 and the second half.

Could we be in the negative territory on a consolidated basis in Q3? And where do you see the stronger organic opportunities in the second half?

Kevin Ford^ Yes. Thanks, Benoit. For me, when they look at it from the CEO of Calian perspective, a (inaudible), I just don't look at things sometimes in a period construct.

I appreciate the question. Right now I'm confident that we're in a 6%, 7% growth organic growth (inaudible) if you look at our first half, and I think that will continue going forward.

The beauty of this company is that, as you said, certain segments up, certain segments down, but at a consolidated level, organic growth in today's market is very strong, considering all the other things we do on the M&A side.

So number one, I just need us all collectively thinking not quarter-by-quarter but year-over-year with regard to the fact that we are seeing good organic growth a very challenging market.

So that's number one. Number two is that the things that are going to drive organic growth as you look at our segments, as I mentioned on the health care side, we still see a great demand on defense.

We see an exposed increasing psychological services capability. Our pharma business continues to do well. On ITCS, we still see good opportunities. Obviously the decisive acquisition, the customer diversification there is driving that.

In learning, obviously with now Mabway, some key programs that are going to be in process as we buy Mabway as well as just some of our legacy contracts, that's the piece we're watching right now to see how defense spending plays it.

So that may be a headwind versus a tailwind. And then basically, in our Advanced Technologies business, our GNSS and tenants are going to be strong. Our Agriculture business continues to be strong.

Our nuclear business continues to be strong and our space business, we're just looking at some timing of some product delivery, which may affect that number up or down with regard to organic growth.

So that's why I love being a CEO of this company is that I get -- I have all these levers, and I hope to shareholders the value that as well but despite headwinds and certain

segments, we can still capitalize on tailwinds and others and drive consistently 6%, 7% organic growth across the company, not only for this year but also for the previous years.

Benoit Poirier^ Okay. That's great color, Kevin. And now looking at the EBITDA margin contribution of your latest acquisition, obviously a very positive margin accretive. It looks like that it will help you to bring you closer to the 12.5% target in fiscal year '26. Is that a fair statement?

Patrick Houston^ Yes. I mean the last two acquisitions we've done, the new grain Mabway, although they're only contributing about \$3 million next year, the combination of those should be over \$10 million next year.

So I think, again, strong contribution, strong profile from a margin perspective. So although we're at 11.4%, we've got strong momentum going into next year. And to your point, I think we're making progress here incrementally getting to that 12.5%.

So I think after seven months into the three-year plan, I think we're -- we've done a lot of the moves we need to do to get there and now we just need to keep going.

Benoit Poirier^ Okay. And just in terms of corporate cost, Patrick, it came in at \$11.6 million in the quarter.

So it's below the EBITDA line by segment. This is up obviously versus \$8.7 million last year. How should we be thinking about corporate costs going forward, especially as you integrate the latest acquisition?

Patrick Houston^ Yes. We keep trying to find the efficiency. Again, we're trying to drive the consolidated EBITDA performance.

Some of the drivers on corporate costs were some of the performance equity that's been granted as well as some transaction costs. And investments in our M&A in like we keep trying to increase like we said on the call multiple times, like we're trying to pick up the pace there.

So we're putting more investment there to just increase our capability. So we're trying to manage it within targeting that 12.5% production for FY 2016.

Benoit Poirier^ Okay. And is \$11.6 million a good run rate going forward? Or is there -- do you see opportunities to bring that down a little bit?

Patrick Houston^ But we'd rather grow the revenue double digits. So I think that's the number one target and keep the cost within that and hit our EBITDA target. So I think that's the number one.

Benoit Poirier^ Okay. Okay. Last one for Kevin. We've heard your comment about the valuation, obviously attractive trading below one time. Aside buyback, what are the kind of the options that you might consider in order to bring up the value given?

Kevin Ford^ Well yes, first and foremost, we just got to keep delivering Venmo, right? Like my frustration as the person represents all the people that work incredibly hard every day accounting for our customers is that the work that's often and it's not a onetime thing, seven years now record execution.

So number one, we just got to keep delivering. And showing and still in confidence in the market that not only do can deliver profitable growth, but we are on track to deliver our \$1 billion goal here, which is aggressive. And as you saw, as you heard at the beginning of my comments, seven months in, we're well on track to that.

So number one, we just got to keep delivering and delivering the growth that we're promising to the market and keep making sure our customers are delighted. Number two is that I think where I need all your help, frankly, is that I still am concern that many times people look at Calian can visualize again a plane.

Everyone is talking about the engines.

I need more people talking about the plane. the consolidated capability of this company, the consolidated track record, they used to the fact in certain quarters, one engine, maybe up, one engine may be down, but as a collective, the thrust of those four engines will continue to allow us to be the \$1 billion target.

So I think if we can perform the way we have been performing and number two, almost reposition Calian, frankly, because I think we need to in the public markets to demonstrate and unlock the valuation potential.

I think the two that are on my mind right now. The share buyback, we'll consider. Again, if we feel that we still are not getting the valuation numbers we should be, Benoit, but right now perform, work with folks like yourself, work with an industry to really understand the plane versus the engines, I think, is where we're going to focus over the next short term here.

Operator^ I would now like to turn the conference back to Kevin Ford for closing remarks.

Kevin Ford^ Okay. Thank you, [Tanyo] -- [Tanya], sorry, for facilitating today's call. I'm just going to go off script a bit, if I could. Yesterday in the Board meeting, I made a point to open Abalo Champaign with our management team. We hit a \$200 million mark for the quarter. When I came to Calian, our revenues were just over \$200 million for the full year.

I think about the journey as a CEO sometimes and where we are right now. And I think it's important to reflect and pause and celebrate frankly, a \$200 million quarter, increasing our EBITDA by 50% compared to last year. The margin performance -- I just want to leave you with that today.

I just want to leave you with the incredible tried I'm feeling as a CEO of this company. The frustration on share price, sure, but more importantly, I want to celebrate.

I want to celebrate the quarter, I want to celebrate the year. And as somebody who's seen a lot of our customers around the world including some of the most challenging areas right now that are military that say they couldn't do with Calian, I just hope that everyone understands our passion and commitment to continue to grow and serve our customers globally.

So with that, I'd like to thank everyone for attending and look forward to providing an update at our next quarterly call. Enjoy the day. Enjoy the weekend, long weekends. And without (inaudible), we conclude the call.

Operator^ Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.