Company: Calian

Conference Title: Calian's Second Quarter Results

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Operator: Good day ladies and gentlemen, and welcome to Calian's second quarter results conference call. As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr Kevin Ford, Chief Executive Officer. Please go ahead.

Kevin Ford: Thank you Paula, and good afternoon ladies and gentlemen. With me today is Patrick Houston our CFO, and I'm also happy to have join us this quarter, Patrick Thera, President of our SED systems division. We'd like to welcome you all to Calian's second quarter 2019 conference call. I was very happy with our results this quarter as they demonstrate the impacts of our growth strategy. We again posted Calian's largest quarterly revenues in the company's history, reported solid organic revenue growth, and won key contracts with existing customers. The broader team continues to execute our growth plan with innovation and global market opportunities in mind as demonstrated in our recent announcements.

First, we announced the acquisition of Germany based SatService, a solid player in the European market for satellite communication systems. Effective April first, this is our first major international acquisition. That service will support the expansion of our systems engineering division into the European market with turnkey satellite solutions as well as products. The company offers us a

geographic footprint in Europe and a talented team to help offer combined products and solutions into new markets. The purchase price was approximately €6.5 million in closing, plus two additional payments in December 2019 and December 2020, based on EBITDA performance.

Second, in support of our innovation agenda, our Saskatoon based systems engineering division recently announced a new line of carbon fiber antenna products. I'm very excited about these higher performance satellite ground system antennas which are the direct result of several years

of R&D work at SED. This type of innovation supports the service line evolution pillar of our growth framework, and frankly it is critical to protect our competitiveness going forward. Now as we go to market with our satellite solutions, we can offer satellite ground systems that aren't only less expensive and faster to install, but they also offer higher performance in the industry's more commonly used higher frequency ranges. This is an excellent example of our innovation agenda at work.

I'd also like to acknowledge that this is Patrick Houston's first conference call as Calian's CFO. We are very happy to have him on board as we tap into his valued experience not only in finance but also in technology, innovation and global growth. Is also happy that as part of his transition, our former CFO, Jacqueline Gauthier has been able to continue to Cailin to support transition and our strategic growth objectives. And with that, I'd like to ask Patrick now to review the quarterly numbers. Over to you Patrick.

Patrick Houston: Thank you Kevin. I'm happy to report that Cailin's profitable growth agenda continued this quarter. For the second quarter of 2019, revenue set a quarterly record of 83.4 million up 7.8% from prior year, 77 million. In fact, with today's results, we have now reported record revenues for three consecutive quarters. The general business environment in 2019 remains strong for both divisions with a healthy backlog, strong customer retention and support from our recent acquisitions, we remain on track for a positive year. Strong revenue growth at the BTS division supported Q2 revenue expansion of 14% from the same quarter in the previous year. This was largely driven by double digit organic growth in our health business. SED reported a slower quarter, compared to the same period in the prior year due to ramp up of existing ground system projects.

Both divisions had an excellent quarter for customer retention with new contract signings and extensions totaling $82 million. This reflected business with existing customers across all our service lines. These contract wins are a strong signal that our customer retention efforts are

working and that our clients trust us to deliver. Gross margin continues to show an overall positive trend with improvement this quarter from both divisions, compared to the same period in the prior year.

On a consolidated basis, EBITDA was 6.6 million in the quarter, down slightly from Q2 in the previous year. This was largely a result of a one-time cost of 0.6 million to support the acquisition of SatService. Operating expenses are up on a year-to-date basis when compared to the prior year. This is due to the acquisition of IntraGrain, investments in our growth agenda, and one-time costs related to the acquisition of SatService.

We continue to manage operating expenses while ensuring we invest where required to put the company in position to grow its revenue and EBITDA in coming quarters. Net profit for the quarter was 3.9 million or 50 cents per share basic, consistent with the 3.9 million or 51 cents in Q2 of the prior year. On a year-to-date basis, net profit was 7.2 million or 93 cents per share, down 11% from 8.1 million or a $1.05 per share in the same period a year earlier. This was a result of increased amortization of intangibles and increase in expense from our acquisitions. Earnings per share in the same quarter - in the quarter was 50 cents, down slightly from 51 cents in the prior year. On a year-to-date basis, EPS was 93 cents compared to $1.05 at the same point in the prior year.

Our net cash position was 27.8 million at the end of the quarter, which included an additional draw in our line of credit to fund the SatService acquisition, which happened shortly after quarter end. Cash position in the near term will be impacted by additional working capital requirements at SED, and remaining earn out payments due on our recent acquisitions. We continue to maintain our dividend currently at 28 cents per share. Overall, our outlook remains positive for the year. We continue to expect strong performance from both divisions in the remainder of this year, with contributions from recent acquisitions IntraGrain and SatService.

Finally, please note 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. And with that, I'll turn it now back over to Kevin.

Kevin Ford: Thanks Patrick. I believe Calian is at a pivot point in the company's history. While our investments remained prudent, it is important to acknowledge the advancements we're making in R&D, innovation and other areas of the company, and supportive of long-term growth. Our M&A agenda also continues to be a focus as we integrate recent acquisitions, and continue to proactively search for companies that support our growth objectives as we look to diversify our customer base of all their services and continue our pivot further into solutions.

While the Calian story is one about growth, I would not want to this to overshadow our stability. Today we reported Calian's 70th consecutive profitable quarter. That's over 17 years that this company has been profitable. This journey would not be possible without the dedicated work of our staff, so I'd like to extend a thank you and acknowledgment for all of their collective efforts. With their continued support, I am confident we will continue to make progress against all elements of our four-pillar growth framework. As Patrick stated, we continue to demonstrate very positive results in our customer retention with 82 million in new or renew business primarily with existing customers this quarter.

At Calian, we take pride in their service delivery, and across our five line[?] of business, it has been consistent with – constitute customer sat[?]. We're now celebrating one year since the initial implementation of our healthcare provider requirement contract for the Department of National Defense, the RCMP and Veterans Affairs Canada we won in 2017 with our business partner, Bayshore HealthCare. Our single largest contract is running strong, has a full term of 12 years including optional extensions. It is a testament to our commitment to exceptional service delivery, and what I believe derives our customer retention results.

In closing, with strong cash flows, continued focus on our innovation agenda and our dedicated employee base, I'm excited about this company's potential. Overall, this quarter was a solid demonstration of the execution of our growth plan, as it captured all elements of our focus areas, continued organic growth, launching new innovative products and closing our first international acquisition. This is the type of Calian that I want the investing public to know about. We're providing solutions, we're developing products, we're positioning global markets. We're innovative and growing organically as well through acquisitions.

Looking forward, the traditional markets in which Calian operates are stable, and management expects organic revenue and earnings growth in most – or all of the service lines, through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards, as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2019 to be in the range of 330 million to 360 million. EBITDA per share in the range of $3.60 to $3.90. And net profit in the range of $2.05 to $2.35 per share. We have reduced the EPS range by 5 cents, mainly due to an increase in expense related to our acquisitions of SatService and IntraGrain. Paula, I'd like to now open the call up for questions.

Operator: Thank you. To signal for a question, please press star one on your touch tone telephone. Also, if you are using a speakerphone, please make sure your mute button is turned off to allow your signal to reach our equipment. Once again, it is star one at this time. If you do have a question, and we'll pause to give everyone the opportunity to signal. We'll first go to Bennaly[?] Purriyay[?]

with Dayshardan[?] Capital Markets.

Speaker: Good afternoon Kevin. Good afternoon Patrick.

Kevin Ford: Good afternoon.

Speaker: Looking back at – yeah, good afternoon, and specifically for SED gentleman, could you provide some more color about the unfavorable timing for project completion and the review mix?

Kevin Ford: I think right now, what we're doing with Ben Wa[?] is – as we reported, we have the largest ground system contract that were signed last year, other product developments. So, really, we're just dealing with ramp up in the implementation of those projects. So, not necessarily unfavorable, more just a timing issue. And as you see with our guidance, we believe the Q3 and Q4 are going to be much stronger from an SED perspective as these projects ramp up.

Speaker: Okay. And mostly, if we look at Q3 and Q4, Kevin, is it fair to say that it will be mostly linear between Q3 and Q4, or even a greater skew toward Q4 in terms of a contribution from this ground system contract?

Patrick Houston: Yeah, I think it'll be continued ramp up. So, we'll see some growth again in Q3 and then growth again in Q4. But it just depends also on the timing of these projects, but certainly that's what we're seeing right now.

Kevin Ford: Yeah, based on the information we have right now Ben Wa, and the project schedules where they are not just on that ground system project, but on - as you can imagine, we were running numerous projects at any given time at Calian, based on the information we have today, we expect again strong trajectory for Q3 and Q4. Balanced in some ways, but I think stronger Q4 frankly if you look at our information we have today.

Speaker: Perfect. And to come back on the SatService. Is there any seasonality in SatService that we should take into account?

Patrick Thera: Yeah, Ben Wa, this is Pat Thera here. They tend to have a lot of smaller contracts, so – and they're spread throughout the years, they're involved in the satellite communication industry. So, seasonality is not really a factor in anything that they're doing.

Speaker: Okay. That's great color. And with respect to IntraGrain, given that you're well advanced, could you talk a little bit about the integration also about the potential to expand the business outside of western Canada? I know that it's a core focus. So, if you could provide some color, that would be great.

Kevin Ford: Yeah. So, I'll add some comments and then I'll get Pat to comment as well. So, from our perspective, the reason we acquired IntraGrain was obviously not – as you know Ben Wa wasn't - it wasn't just the focus on western Canada, but also the global opportunity, the solutions that they build and manufacture are relevant to. And also, not frankly just in the agriculture industry but also in other ancillary industries. So, we were briefed again from Kyle Folk, the President of IntraGrain, literally yesterday at the board with regard to the opportunities and where things are positioning. And so, we're very confident that the opportunity base for IntraGrain is broader than western Canada, and with continued focus on our marketing plans that we can expand not only domestically but potentially globally. And Pat, I don't know if you have any other additional comments on that?

Patrick Thera: Yeah, certainly there they're focused on keeping their customers – the current customer base in western Canada satisfied and supplied with product. And they do that a lot through distributor network that they're connected with, but they've also been beefing up their resources to market their products into other regions, other agricultural regions as well as other industries. So, the primary focus is certainly on fulfilling what their promises are right today, but they also have a lot of increase and focus on other areas and regions.

Speaker: Okay. That's great color. And last for me, could you talk a little bit about the additional investment that was required with respect to – I know that you've invested a little bit more over the last year, it paid off in terms of bringing growth on the top, but is there any granularity you could provide and whether those investments are sustainable going forward?

Kevin Ford: Well, from my perspective, absolutely sustainable. Again, we're generating – if you look at our financials, we continue to be positive in the sense of the cash we're generating. And what we're doing – then while we're being very prudent on our organic research engine with regard to where we're investing, and obviously continue to ensure that we're finding the things appropriately. As I stated many times, we've invested in Calian as a company for many years, but it's just not until recently we actually started pulling some of those out and talking about R&D, and I thought was an important element, because I just didn't believe that the markets in many ways viewed us as innovative. A recent announcement around carbon fiber was a result of four years of hard work by the SED team in research and development with partners, and literally millions of dollars of investment that we've made into this.

And I don't see that slowing down, frankly. If anything, I believe – and again, going through my reviews with the business, there is a lot of new ideas out there in this company that we will continue to foster and fund as we look at new innovations for Calian moving forward. So, from my viewpoint, I don't see this slowing down. I don't see any impediments to our continued investment in this area. And I think it's critical for our long-term growth that we do. So, my team has full support to bring these forward, so we can continue to innovate, like we just announced with our carbon fiber antenna.

Speaker: Okay. That's perfect. Thank you very much for the time.

Kevin Ford: Thanks Ben Wa. Always appreciate your questions.

Operator: And once again, it is star one if you do have a question. Moving on, we'll go to Deepak Kaushal, GMP Securities.

Deepak Kaushal: Hi. Good afternoon guys. Thanks for taking my questions. Kevin

Ford: Hello Deepak.

Deepak Kaushal: I'm going to follow up on SED. Kevin, you mentioned the new carbon fiber antennas. I'm trying to get a better sense of the opportunity with that technology innovation. Can this drive an upgrade cycle through the ground system plant that's already installed throughout the world? Or is this really just an opportunity to get you further ahead on new – the newer satellites that are getting launched, higher frequency ones?

Patrick Thera: Yeah. Hi Deepak, it's Pat Thera here. We look at it primarily as an inflection point to enter into the market for the higher frequency satellite. So, that's our primary focus, is make sure that we can support the Q and V band initiatives with the large aperture antennas going forward. That will help us sustain our relevance in the industry and keep us at the same growth rates and market rates that we have going through time here. In terms of new opportunities for refurbishment, replenishment, other frequency bands, things like that, we're going to kind of take it as it comes, but the cycles on those antenna refurbishment or replacement is very long. Like antennas are built to last 15 to 20 years, right? So, that cycle just kind of comes very transactional, very piece by piece as it comes along, nothing major. So, I wouldn't have - see that as being a fundamental growth factor in what we do, although it is an opportunity.

Deepak Kaushal: Okay, great. And Patrick, now that I have you – giving some insight, are you seeing anything from a macro perspective in the satellite industry related to these on again, off again, on again apparently trade wars or anything else in terms of macro that might shift attention or focus on CAPEX from some of your traditional customers in the space?

Patrick Thera: Not – I haven't seen much from the like what you're describing is a trade wars' perspective. I mean, there's always been competition amongst the competing technologies and competing companies, depending on where they're located in the world. But I don't see the other factors of having any impact to us at this point in time.

Deepak Kaushal: Okay.

Kevin Ford: Hello Deepak, I just joined Pat and the team in Washington at one of the recent satellite conferences, and I always attend an open forum they have with the CEO's of the larger satellite operators. And the tone was still very positive. The majority of them were looking at new satellite launches. And more of them are looking at new constellations. So, I really took away from that conference that I – as you said, our quote-unquote 'customer base,' I didn't really sense anyone's slowing down right now with regard to their ambitions to either launch new satellites, upgrade their networks or be prepared for the next wave of capacity bandwidth that's going to be required to support things like Internet of thing, technology, planes, trains, automobiles, frankly. So, I took away a very positive feel from that conference with regard to plans for the future.

Deepak Kaushal: Okay, excellent. Thanks Kevin. And Kevin, I think earlier you mentioned double digit -

or you or Patrick I think, double digit organic growth in BTS on the health side. I mean, you still have quite a diverse healthcare business. Can you maybe perhaps elaborate on what's driving the growth in particular? Is it veterans affairs or RCMP? Is it the core business? Is it primacy commercial side? Any –

Kevin Ford: I would – yeah, good question. I think right now it's a mix of a few things. Definitely number one, the new contract with national defense. As you know, the scope of the contract was expanded into the RCMP and veterans affairs. So, we're seeing some new opportunity there and working with them on the important healthcare agenda for all the departments. So, we're seeing

some growth there. We're definitely seeing some new customers come to the table with regard to our large national network of medical practitioners in correctional facilities, police services, for example. We've had a few wins recently in there, so we're expanding our customer base. And then generally I would say the – our marketing efforts have been very strong at figuring out on the psychological health side as well. You may require – remember last year we acquired Priority One Healthcare, which is focused on psychological services, which again is helping to drive our growth as we look at new customer bases in that segment. So, it's a combination of those parts, not necessarily one thing, but the sum of the parts is driving that[?] trajectory right now.

Deepak Kaushal: Okay, thanks. And just – I did have a question on emergency response planning. Another year has gone by and we see more flooding in more regions. I'm just trying to understand how these events are impacting that business. Like do the cities and governments do what they need to do to be prepared? Like what's the gap that you think they need to get to, and how do you get this business line to grow?

Kevin Ford: Yeah, so I would say – interesting question, I was just briefed on this recently. And the team showed me the map of Canada and where we're actually proactive right now, and emergency response exercises are helping customers, and it's growing. And to your point, it's municipalities.

It's organizations that are – this is now a consistent trend. I think I take our home base here in the city of Ottawa, is a great example. Two years ago, in 2017, we had flooding. We were asked to do a post review of the response – to see the response to that. And now we are having flooding again in Ottawa. And one of our Thought-Leaders, Richard Murrow[?], was actually interviewed a few times with regard to the cities applying the lessons learned from our assignment from two years ago. And we're happy to report that they had applied many of the lessons learned that we worked with the city on, and have more effective response.

So, with the increased – with increased occurrences now between flooding and fires, the terrorist attacks, we are still I think growing the segment, not only nationally but also now potentially

globally with customers pinging us globally on this. So, I'm very positive on that segment. And as you said, these customers are now proactively trying to get ahead of an incident, and using our emergency management, either our emergency management exercise capability or lesson learned from other areas to apply, to make sure they're ready as well. So, it is growing. It is growing nationally for sure. And, right now, we're seeing also international opportunities in that segment, because the reality of flooding and terrorist attacks and fires and natural events is not a Canadian-only occurrence as you know.

Deepak Kaushal: Got It. Okay, thanks. That's helpful. And I just have one last question, more of a maintenance admin question for Patrick. On the OPEX line, I know that you had some non recurring in there, I think 600,000, but is ten million a quarter generally a reasonable number to think of going forward for the next several quarters?

Patrick Houston: Yeah, I think we'll take on a little bit more with SatService, as they bring on kind of a whole new P&L of their own. So, that'll be in Q3, but, otherwise I think other than the one time item, I think we've been consistent between Q1 and Q2 and that's certainly kind of the level minus one-time items in the near future. Yeah.

Deepak Kaushal: Okay. Excellent. Well thanks again. I'll pass on. Have a great afternoon. Kevin

Ford: Thanks Deepak.

Operator: Moving on, we'll go to Jeremy Coleman with – private investor.

Jeremy Coleman: Good afternoon gentlemen. My – I just have one question regarding the guidance range which you customarily provide. I compared the – that – so the gross revenue, EBITDA and net profit per share. Can you – of the three metrics, two were unchanged by comparison with Q1, and net profit was the only one that sort of changed, a reduction of 5 cents

per share. The range between the top and bottom end of the guidance is almost 10% for both the revenue line and the EBITDA line, and almost 15% for the net profit line. Is there any chance as the company goes down different paths nevertheless, is there any chance that you can tighten the guidance range early in the - in a reporting cycle as you go through the year?

Patrick Houston: Yes, on the change, I mean, the reason we change EPS and not the other two metrics that we report on was - as we brought on the two acquisitions, there's some accounting expenses that are below the line that are non-cash that affected the earnings. So, although they're contributing positively to revenue and EBITDA, the contribution on an EPS is much smaller because of those charges. So, that was the reason we reflected that in the numbers. On tightening, obviously, as we get medium weight[?] progress throughout the year, if we can do that, we certainly would. But Kevin's earlier point, that we have a big second half that's reflected in the guidance and although we have a lot of projects going on, we – it's really a delivery exercise here in the second half as we try to realize that.

Kevin Ford: And I say as well Jeremy, the other nuance here and why I've left it a bit wider than normal frankly at this point in the year, is we are going through our first cycle with IntraGrain, SatService as well. So, we're trying to be cognizant. These – not so much for SatService or IntraGrain, a bit more seasonal in the context of the spring and summer. So, I'm trying to keep it a bit wider just as we get through one full business cycle with these organizations. So, I can ensure that as we reflect guidance going forward, that we have the benefit of that experience under our belts, because I appreciate your comment. Normally we would be tightening it right now, but it was a conscious decision for me right now to just – let's get through this cycle. Let's make sure we understand the IntraGrain component, because this is a high margin business. So, it definitely has an impact on us, both on revenues and EBITDA. So, I wanted to leave that a bit wider for another quarter, and then we'll see where we're sitting at the end of Q3. So, just bear with me as we go through one full cycle here, but in the same spirit, I totally appreciate your

comments. And our goal will be to tighten it is as soon as we can, so you have a good sense of where the year is going to play out.

Jeremy Coleman: Thank you. Okay.

Kevin Ford: Thanks Jeremy for the question.

Operator: There are no further questions.

Kevin Ford: Okay, well thank you Paula. Okay. So, I want to thank you all today for joining us on the call. I really do appreciate the questions. It's valuable for us to make sure that it's clear on how the company is performing, and any questions you have. So, with that, Paula, we'll close out the call, and we all look forward to discussing our next quarter results with you in three months' time. So, thanks for your time today everyone, and we'll talk to you again in three months – a three month period.