

Transcript of  
Calian Group Ltd.  
Second Quarter Conference Call  
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**Participants**

Kevin Ford - Chief Executive Officer, Calian Group Ltd.  
Patrick Houston - Chief Financial Officer, Calian Group Ltd.

**Analysts**

Amr Ezzat - Echelon Partners  
Deepak Kaushal - BMO Capital  
Benoit Poirier - Desjardins Bank  
Salman Rana - Laurentian Bank Securities.

**Presentation**

**Operator**

Good morning, ladies and gentlemen, and welcome to the Calian's Second Quarter 2022 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and the floor will be open for questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Kevin Ford, CEO of Calian Group. Sir, the floor is yours.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thank you, Paul, and good morning, everyone. I welcome you to Calian's Q2 fiscal year 2022 earnings call from Calian's office here in Saskatoon where the local time is just after 6:30 in the morning. With me in Saskatoon is Patrick Houston, our Chief Financial Officer.

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.

I'm pleased to report another strong quarter for Calian across many key performance metrics. Not only was this our highest quarterly revenue figure in company history, we also achieved record highs in gross margins and EBITDA. Revenues for the second fiscal quarter were 142 million, a 3% increase compared to the same quarter last year. This time last year, we saw tremendous demand in our health segment, as we helped Canada respond to COVID-19. As that work is now ended, our ability to replace that revenue with contributions from multiple different parts of our business speaks to our diversified growth agenda. Our ongoing [Phonetic] effort to

expand gross margins was evident again this quarter. Gross margins were 28%, which is a 4% increase over last year, and 6% from two years ago. We continued to see strong momentum this quarter on new contract signings. This quarter came in at \$160 million, giving the company a backlog of \$1.3 billion and our first month of Q3 has seen this momentum continue with some key wins.

This quarter, we achieved significant milestones across our four pillar growth strategy that I believe will result in long-term value for Calian. Our customer retention efforts are the foundation of our business. And our ability to re-win mandates with existing customers was very strong. 75 million of 160 million signed this quarter was with long-term customers. We diversified our IT segments into the United States with the acquisition of Computex, which closed in mid-March. Computex brings us 1100 new logos in the US, along with a very talented team in a fast growing market segments. I welcome the entire Computex team to the Calian family.

You've heard me speak frequently about our goal to introduce technology across everything we do. This quarter we launched our Calian Nexi digital health platform and, although it's still early, I'm excited to see where we can take this with Calian's trusted brand in the healthcare sector. You've also heard me speak about our goal to be a \$1 billion company. This has meant we have had to invest in our technology so that we can scale Calian in an efficient manner. We also reached an important milestone this quarter in our ERP and technology modernization project going live on our East and West locations.

Our four-piston engine showed the strength of its diversity, with two of our four segments posting impressive growth. I'd like to now share an update on each of our segments. The IT and Cyber Solutions segment saw the largest increase in revenue growth this quarter by posting impressive growth of 47% and 55% increase for the six month period. Key to the significant growth has been our investments to grow our cyber practice in Canada and now in the United States, with almost 300 people offering a full suite of services from security and network operation centers, consulting, incident response, product resale, and integration. The need for a full suite of IT services has become even more crucial in today's environment. Our customer profile now includes commercial banks, hospitals, large scale retail stores, and restaurants. The revenue growth was coupled with strong growth of margins and EBITDA. Gross margins increased from 21% in the previous year to 33%. EBITDA grew almost threefold from 6% in the previous year to 17% in our most recent quarter.

We continue to invest in our managed service platform, which offers customers reliable 24/7 services on a recurring revenue bases. This quarter, we have on-boarded 20 new customers valued at just under \$0.05 million of annual recurring revenue. These are exciting times for Calian in our IT segments, and we expect to see further growth next quarter with a full quarter of the contribution from our acquisition of Computex.

Our health segment saw a decline in revenue of 14%, mostly due to the end of our COVID response engagements. I am very proud of our team for the efforts and rapid response demonstrator over the last two years, as they helped Canadians respond to the pandemic. As our customers have begun to adjust their post-pandemic realities and began to evaluate new

initiatives, excuse me, our health team is engaged to build a pipeline of opportunities that can generate growth for the coming fiscal year. The team was successful in signing 26 million in new contracts that will contribute some revenue in the second half of this year, and the next fiscal year as well. New contracts included paramedic services [Indiscernible] metropolitan cities and new pharmaceutical initiatives. Revenue for the quarter was 45 million. Despite the revenue reduction, we were able to maintain our gross margins and EBITDA margins at 25% and 18%, respectively. These are similar levels to the same quarter of the previous year and significantly higher levels than our 2020 levels of 21% and 14%, respectively. I'd also like to congratulate our team on the launch of the Calian Nexi digital health platform. Nexi transforms healthcare delivery using automation, analytics, and machine learning. And Nexi represents a key innovation released under the company's cloud initiative to support all health business clients.

The Advanced Technology segment saw revenue decrease 7% year-over-year. They ended the quarter with revenue of 39 million. We've seen timing delay in the award of ground systems projects in the first half of '22. This was the result of multiple factors, we anticipate will be resolved in the balance of this year. We've also seen supply chain shortages affect both us and our customers. And we expect those to continue in the second half of the year and this is reflected in our estimates. Gross margins and EBITDA margins were both above levels from this time last year, finishing at 28% and 14% respectively. The Advanced Technology segment sign 16.6 million in new business, including sales to Inmarsat, Sirius XM, and others, which included approximately 8.1 million in software development.

Our entry into the GNSS antennas sector continues to be a highlight. The demand we have seen continues to be very strong. [Indiscernible] supply chain issues have limited this impressive growth and customers who have integrated our antennas have dealt with delays from the worldwide supply chain delays as well. That being said, our GNSS antenna sales are up 35% year-over-year, despite these challenges. I'm also proud to announce that Calian became a founding member of the new space industry group named Space Canada. The national group will raise awareness for and help commercialize Canada's growing space sector.

Our learning segment showed considerable revenue and margin expansion in the quarter. Revenue was up 19% when compared to last year. This was as a result of two initiatives. The first being the strong returns from our technology offerings from a recent acquisition of SimFront and SimWave. These technology assets in synthetic learning environments, as well as virtual reality and augmented reality, have allowed us to expand our Canadian presence with the Navy, as well as several commercial customers.

The second initiative was our investment in the last two years to grow our presence in Europe. My recent trip to Norway in London reinforced that Calian is successful in supporting NATO and European nations as they deal with this tragic and unpleasant war in Ukraine. All nations have had to reevaluate their defense priorities and are looking at companies that have a track record of delivery and are nimble enough to construct solutions to address the ever evolving needs. I believe Calian hit those criteria. This was evidenced by our announcement in April of a new contract to support the NATO Joint Warfare Centre located in Stavanger, Norway. And pictured is our core team who delivered this key contract.

Now our Chief Financial Officer, Patrick Houston, will discuss results and key performance indicators. Patrick?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Thank you, Kevin. During the past three months, our diversity and multiple growth initiatives proved to be key, to deliver another record quarter. As COVID response contracts came to an end, we were able to replace this with new revenue at significantly higher gross margins. Our 28% gross margins this quarter represents an all time high for the company. EBITDA margins were also a highlight, coming in at 11.8%, representing a new high for Calian. On a trailing 12-month basis, we've been able to achieve consolidated revenue growth of 11% and new contract signings of 546 million has outpaced revenue. Cash flow performance in the quarter was strong. We spent a combined 48 million on our M&A agenda. This includes the acquisition of Computex which closed in mid-March, as well as payment of contingent consideration. A number of our acquisitions have continued to perform above our initial expectations. This quarter, we paid earn-outs in full for Tallysman, CTS, and Cadence. This was offset by the release of the earn-out provision, and associated intangibles for InterTronic due to delays in project signings.

This cash flow on M&A was offset by operating cash flows of 14 million in the quarter and working capital recapture of 4 million. This leaves us with a net cash balance of 34 million as well as access to our debt facility of up to \$120 million. This will serve as a key differentiator going forward on our M&A agenda. We've seen valuations take a significant decrease so far in 2022 and liquidity and access to capital is at a premium. Our efforts to diversify internationally continue to be positive. We'll continue to see our non-Canadian revenue grow in the coming quarters as our momentum in the European learning sector continues, as well as our new US presence in the IT segment increases in size.

In addition to strong performance on gross margins and EBITDA, this quarter, our adjusted net income grew considerably. We're able to increase this key metric by 41% to 13.3 million. This is an indication of our ability to generate real cash flow. Free cash flow including capital expenditures was 12.5 million this quarter. This compares to 10.2 million last year and 5.1 million for two years ago. That's an increase of 145% in free cash flows in the last two years. Having posted new highs this quarter for both gross margins and EBITDA margins, we expect the increase in the second half to be less significant than the first, as some of our improvement initiatives will be offset by some macro cost pressures.

On guidance, I must caution the revenues realized are ultimately dependent on the extent and timing of future contract awards, customer realization of existing contract vehicle, and any impact due to COVID-19 and the conflict in Ukraine. Based on currently available information on contract backlog, sales opportunities in our assessment of the marketplace, we expect to continue our growth posture in the coming year. Our guidance does not incorporate any additional M&A activity, and should we close on any new opportunities, their contributions would be incremental. At this time, we reiterate the guidance from our -- that we released following the Computex acquisition. Our guidance for the fiscal year ended September 30 expects revenues in a range of 580 million to 625 million, adjusted EBITDA in the range of 61

million to 65.5 million and adjust net income in the range of 41.5 million to 45.5 million. Please see our press release and MD&A for a detailed reconciliation of our guidance.

I will now turn the call back over to Kevin.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thank you, Patrick. I want to once again thank our staff for the amazing efforts over the last two years of COVID-19. The challenges of the last two years have made us stronger and I want to recognize the amazing team at Calian for their dedication and commitment, as we execute and deliver another record year for Calian. At our Board meeting here in Saskatoon, we updated the board on our three-year strategic plan, Imagine 2023. I'm happy to report great progress across all of our growth pillars of customer retention, customer diversification, innovation, and continuous improvement. We will continue to invest in organic and M&A growth in support of our growth objectives.

I believe we are stronger company than before this pandemic. The financial results are a clear indicator, but beyond the numbers, we now have more technology assets, town deploys, and footprint in new global markets that didn't exist for Calian in 2019. I also want to recognize that the ongoing crisis in Ukraine has repercussions all around the world, including in Canada where almost 1.4 million Ukrainians live. Canada and Ukraine have had a long history of cooperation and Calian supported Canada's response to the crisis by making a donation to the Canadian Red Cross Ukraine Humanitarian Crisis Appeal.

And with that, Paul, I'd like to now open the call to questions.

**Operator**

[Operator Instructions] And your first question is coming from Amr Ezzat from Echelon Partners. Amr, your line is live.

**Q:** Kevin and Patrick, good morning and congrats on a very strong quarter again.

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Good morning, Amr.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Good morning, Amr. Thank you.

**Q:** I've got a couple of segments specific questions. Maybe we could start with Advance Tech, what is driving that strong demand in GNSS antennas? Was it a case of being supply constrained and pent up demand kicking in?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

I think the team has done a great job of getting integrated with some large companies. So, part of our solutions often getting integrated into a final product. So they've done a great job getting into automotive, robotics, marine, so that's been great. I think what we've seen, and Kevin spoke to it, is some of our customers are seeing supply chain issues that they tried to ramp up demand and that gets an effect on us. But I think that's just building up demand for future quarters. I think we're still pretty excited about our growth in GNSS.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Amr, and [Indiscernible] on there, the requirement for precision location services across, you think of all the different platforms out there, it is only going to continue to increase and even despite, as Patrick said, the supply chain and impressive growth in GNSS, and I think it's going to continue just because of the reality of the world right now looking for those precision location services.

**Q:** Are we at 20-ish million dollars in sales for Tallysman?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

We should be getting close to that this year. We would have been, certainly without supply chain, and then you should certainly cross that next year for sure.

**Q:** Great. And margins are still at 50%. Is that still a great number?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

I think they are strong. I think it's depending, again, on the end customer but, overall, we've been able to sustain that.

**Q:** Fantastic. I'm having trouble wrapping my head around both the sales growth and the margin uptick in your IT and Cyber business. Maybe we could tackle sales first. If I exclude like \$3 million or \$4 million contribution from Computex, your sales in IT are up \$10 million from last quarter. So, this is all organic, it's 20% to 25%. What is driving that? Are there any unusuals that I should be thinking about?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

I think if you think last quarter, we acquired Dapasoft, I believe in midway through the quarter last year, so you kind of got this split between half of it was -- we had a full quarter this quarter versus half only in last year.

**Q:** So, I'm talking about quarter-over-quarter, Patrick?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Oh, quarter-over-quarter.

**Q:** Yeah, last -- just from last quarter you guys are up to like \$9 million, \$10 million, organically?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Correct. So I mean, iSecurity and our cyber business is running red hot right now. And that's -- we did acquisition, we have a huge backlog of customers right now. We've got a significant amount that we need to onboard onto our current platform, so right now our biggest issue is getting the people to supply it. So I think it's a good problem to have but we're working hard to try to build up our capacity to meet that. Our on demand was strong, and it was government year-end, so we didn't see significant uptick in volume in the month of March as some of the federal customers deployed their budgets.

**Q:** Oh, okay. So, that is somewhat off but not so much like you have used several --

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Yeah, that was somewhat off. I think those will come off next quarter, but we're going to have Computex, obviously, to your point [Multiple Speakers] 4 million this quarter, which is going to be a big contributor next quarter, so I think you're going to see again a record quarter for IT next quarter.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

And I think to -- Amr, it is Kevin, I think for me that balance of the recurring revenue as well as we start to have that baseline and Sacha and the team are doing a great job on repositioning our revenue streams there. Clearly iSecurity, our Dapasoft acquisition and cloud migration, our Corolar Virtual Care platform and now Computex, I think there is lots of tailwinds coming into our IT groups, so I expect this is going to continue definitely for the foreseeable future, that type of growth.

**Q:** Great. Then I mean -- you spoke to the margin uptick as well, I think, IT, and let's like put Computex aside because that's going to create volatility next quarter, but was there anything again like a one-off that sort of sparked your margin uptick this quarter in IT? Is it's like sustainable, outside of Computex, obviously.

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

You're going to see improvements here quarter-over-quarter. I think Computex is going to help pull it up, it certainly helped it slightly this quarter. So I think these margins are -- you're able to maintain it and hopefully improve them in the coming quarter, so I'd say this is just the beginning.



**Q:** Okay, maybe one last one. Your stock price has held up well in the face of, let's call it, very weak-ish markets. How do you think about M&A going forward with that stronger currency in hands? Is it fair for us to assume that you guys would deploy more capital, say, in the next 12 months than you did in the last 12?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

That's a good question. I think our evaluations have held up, which has been good, I think it's spoken to the performance. I think valuations are coming back towards us. I think that's another proof point and we've got the liquidity and balance sheet to go. So I think the combination of those things puts us in a good position. The M&A agenda is one of the main priorities we have. So we're going to continue to execute on that but I think we also stick to doing disciplined transactions that are good value that generate long-term growth for us. So I think things are coming into our range here, and we're just going to keep doing what we're doing.

**Q:** Great, thanks. Congrats again. I'll pass the line.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thanks, Amr. Appreciate the questions.

**Operator**

Thank you. And the next question is coming from a Deepak Kaushal from BMO Capital. Deepak, your line is live.

**Q:** Thank you. Good morning, guys. It's nice to be back. And what did I miss?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Good morning, Deepak.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

We have few minutes, Deepak, we will fill you in.

**Q:** Yeah, yeah. Thanks for the time again this morning and the question. I wanted to circle back on the question of sustainability of gross margin. Patrick, I think in your prepared remarks, you said not to expect the same jump that you saw in Q – in the first half to sustain in the second half. It sounds like there's some temporary effects and some cost increases coming. Can you talk about where those costs are coming from? Are they on the supply chain side? Are they in the internal people side, the wage side? What's going on there in terms of costs?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**



Yeah, good morning, Deepak Yeah, I think, obviously, we've seen some good increases in Q1, Q2. I think that's going to flatten out here. Obviously, the second half is going to be bigger than the first half. So I think it's going to be strong. I think where we're seeing the pressure is, obviously, on the labor side and some of the inputs have been going up. So I think we still had lots of margin improvement, things that we're doing, hopefully, those are going to offset. And I think that's a positive point for Calian that we've got both pressures on costs and we've also got things that we're doing to increase our gross margins. And we are investing continuing on the sales and marketing. We spoke about backlog in some of our customers, we've got growth in cyber, GNSS, that are getting constrained right now, so we're going to continue to invest in those because they're going to drive growth for next year. So I think it's the right thing to do now to put those things in place, so that the long-term growth is there.

**Q:** Got it. And so when we think about EBITDA margin, I mean, for the quarter, you're tracking ahead of the implied margin from the mid-point of your guidance, but when you take various numbers in your guidance, you can get various ranges in EBITDA margin. Are you managing to a certain target for that? Obviously, you have some control on your spending, so how should we think about margins on EBITDA side?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Yeah, I think about it for the year tracking back towards that 11. I think this quarter, obviously, the performance was very strong. Like we said, we're going to be investing here in the second half and it is just the pace of how quickly we can do those things that could generate a bit of variance there but I think 11% is a good target to track to here for the year.

**Q:** Okay. Great. And then I've got another question for Kevin. We've seen some major changes in the macro environment, and certainly sentiment regarding inflation, at least hitting the stock market. Are you seeing any incremental changes or recent changes in your customer decision making and spending plans? Like I know, you mentioned a delay in something in a project in advanced technology on the satellite side? What are the customers saying? Any changes there and any changes in the way you think internally around managing your business strategically, given the environment?

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Yeah, thanks, Deepak, for your question. From my viewpoint, and I think I've said this before in relation to COVID, what just demonstrated to me as CEO of the company is that the four segments operate and, what I call, customers trust us, when they can't fail and the work we're seeing and any delays are not because of inflation, in some ways. It's just reality of either just getting procurement to the streets or challenges that are having on their side with supply chain. So right now, I would say that the -- even in Norway, when I visited with The Joint Warfare Centre, the discussion wasn't around cost issues or pace of investment, it was about giving us a heads up in capacity and requirements. So we're seeing that right across everything that we're doing, frankly, so I'm not expecting why we have some delays. I don't really see a long-term effect here. I think our customers are anxious to get going on a bunch of key initiatives. And I think frankly, longer term, it's just reiterating to me that what we do is important and will not be

constrained in a major way by any kind of external factors, at least for the foreseeable future. So I'm still pretty excited about where we are and while there's some delays in certain areas, Deepak, I expect that these things will end at some point and will continue to support our growth objectives, for sure.

**Q:** That's really helpful. I just, if I can throw in a follow up, I want to limit it to two questions. On the Norway side and the NATO side, you've won that kind of good contract, it's a good indicator of the market and the opportunity there. How do you size that or how should we think about the pipeline of opportunity in the context of your overall learning business or your training business?

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Yeah, great question. I came back -- number one, it's just been great to travel again. I've gone from no travel over two years to being littered between Houston, Norway, London, in Saskatoon right now. So number one, I know for everyone on this phone call, travel is back on, and it's great to see everyone, it was great to see the team. From a defense perspective, between Europe, Canada, and even now, as we look at potentially Asia Pacific, I would say that the message we're getting from our customers is a few fold. Number one, there will be increased investment in defense. You've seen announcements, obviously, right across NATO and all countries are now are rallying behind Ukrainian conflict to say that they need to continue to invest in tempo, invest in equipment, so I expect that that's not going to be a short-term effect, that's going to be long term. So I think the increase in defense spending is going to happen. Number two is that, as we talk again to our customers, it's generally around two areas, capacity and making sure we're ready to support training initiatives, IT, cyberspace, as well as equipment, either upgrades or new equipment. So I think for the industry, in general, we have to be ready and be ready to support our key customer. And right now, I don't see any slowdowns in that defense spending. So I think it's going to be positive for us, Deepak. That being said, we have to see how these increased budgets, parlay into actual spending, but we're ready and we're ready to go. And again, we're joined for our first center in Stavanger, Norway. I walked out of there, just so impressed not only what we're doing, but how important what we're doing is to the mission of NATO.

**Q:** Okay, great. Well, I appreciate the extra color on that Kevin and Patrick, and I'm glad to be back on these calls.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

It's great to have you back, Deepak. Missed you, so great to have you back and we appreciate the ever-launching cover, so thank you for that.

**Q:** Cheers.

**Operator**

Thank you. And the next question is coming from Benoit Poirier from Desjardins Bank. Benoit, your line is live.

**Q:** Yes, thanks. Good morning, Patrick and Kevin. Congrats for the good quarter.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thanks, Benoit.

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Thanks, Benoit.

**Q:** Yeah. Just to come back on Advanced Technology, obviously you provided great color about the precision antenna GNSS, the outlook, the strong outlook for this division. But obviously, when we look at the revenue, it still down 7%, as you ran down the large ground system contract. I would be curious to get a little bit more color about the ramp up of the other ground system contract that is currently ongoing, and maybe the ability to replenish the one that just ramped down.

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Yeah, we've been continuing to deliver on that one and the one that we won last year in Europe, so that one is going well and things are progressing. That's been delivering; obviously, smaller size than the one that's ramped down. And we've got a few important opportunities that we're right towards the end here, so we're hoping we get selected here in the next quarter. Those projects would kick in towards the end of the year, next year, and then continuing to kind of keep the funnel going on our ground system business. So, as Kevin said, even though there has been delays, I don't think this continues for too long and some of them should get resolved during the second half.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

And Benoit, it's been great to be here in Saskatoon. We have our board here, and we're able to take a tour of our facilities, and get -- and talk to the team directly about the future. And what -- and you've known us for a long time in the context of the ground system in, ground system out type thing. I think the element of advanced technologies is the assets we have in the truck continue to expand between the large ground system projects to GNSS antennas. We look at our software development, which has grown significantly in the space, our new communication products. I think again it's -- while there's some ups and downs generally, I'm still very excited about AT because we just have so many moving parts right now, that I believe will kick back in into a growth posture very, very, very soon in the short term here.

**Q:** Okay. And with respect to InterTronic, obviously, there's been a change of estimates regarding the contingent consideration to be paid. Does it impact the outlook somewhat for Advanced Tech or not much material, given the change of estimates?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

I think AT, overall. No, I don't think it's a material change. Obviously, we had some of those were based on contract signings, and because of delays, we -- those timed out, and we don't have to pay those, so we've adjusted things accordingly. But I think, to Kevin's point, AT as a whole is still positive and got good momentum.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

And again, Benoit, what's interesting is if you look at AT in our ground segment now, so with our, with our acquisition of Steisslingen in Germany, which continues to do very, very well. InterTronic in Montreal, our legacy Saskatoon-based facility, there's a lot of coordination between those entities now on going after other opportunities and dividing and conquering certain manufacturing and engineering solutions, so I'm very impressed by that. And Pat is doing a great job, he is running that on ensuring we're getting synergies from those and not just independently bidding, but now collectively bidding global opportunities. So InterTronic will continue to be a strong part of our solution going forward and I don't think the delays to short term should be reflected as a negative. I think it's just a reality of how we structure our acquisitions, to make sure we're paying for value in the short term. So, again, I'm still very excited to have been part of the family.

**Q:** Okay. And moving to the health segment, you were quite vocal about the benefits that were brought by the pandemic. Looking at the quarter, no big surprise, obviously, to see a run down. How should we be thinking going forward in terms of the benefits from the COVID? I thought that there would still be a tough compare in Q3, although Q4, this is where you're going to be benefiting from an easy compare versus Q4 of 2021. Am I right to say that 45 million is kind of a good base going forward for the health segment?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

If I think Q3, it will probably still be down year-over-year, but I think, yeah, to your point, Q4 -- yeah, it was starting to ramp down last year, so you'll see that effective. Like we are building up pipeline here for and we did win plus \$20 million in new business this quarter, so that should start contributing towards the end of the year and next year.

**Q:** Yeah, perfect. And last one just for learning, obviously, very strong EBITDA margin performance, 21.6%. I'm just wondering, what drove the big increase we saw in the quarter and also how sustainable it is going forward.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thanks, Benoit. It is Kevin. I think to me, our strategy, our growth strategy were specifically around innovation, that segments always been about trying to increase our differentiation more technology assets with a goal to increase margins. And Donald, who runs that group for us and his team have been on a charge here over the last couple of years, harvesting a lot of the intellectual capital that we've been doing and learning and creating intellectual property products. And then we've acquired SimFront and SimWave, so a few things are happening.

Number one, as our brand gets stronger in this domain, we can demand higher value from customers, because they want Calian, they want Calian in there, they want -- they don't want to trust anyone, they want to trust the company they can do this. And I think we've demonstrated now not only in Canada, but globally, our ability to ramp up and deliver effective training, excuse me.

The other element is the SimFront and SimWave element, this team has just been knocking it out of the park, frankly, from the day we acquired them. From my viewpoint, it's exciting to see their innovations both in immersive learning, virtual reality, and I think, frankly, we continue to have lots of discussions, not only about Europe now, but always I mentioned Asia Pacific in terms of SimWave that have a presence there. So, clearly, the one plus one equals three is relevant for the SimFront and SimWave element, but, for me, I expect you're going to see continued exciting news coming from our learning group, just because of the pace we're on here right now.

**Q:** Okay, perfect. So would the 20% plus sustainable from -- versus Q2, Patrick, is it kind of what we should be trying to do modeling?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Yeah, I think this quarter was really strong. So I'd say in this range, plus or minus, obviously, depending on certain projects and mix, but I think what you've seen is at SimFront and SimWave, we've gotten up to speed here, this is kind of a new level, so I'd say plus or minus a couple of percentages should be the range here for the next couple of quarters.

**Q:** Okay. Thank you very much for this, and congrats again.

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Thank you, Benoit.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Thank you, Benoit.

**Operator**

[Operator Instructions] The next question is coming from Nick Agostino from Laurentian Bank Securities. Nick, your line is live.

**Q:** Yes. Good morning. This Salman Rana on behalf of Nick Agostino. First of all, thank you for taking my questions and for the really strong quarter, congrats for that. Kevin, my first question is actually on something that we came about just recently. So there was a report that came out saying that the Canadian military, it needs to strengthen its cybersecurity capabilities over the next few years or in the short term. So eager to know your thoughts over there and what that opportunity means for your IT, CS as business?

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Yeah, great question. So what we're seeing with our military customers is the reality is the domain that they operate in and have operated and continues to evolve. Where we used to have a primary terrestrial land, sea, air mindset, the two other domains that are coming in, that are obviously very relevant are cyber and also now space. So, as you look going forward, I think -- and again, when I recollect back to my trip in Norway, when this was mentioned to me, what a great position are we in as Calian to say, well, we can talk about cyber, we can talk about capability in cyber, and we can also talk to the space element of this. So I think what we'll see from military is, your point as bang on, we're going to see continued increased demand in both the historic elements of land, sea, and air, we will continue to see now increased focus on the cyber and increased focus on space. So I expect that that's going to be good news from our ability to support or key customer. The other thing I'd say, as we've seen in the growth in our IT business, cyber is not slowing down and we're going to continue to invest in our cyber platform that we have today and again with Sacha's visions of how we wants to see it grow both in innovation, revenue base and diversification. So both the military and, we think, our commercial customers, this is going to be a growth pillar for Calian, definitely for this foreseeable future. So we're pretty excited by that. We also take it seriously that we need to step up and make sure we're ready for when our customers need us most.

**Q:** Okay. That's great color. It sounds like a really good opportunity. And sticking to IT, CS again, just keen to know your thoughts on Computex so in -- it really operates in a really, really competitive market down in the US, especially in the mid-market player, there are a lot of players involved already. So how will Computex specifically differentiate itself from the other providers and continue to gain market share there?

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Yeah, great question. The exciting part for Computex for us was, this is a company that's been in business over 30 years and has excellent reputation, excellent relationships with their customers. And I mentioned the 1100 logos that's not a made up, now that is an actual number. And I'm getting win announcements almost weekly from that team that are all new customers non-government, basically commercial customers across a whole bunch of different sectors. So number one, I think you've got to look at their track record of delivery. We also just got briefed by their customer success team and it is brilliant. It is brilliant how they look at customers, how they treat customers, right from the first day they have that contact, and ensure that customer side is at the forefront of all they do and I think frankly, at Calian, we're going to learn from all of that. And we have great customer success today but how they formalize that process is something I was just so amazed by.

And the third piece is I think we all forget some time that the reality of lot of customers are in right now. Small-medium business don't have massive IT groups, they don't have massive investment capability to continue to modernize, so what they're looking for is companies like Computex and now Calian to become their partner to do that for them, basically outsource that to us because both on the demand for talent capacity, it's impossible to do that as a small medium



enterprise. So I think we're just tipping the iceberg here and the combination of innovation in our platforms, the track record, the customer success experience, as well as just the reality in the US marketplace, I think it's going to do well. And again, I think you can see continued investment from Calian in this space, both in our platforms, but also looking for companies to diversify our presence in the US. So lots of tailwinds there and I know that team is ready to take on that charge and we're excited to have them, as I mentioned, as part of our team because of that.

**Q:** Okay. That's great color. Thank you. And my last question is on the public private split. So if I remember correctly, in the last quarter, you mentioned somewhere in the MD&A, that the public private customer split was around 50% each, pretty much even in last quarter, any color into how it was this quarter?

**Patrick Houston - Chief Financial Officer, Calian Group Ltd.**

Yeah, this quarter came in similar, still in that close to 50:50, I think it was 52:48. So I think we're seeing growth in both, right. We've spoken about continued spending with Canadian military, so that's going to increase our government, but our non-government business is also going to grow with the acquisition of Computex. I think, right now we want to grow both of them and the diversity is a huge asset for us.

**Q:** Okay, thank you so much. That's all the questions I have and congrats again for the quarter.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

No, great question. Thanks, again. Appreciate that. Thank you so much.

**Operator**

Thank you. And that's all the questions we had. I would like to hand the call back to Kevin Ford, for some closing remarks.

**Kevin Ford - Chief Executive Officer, Calian Group Ltd.**

Okay, great. Thanks, Paul, for moderating, much appreciated. So, listen, I just want to thank everyone who attended and continues to attend. I am still just very thrilled to see that our business model, our four operating segments is working as we envisioned. Our long-term strategic investments in cyber and global defense are clearly showing returns but that's not something we did yesterday, that's something we did years ago. And it's something that I believe, again, as you look across all of our segments, we will continue to do in the context of long-term growth. I do believe Calian, and in the context of our core purpose, of helping the world move forward, communicate, innovate, learn, stay safe, and lead healthy lives has never been more relevant in a world in turmoil. I want to thank our team again for rising to the challenge over the last two years. And coming out of the Board meeting where we've just updated our strategy, I am, one, super excited here right now with regard to all the activities across our segments, across our corporate services, and as well as our ability now to also cross-



sell with our services in a global market. So with that, thank you so much. Everyone, stay safe. Have a great day. And with that, Paul, we can close the call.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines and have a wonderful day. Thank you for your participation.