Company: Calian

Conference Title: Calian's Third Quarter Results

Moderator: Kevin Ford

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Operator: Good day, ladies and gentlemen, and welcome to the Calian's Third Quarter Results Conference Call. As a reminder, this conference is being recorded and I would like to turn the conference over to Mr. Kevin Ford, Chief Executive Officer, please go ahead, sir.

Kevin Ford: Thank you, Operator, and good afternoon, ladies and gentlemen. With me this afternoon is Patrick Houston, our CFO, and we'd like to welcome you to Calian's third quarter 2020 conference call. I am pleased to announce another record quarter revenue for Calian, which we have now accomplished for eight consecutive quarters. The results demonstrate our continued growth and the resilience of Calian's diversified business. Q3's consolidated revenue was a record $106 million, up 19% from the same period last year. The quarter also marked our 75th consecutive profitable quarter, highlighting that we continue to maintain profitability as we execute our growth plan.

While the ongoing public health crisis has had some short-term impacts on our earnings, our teams have adjusted and Calian has remained resilient. The third quarter's results reflect our continued focus on profitable growth while delivering essential services to customers in a very challenging and unpredictable environment. During the quarter, we saw very positive results in growth across most of our segments. Health revenue gains 50% compared to the same period a year earlier, reflecting stronger demand across the business and with our recent acquisition of Alio & Allphase. A major contributor to the growth was that Health teams recently won contract with SNC-Lavalin PAE Joint Venture to support the delivery of mobile respiratory care units for the government of Canada's pandemic response efforts.

The advanced technology segment posted strong revenue growth of 18% from the prior year quarter, with continued top-line contributions from the segment's large ground systems project, mobile wireless product sales for tier one North American mobile wireless provider, and other defense and Sat Com projects. Information technology revenue gained 9% from the prior year quarter and stronger overall demand, including solid sales for our cybersecurity products and services. Positive results in the Advanced Technologies, Health, and IT segments more than offset the year-over-year quarterly revenue decline in the Learning business, which was affected by the COVID-19 pandemic, causing delays to onsite learning activities and training exercises.

Through the pandemic shutdowns, we have worked with our customers to find alternate approaches, to maintain continuity of service. And as of June, many of the activities that were paused have returned under new rules and procedures for the safety of instructors and students. Despite the revenue decline for learning, the segment maintained profitability. I'd like to thank our dedicated team accounting[?] for the efforts during the quarter. They have helped us respond to the pandemic with agility, creativity, and a tremendous collective effort. Once again, they have helped carry Calian through this very challenging business environment.

I will now ask Patrick to review the quarterly numbers; over to you Patrick.

Patrick Houston: Thank you, Kevin. It's exciting to report another record revenue quarter. We have again exceeded $100 million in a quarter and accomplished this in an exceptional circumstances. The successful execution of our profitable growth during the quarter highlighted the critical, essential service nature of our products and services, as well as our team's flexibility to adapt to rapid changes in conducting business in the last few months. Third quarter revenue increased 19% year over year while adjusted EBITDA was up 34%. During our third quarter, the company was impacted by the pandemic, which as Kevin mentioned, caused us to pause certain projects requiring onsite delivery. This was largely in our IT and Learning segments, although certain

customers in our Health segment also had to pause operations and temporarily halt contract work.

On a consolidated basis, COVID-19 resulted in a revenue decrease of $8.8 million during the quarter and an EBITDA impact of $1.7 million. We were able to offset this to some extent with revenue from our engagement with SNC-Lavalin on mobile respiratory clinics, although at significantly lower margins. The net impact on EBITDA from COVID-19 in the quarter when accounting for the paused contracts and the offsetting SNC work was approximately $1.4 million. Throughout the quarter, each business segment worked extensively with customers to resume operation. And as of this call, we have been able to resume a significant portion of our affected contracts. We currently estimate a further revenue impact of $2-3 million for the remainder of the fiscal year. Please see our MD&A[?] for further discussion of these impacts in the quarter.

Our already strong balance sheet was further strengthened this quarter. We ended the quarter with $46 million of cash on hand, which supported our completion of two new M&A transactions shortly after quarter end. Consolidated gross margins in the quarter were 21.4% in line with the same period of the previous year. Operating expenses in the third quarter were $13.5 million, up from $12.5 million in the same period of the previous year. This was a result of investments in strategic initiatives to diversify our customer base and expand into new verticals, investment across the segments to enable project delivery, and some additional costs related to acquisitions and outstanding equity instruments.

We continue to make focused, disciplined investments in our business development and delivery engines to support the company's overall growth. Adjusted EBITDA for the third quarter was $9 million, an increase of 34% from $6.7 million in the same quarter of the previous year. Adjusted net profit in the third quarter was $5.6 million, an increase from $5 million in the same period of the previous year. Working capital in the quarter decreased by $5.4 million. This was the result of the ongoing implementation of our large ground system project offset by US-

Canadian dollar exchange rate changes; government programs introduced as part of their response to COVID-19, which allowed the deferral of certain tax payments; and improve collection and management of accounts payable. Our net liquidity position remains strong with $46 million of cash on hand and no balance drawn on our credit facility of $60 million.

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.

I'll now turn the call back over to Kevin.

Kevin Ford: Thank you, Patrick. Overall, we have continued to demonstrate the execution of Calian's growth strategy, despite challenges across the global economy. I often refer to the Calian as having a four piston engine, driven by our four segments of Advanced Technologies, Health, Learning, and IT. And I think you saw the work of that engine in the quarter with each segment focused on growth and innovation.

Our sales efforts continued to show positive momentum in the quarter, as we captured $154 million in new contracts, ending the period with a revenue backlog of approximately $1.3 billion. These new contracts included Health's new business with SNC-Lavalin worth up to $26 million in revenue in the first phase; our IT segment's successful re-compete for a cyber security contract with the Department of National Defense with up to $22 million over three years; and the Learning segment's successful re-compete for the training service contract, the Canadian Forces School of Aerospace, Technology and Engineering worth up to $54 million over the next six years.

Post quarter-end, the Calian team is excited to announce the close of two acquisitions, strengthening the IT and Learning segments. In the Learning segment, we acquired CTS

International, a boutique training firm based in Stavanger, Norway. CTS provides the Learning team with a presence in Europe and the opportunity to pursue new training business within NATO, as well as other defense and commercial customers in the European market. For the IT segment, we acquired EMSEC Solutions, a firm based in Ottawa, specializing in radio frequency, emissions security, and technical surveillance countermeasures. Their wealth of cyber security expertise will position Calian into a dominant position in the emissions security field, and provide our cyber solutions team with this market differentiation. Congratulations to our Learning and IT teams for closing these acquisitions and again, to the CTS and EMSEC teams, a warm welcome to Calian.

Regarding the frontline health and essential service workers, I'd like to thank all of you for your dedication and courage during this ongoing public health crisis. Our own dedicated staff at Calian have been out there delivering essential services like other frontline health workers, Canadian Armed Forces members and service workers. From all of us at Calian, we offer our deepest appreciation for your service.

Going forward, M&A growth will continue to be a focus. We will also continue to invest in R&D and sales to support future organic growth. The Advanced Technology segment, for instance, has continued R&D related to new products, but the recent launch of its fourth-generation Decimator D4 spectrum analyzer product, which monitors radio frequency, communications and detects signal issues.

So in closing, while the current global business and economic environment is uncertain, Calian has responded to recent adversity with resilience, flexibility, and creativity. The third quarter demonstrates our consistent ability to increase top line revenues and win work through challenging market conditions. Calian entered 2020 with a strong backlog of work and has continued to add to new contract wins and renewals[?] to maintain this backlog position.

Lastly, while the traditional markets in which Calian operates are managing through this pandemic, management expects organic revenue, earnings growth in most, or all of its segments through the successful execution of our growth strategy. However, we must caution that revenue realized is ultimately dependent on the extent and timing of future contract awards, customer utilization of existing contract vehicles and any impacts due to COVID-19, specifically government regulations related to social distancing, stay-at-home orders and broader global travel restrictions. Based on currently available information and our assessment of the marketplace, we have increased our guidance to reflect our strong third quarter and our momentum going forward into the fourth quarter of fiscal 2020. We expect revenues for fiscal year 2020 to be in the range of $415 million to $435 million; EBITDA per share in the range of $3.95 to $4.17; and adjusted net profit in the range of $2.48 to $2.70 per share. Please see our press release and MDA for detailed reconciliation of our guidance.

So with that, Operator, I'd like to now open the call to questions.

Operator: Thank you, ladies and gentlemen. At this time, we will open the floor for your questions. If you would like to ask a question, please signal by pressing star one on your telephone keypad now. If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. And again, that is star one if you would like to ask a question. And we'll pause for just a moment to allow everyone an opportunity to signal for questions.

And our first question comes from Amir Ezzat with Echelon Wealth Partners.

Amir Ezzat: Good afternoon. Thanks for taking my question and congrats on the strong quarter. First on your updated guidance, could you maybe give us some color on the different drivers there for the Delta? You mentioned the SNC contract in your prepared remarks, but the $30 million slump

in your revenues implies that you're perhaps seeing strength in other areas of the business as well. Maybe some color would be helpful.

Patrick Houston: Hi, Eric. Thanks. So SNC certainly is one of the drivers. That contract should be approximately $25 million value. We're hoping to deliver the majority of that this year. But some of it might slip into Q1. The other one is where we are making good progress on our large ground system project, that's proceeding. Despite any of the travel restrictions, our team's really worked hard to continue the pace on that project. So we're seeing a little bit of incremental revenue there. And we're also seeing, as we mentioned in our prepared comments, the COVID impact have lessened significantly. So in that Q4, so that should help us finish up the year.

Amir Ezzat: Fantastic. Then maybe another one on your new guidance. The new guidance implies that the EBITDA margin's just a touch lower than your previous forecast. Just wondering what brought that on, is it the lower EBITDA margin of the of the SNC contract, or is there anything else to read into that?

Patrick Houston: I mean, you've got it there, the SNC contract certainly is much lower margin than our traditional business. So, although it's helping us generate revenue, it is bringing down our EBITDA percentage slightly.

Amir Ezzat: Fantastic, fantastic. On the Advanced Technologies sector, I guess, as I look at the growth contribution during the quarter of 18%, can you share with us how much of that comes from ground systems versus your wireless product?

Patrick Houston: Yeah. In the quarter, I mean, the majority – there's three really drivers ground systems, with the largest one, we did see continued demand slightly higher than last quarter for the products and [inaudible], which really comes into focus here in Q3 and Q4, had a strong quarter as well. So, the combination of those three was really what propelled the growth.

Amir Ezzat: Understood. Okay. So, I guess as we turn our attention to fiscal 2021, maybe you could give us a bit of color on the bidding activities and the opportunities, I guess, you're seeing for both ground systems and wireless products. Just want to get a sense of how much activity you're seeing and how large, I guess, are these opportunities relative to what you guys are delivering on?

Kevin Ford: Yeah, I would say – it's Kevin. So I think for me, as in this quarter, with over $150 million signings, what we're seeing is that from a sales opportunity perspective, for whether it's Advanced Technology, Healthcare, Learning, IT, we're seeing good opportunities and ranging from hundreds of thousands of dollars to multimillion dollar opportunities. So I've been impressed, frankly, just by the amount of the activity that I'm seeing in our proposals group. So many proposals are going out the door. So across each of our segments, and Advanced Technology specifically, we're seeing still lots of customer opportunities with current customers, as well as potentially new customers. We're seeing interest in areas such as our carbon fiber antennas which we are rolling out as part of this ground system project. As you remember, we announced those last year, that that's a new capability for us. So I'm pretty excited by the fact that in a very challenging environment that we're still seeing lots of opportunities and lots of proposal activity. Of course, we got to win those. We've got to win our share of them, but in no way are we feeling not having opportunities right now to continue the growth profile.

Amir Ezzat: Great, maybe one last one, a housekeeping item. Secure Tech's second anniversary was May 31st. Noticed that your total contingent consideration still stands at $19.6 billion as the quarter ends. So safe to assume that they hit[?] their targets for the second's earn-outs?

Patrick Houston: Yes, they did meet them and they actually overachieved slightly above the target. So when we recorded that and paid it in Q4, so, good strong performance from Secure Tech in the second year.

Amir Ezzat: Fantastic. Thanks. I'll pass [inaudible].

Kevin Ford: Thank you. Thanks for your questions.

Operator: We'll take our next question from Benoit Poirier with Desjardins Capital Markets.

Benoit Poirier: Yes. Good afternoon Kevin and good afternoon Patrick and congrats for the very good quarter. For IT, could you may be – congratulations, by the way, for the acquisition of EMSEC. Could you maybe help us to understand the geographical mix of the business and whether you see an increase, unfortunately, with cyber security solution in the context of the pandemic?

Kevin Ford: Yeah. So I think on the first part of your question with regard to the scope or the [inaudible] where we're delivering cyber services specifically, Benoit?

Benoit Poirier: Yes, exactly.

Kevin Ford: Okay. So right now, if you look at – as I mentioned, I think in the past, if you look at our IT services business today, including cyber, the majority of the work is Ottawa and some Toronto exposure. So what we're excited about is now with EMSEC and also some of the increased costs and our OPEX is putting more sales headcount in areas such as Toronto. So we think geographically, we have lots of room to grow in Canada. And the reality is the majority of our revenue for IT services right now is coming out of Ottawa with some in Toronto.

So we just think, frankly, growing our IT businesses, and taking all the good work we're doing here and just expanding it across the country. So right now, a domestic play for sure with regard to IT overall, and then for specifically cyber in the context of the pandemic, I think what we're seeing is a few thing. We're seeing increased activity for governments, government and federal

government, to push forward with cybersecurity RFPs, to strengthen infrastructure, especially as people work mobile. More and more mobile work environments means more exposure to cyber potential issues. So I think everyone's trying to push forward on some of those activities to get some corporate capability or enterprise solutions in place to deal with the mobile world.

And then just generally, cyber regardless of the pandemic is a concern. And so we continue to see good opportunity and a very positive growth profile for that, both in Ottawa, but frankly right across the country. So I think there's still lots of room to grow in our IT services and cyber specifically, for sure.

Benoit Poirier: Okay. And with Advanced Technology, given the pandemic, people have been working away from home. So are you seeing some incremental demand from your telecommunication customers to increase bandwidth in some specific region?

Kevin Ford: Not, not necessarily. I think in a lot of the work historically that we've been doing is in the ground system and Sat Com. So I think there's obviously probably been more demand and you can think about some of the broadcasters and broadcast capability that we help support. So we haven't really seen it from the telecommunication side. We've just entered the mobile marketplace really this year with that one product that we've sold to a major carrier. So we haven't seen demand per se, I would say, Benoit, with regard to that, but we are very busy in Advanced Technologies on the Sat Com ground system, segment side. Lots of opportunities, lots of bids going out the door. So whether that's related to pandemic, I can't say for sure, but we're not seeing that slowdown in any shape or form.

Benoit Poirier: Okay. And last one for me, could you talk about the progress made with the integration of the two latest acquisitions in Ottawa?

Kevin Ford: Yeah, actually it's been good. I think as we continue to involve our M&A playbook and take lessons learned from every acquisition and put it into our playbook, I would say with the Alio & Allphase team, it's going very, very well. And we've been able to actually leverage each other's collective capabilities now to bid on new work. Clearly, they're supportive of the Alio & Allphase office team, is a key part of that SNC Lavalin win as well, bringing their capability to the table. And we continue to get more exposure to other potential pharma customers. And obviously the homecare elements of that when you think of a pandemic and what's going to be going longer term, I think it's going to be a good opportunity for us.

So we've been very excited by – it's frankly been very quick out of blocks with Alio & Allphase. The team's incredible, the talent's incredible, and the products they're offering with their home software application that really helps us differentiate, is really helping us both in the Alio &

Allphase domains, but also even our healthcare domains grow. So still very positive Benoit and frankly one of our quickest acquisitions out of the gate, so one plus one equals three, for sure.

Benoit Poirier: Okay. Congrats and thanks for the time.

Kevin Ford: No problem, Benoit, good to hear from you.

Operator: Our next question is from Furaz Ahmad with Laurentian Bank Securities.

Furaz Ahmad: Afternoon, guys, congrats on the quarter. I was hoping to start off just on the Healthcare segment. It was definitely strong quarter. Of the SNC contracts, if you'd be able to tell us how much of that contract went through this quarter.

Patrick Houston: It's about $7.5 million.

Furaz Ahmad: Okay. And I guess the bulk of that is for [inaudible].

Patrick Houston: Yeah, I mean, I think right now we're thinking we try to get most of it done. We do have some deliveries in the last couple of weeks of the quarter right now scheduled. So some of it might flip into Q1, but right now the plan is to try to deliver the balance of that when we announced this year.

Furaz Ahmad: Okay, great. And within the Healthcare segment, as well, previously, you had mentioned that services that you offer, like mental health services and dental, had been lagging just because of the focus on essential healthcare. Has that come back recently and do you expect to continue to come back into Q4?

Kevin Ford: I think for me on the dental side and everything, and specifically with our defense[?] contract, we're definitely seeing the return to work for dental services. I think there was an initial pause, but I think the reality is that that's coming back. Actually, I see that even on a personal level with family health, people are getting back to the dentist. So, that one's definitely coming back. On the mental health side, I would say a demand has been neutral. It's just more, some of the work that we've done in certain areas are stronger with regards to obviously mental health and a lot of the work we do with the military, that always has been strong. It's just now psychological assessments that we bring in priority one for like firearms and stuff like that, that's slowed down over the last little while. But again, we expect that to pick up and get back to normal probably in the next two or three quarters.

Furaz Ahmad: Okay. And just turning over to the Learning segment. Now, you guys mentioned that a lot of the engagements that were paused are coming back online. I mean, would you be able to give us a sense as to what percentage of some of your contracts are still on hold?

Patrick Houston: Yeah, I'd say it's a minority right now, I mean, there's a few contracts here and there where either the activity hasn't resumed and we haven't found an alternative method to deliver

the service. I'd say that's the minority. So say maybe 15%. The rest of the 85% that led to that kind of impact in Q3 has since resumed.

Furaz Ahmad: Okay. That's great to hear. And then I guess just last one for me you guys have done a great job maintaining margins during the pandemic and given the focus on cost during COVID, you see a large opportunity for margin gains once things normalized, given the tight level of cost control?

Patrick Houston: We've been monitoring costs, obviously. Travel and things like that have reduced.

Some of the marketing has that reduced in certain areas. We've paused on certain increases, which we probably naturally would have done on space and things like that. So we're trying to find opportunities where we can reduce our expenses, that doesn't impact our long-term growth, which is really the most important that we're trying to focus on. So invest to drive the long-term growth, but yet at the same time find some opportunities for savings where they naturally are coming.

Furaz Ahmad: Okay, great. Thank you.

Operator: Our next question from Deepak Kaushal with GMP Securities.

Deepak Kaushal: Hi, Kevin, Patrick. Good evening. And thanks for taking my questions. I've got a couple of follow-ups to some of the previous questions. Kevin, CTS, the synergies and the rationale I can easily assume and seem pretty obvious. EMSEC seems a bit less obvious. I was wondering if you could walk us through the rationale for acquiring that business and what kind of synergies you can drive with your adjusting RT[?] practice.

Kevin Ford: Yeah, I think for me, you're right, it's not necessarily what we were doing in the context of cyber, but what we thought and what we do believe and what the team. What we've added in

there is a very unique tool kit into our cyber capabilities. So, there's not a lot of companies, this is very boutique. This is not a piece that is easily found. And then we felt that, with their presence and their customer base, they've exposure in defense and other markets and some other tools that they've developed, we thought it would be something that – as we look to strengthen our cyber practice and grow, it's something – they had basically reached a certain threshold with the amount of capability they had. And we think now putting our shoulder behind it, we can be looking at that.

And when you think about RF emissions security, you think about just the reality of mobile workplaces and the reality that cyber-attacks are increasing, and this is actually dealing with the emissions coming from computers. We still think that it's going to be both on the corporate side, the defense side, and even potentially on the defense OEMs that we service, there's going to be a lot of synergies there.

So definitely going to be a focus initially on defense, the defense OEMs, but we do believe there's some corporate capability here that they are starting to get exposed to that will really help us. And it's a great way to talk to our cyber business and differentiate us in the context of all that we're doing, Deepak. So it's a very strong tool and tool kit for sure.

Deepak Kaushal: Okay. And then – go ahead. Go ahead. Sorry.

Kevin Ford: No, no, sorry, go ahead. Yep.

Deepak Kaushal: No, I was going to shift gears, unless you have anything more to add on EMSEC or CTS?

Kevin Ford: Well, no, I don't think so. I think for us, what we're – the CTS one, as you said, the synergies are obvious with regard to expanding our base of training and learning that we're doing

in military environments to NATO and other European customers, as well as the commercial market there. You bring in the Sat service piece that we have in Germany now. So we now have to two footprints in Germany or, sorry, in Europe. And I think that is, again, it's consciously as part of our plan as we want to plant flags in some of these economies and local areas that we know are going to be key to our long-term growth. So we're very excited about CTS and again, coming out of the blocks, we're seeing lots of opportunities working together. So, it's pretty exciting.

Deepak Kaushal: Got it. And then going back to [inaudible] Alio & Allphase, you mentioned some COVID-related opportunities. I was wondering, specifically, if you could talk about what you're seeing in the homecare services. We hear a little bit more about hospitals having to do more of that servicing to the general population in their own homes rather than on site in the hospitals. What particularly are you seeing there and is the product revenue in the healthcare related to that?

Kevin Ford: I would say for us, it's really two things. So number one, as you said, is people look at alternative delivery models for healthcare now, whether it's virtual healthcare, home healthcare, as you said, moving people out of hospitals. You think about our network of national medical practitioners. It's probably one of the strongest in the country across multiple diverse elements. So we had that to start. You bring Alio & Allphase in, that brings in the capability with their home health outcomes management engine, which is a proprietary software they've developed to help really build a more effective way to interface and integrate a lot of the healthcare systems, I would say, relevant clearly post COVID. And then they also had the pharma trials, you think about pharma, the pharma industry with vaccines. And then then you bring in the fact that they had exposure to homecare and one of the companies they had bought earlier company, [inaudible] Global, has actually got a homecare capability.

So I would say for us right now in Health, our growth is going to [inaudible] to be driven by federal governments, whether it's defense or CMP[?], it's going to continue to grow by other new customers, just exposing our healthcare practitioners to [inaudible]. It's going to be driven by the Alio & Allphase acquisition with regard to access now to pharma and pharma trials and patient support programs that are come coming with the Alio & Allphase acquisition. So, all of the things that we're doing in healthcare are very relevant and also going to be more relevant, I think, now, as we look at these alternative healthcare delivery models. And we're working on that very proactively on our next steps for counting[?], to really take advantage of that opportunity.

Deepak Kaushal: Got it, got it. Okay. And I guess my last question, a more general one on the M&A side. You've done a handful of them in recent quarters and they've all been quite small. Is that just the nature of what you're seeing in the market? Is it easy to pull the trigger on these small niche boutique acquisitions? What can you tell us about the pipeline and what you're seeing in the marketplace in M&A?

Kevin Ford: Yeah, if you think about the last 12 months from a Calian perspective between Sat service, you bring in the Alio & Allphase piece, which is a larger acquisition. And then as you said, two smaller tech[?] vendors, I would say, I think that's a good categorization of what we're seeing. We really see the smaller [inaudible] capability, but we're also seeing some larger opportunities across each of the segments. What we're just trying to do is – frankly, what I was trying to do with our team is clean up some of the – we had met with a lot of companies over the years on the M&A profile. So what I really want to ask Patrick and the team to do was clean that up.

In other words, let's take a look at those targets that have been on our list for the last year or six months, whatever, let's clean those up. And what we're doing is exactly that. So what we're doing either they're on or they're off and let's move on. Because really what I want to do now is with a focus on the future, we continue to have a good discussion around what's next for us on

M&A, and both smaller [inaudible] or some larger acquisitions are on the agenda, for sure. So we see opportunities in each of our segments, and what you're seeing us do right now is basically clean – not clean, I don't use that in a negative context, but just try and close through a few of these targets that we've had discussions on for numerous months and in some cases, years.

So, yeah, lots of opportunity, definitely will be a continued focus for us, not just the acquisition, but also integration and all sizes, [inaudible] to larger acquisition opportunities. But making sure we take our time in a COVID world that we can do proper due diligence. And that's the only thing that may slow it down for anybody right now, is just how much due diligence you can do in a COVID backdrop.

Deepak Kaushal: Okay. I've got one more, but I think I'll jump back in the queue and the give other people a chance and come back in. Thanks again.

Operator: And as a reminder to our audience, if you would like to ask a question, please signal by pressing star one now. We'll take our next question from Ammar Shah with Eight Capital.

Ammar Shah: Afternoon guys and congrats on the quarter. The majority of my questions have been, but I thought I'd follow up on that last comment regarding due diligence. Obviously it's impressive to be able to close a global deal within the pandemic, but I guess I'm just wanting to get your viewpoint on – is due diligence a little more difficult for global deals? So would there be more of a preference for things that are perhaps closer to home or I guess, is the pipeline still to be committed to a global outreach?

Kevin Ford: Yeah, I would think for me, when you look at our playbook and I talked to this, it's really three fundamental criteria we looked at, three lenses, we look at in acquisitions. Obviously, the financial lens and company performance, growth profiles, valuation, multiples, the standard. And then the strategic fit with the company, really supporting two elements for our four pillar growth

strategy, primarily around customer diversification and service line innovation. So those things you can assess – even in a COVID world, you're going to access that virtual. You can sit down and you can talk to companies. I think we're all getting more and more comfortable with online meetings. If I got paid by all my online meetings these days, I tell you we'd be doing fairly well.

And I think we're all in that mindset now, where everyone is getting more and more comfortable interacting in an online world. So for those two lenses, I feel that we can really continue to operate, continue to do due diligence in a remote mindset, wherever that acquisition may be. The one you have to assess is our third lens, which is cultural fit. So I've always said, I like to meet with the owners. I like to have dinner. We'd like to sit down and talk. We'd like to meet elements of the management team. So that's the one you have to – you really have to assess how effective can you be in cultural due diligence.

And that's one we're working through, working some of the targets that we have closed, like EMSEC and CTS. We had actually met with the company even before COVID had hit, frankly; these discussions had been going on for a while. So we had already had that ability to assess cultural fits and getting to know the company. So that's the one that we'll just continue to evaluate our capability to do that.

That being said, I can tell you the online tools are getting more and more effective. I think we're getting more and more comfortable in dealing with it. So whether the company, frankly, is in Ottawa, Toronto, or in Germany, I think the challenge is there for most companies to assess that in a virtual world. But given time, I think we're just getting more comfortable doing that. So right now, we're still moving ahead. We think we can still operate our playbook, but we will be cognizant that we won't pull the trigger on an acquisition unless we feel all three lenses have been satisfied with regard to due diligence.

Ammar Shah: No, that makes sense. And has your view on leverage changed at all, now we're a few months into the post-COVID world and the business has shown some resilience? How are you thinking about that?

Patrick Houston: Yeah, we're still comfortable in that 2.5 times EBITDA. But you can see as we continue to grow, our EBITDA, we're quickly outgrowing our existing credit facility, which is $60 million. So we'll continue to look at that as we see transactions come into focus but we're comfortable[?] at that 2.5 times EBITDA. And we should be able to secure that kind of financing with some of our existing partners. So we'll use that certainly to continue on our M&A strategy and that'll be important in the next 12 to 18 months as we execute on that.

Ammar Shah: Thanks guys. I'll turn it back.

Kevin Ford: Thanks for the questions.

Operator: And the next question is from Deepak Kaushal with GMP.

Deepak Kaushal: Hi guys. Sorry, thanks for taking my follow-up. I didn't want to say last question and ask another one. So I jumped back in the queue. Patrick, Kevin, more focused on margins for gross margin instead of operating margin and net margin. When I look at the gross margin, I'm just trying to assess the path to expanding gross margins. Is that largely going to come through M&A, or can new products like your wireless product or decimeter product, or the carbon fiber, can those new products move the gross margin line as you scale the customer base for them? How should we think about gross margin expansion?

Kevin Ford: Yeah, I'll give you my thoughts and then Patrick jump in. Again, back to our four pillar growth strategy. The service line innovation pillar really is about, through organic and M&A, expanding product capability or differentiation in the marketplace and all that we do with a goal to

improve margins. So whether that's gross EBITDA margins, we're very passionate about trying to do that in a very challenging market. So, the way you asked the question, you almost answered, Deepak. I think it shows you how you know the company [inaudible]. [Inaudible] rallies[?], our products are higher margin. So we continue to invest in that. When we look at new capabilities from our acquisition perspective, one of the criteria in our financial lens for acquisitions is higher margins that helps move up our consolidated or divisional margins for each of the segments.

So we're really – I think over time, I'm confident we can continue to move these up. It's just going to be the pace of those [inaudible] almost $400 million in revenue, you need to – there's only so much you can do with any given year. But the goal is to improve margins through differentiation, through M&A, through organic, for sure.

Patrick, any thoughts on that?

Patrick Houston: Yeah, I agree. I mean, the majority of these ones we've broken through on the last couple of years have brought significantly higher margins than our traditional consolidated level. And I think they're just starting to take hold. I mean, we saw a bit of a step back here this quarter because of SNC and some of these other ones, which are lower margins, but I think the direction certainly is, as we invest in certain new opportunities, whether it be M&A or organic, they're generating margins that are significantly higher than what our traditional consolidated margin is.

Deepak Kaushal: Okay. And are you guys willing to share targets for next year? I mean, notwithstanding acquisitions, is 25% gross margin within the realm on the organic business, or is it still too early to access[?] that?

Patrick Houston: I mean, [inaudible] the new business that we would generate, for sure we would have a target of that or above. I mean, the existing – with us, we've got a pretty significant backlog of business, we go into the year. If you think – you look at our [inaudible], we've got $250 million or

$70[?] million secured for next year. And [inaudible] is that is the margin on that already been set, we just need to execute it. So to bring that up, you can quickly do the math. To get to $25 million, we'd have to do plus $30 million on everything else. So I think next year, certainly objective is to get it up for a couple of points through M&A and organic, and then continue to make progress.

Deepak Kaushal: Okay. That's very helpful. Thanks again for taking my questions. Operator:

And we'll take a follow-up from Furaz Ahmad with Laurentian Bank Securities.

Furaz Ahmad: Just a quick follow-up for me. I know you spoke a little bit about [inaudible], but just wondering if you could speak a little bit more about the demand trends you're seeing in that business, just to given all that's going on and just wondering if that's tapered off or you're seeing any weakness there now.

Patrick Houston: So far, they've been performing pretty well. Obviously, their big quarters is this quarter and the next one as they go through – they start delivering their summer orders and then they get their final orders before the winter starts. So far, the macro things, the weather has been good. Farmers[?] did slow down a little bit because of COVID, but we saw them pick it back up. So far, they're slightly above last year. And we're hoping they finish strong for the year. And so far we've seen a consistent performance from them.

Furaz Ahmad: Okay. That's great. Thank you.

Operator: At this time, there are no further questions.

Kevin Ford: Okay. Thank you, Operator. So I want to thank everyone for the questions and the time today. Patrick and I look forward to discussing our fourth quarter results with you in November.

Stay safe everyone. And if there's any follow-on questions, please don't hesitate to reach out. So with that, Operator, we can end the call.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect your phone lines.