Transcript of
Calian Group Ltd.
2020 Fourth Quarter & Year End Results
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**Participants**

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**Presentation**

**Operator**
Greetings and welcome to the Calian Group's Fourth Quarter and Year End Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] It is now my pleasure to introduce Kevin Ford, CEO of Calian Group. Thank you, Kevin. You may begin.

**Kevin Ford - President & Chief Executive Officer**
Thank you, Darrell, and good morning, everyone. This morning with me is Patrick Houston, our CFO. And we'd like to welcome you to Calian's fourth quarter and fiscal year 2020 conference call.

We're trying a new platform for this call, which enables us to present our results with visuals, and in the future, facilitate online Q&A. So fingers crossed, the platform works, but we're pretty confident and look forward to using this format moving forward.

So, mandatory that I say that that certain information discussed today is forward-looking and subject to important risks and uncertainties. The results predicted in these statements and this call may be materially different from actual results.

Okay, I'd like to get going. And basically, I'm very pleased to announce another record quarter of revenue for Calian, which we have now accomplished for 9 consecutive quarters. The results demonstrate our continued growth and the resilience of Calian's diversified business. Q4's consolidated revenue was a record $123 million, up 35% from the same period last year.

This capped a record year for Calian. Revenue ended the year at $432 million, an increase of 26% over the previous year. I'm also glad to report that our efforts to diversify our customer-base into new market verticals and commercial customers have taken hold. We saw revenue outside our traditional government revenue grow by 88% over 2019, and now represents 45% of our consolidated revenue.

The quarter also marked our 76th consecutive profitable quarter, highlighting that we continue to make profitability as we execute our growth plan. The ongoing public health crisis has had some short-term impacts on all of our segments and evolved the way in which they deliver our products and services to our diverse customers.

Our teams have raised to the challenge and in short order. And as a result, Calian has remained resilient. Our fourth quarter results reflect our continued focus on delivery of essential services, despite challenging environments and continuing our profitable growth.

I would like to spend a moment and provide an update on each of our segments. Our Health segment saw tremendous growth in both the fourth quarter and the 2020 fiscal year. Revenue has increased by 41% compared to the previous year. This has been the result of multiple initiatives, the first being our entry in the pharmaceutical services through our acquisition of Alio Health, which has seen strong early returns; the second being the delivery of services across Canada with our long-term customer base continuing despite the COVID-19 realities.

And finally, we're able to win multiple contracts to deliver services in response to COVID-19. This included provisioning for mobile hospitals, COVID screening for governments and commercial clients and healthcare services in remote locations.

The growth and diversification of our Health segment has proven successful over the last 3 years as we expand and leverage our network and demonstrate our ability to manage complex medical projects. Our Advanced Technology segment also saw tremendous growth in fiscal 2020. Revenue grew 40% over the previous year as a result of continued deployment of a large ground-system project and sales of our first wireless product being deployed by a North American tier-1 carrier.

We were also successful in winning multiple new projects during this year and after 2020 with a strong backlog of work.

In Learning, revenues for the year decreased by 8%, due to pauses of in-person training due to COVID in the spring. Our team has adjusted quickly to the new environment, and revenue for the fourth quarter was above the same quarter last year. We have also recently completed 2 acquisitions in the learning space in Europe.

These acquisitions expand our service offerings and allow us to further diversify our customer base immediately. Finally, our Information Technology group has continued its steady growth, growing by 6% this year, and importantly increased its gross margins by 3%, fueled by the growth in our cyber practice.

Our recent acquisition of EMSEC will contribute new unique services that will continue our margin expansion. I will now ask Patrick to review the quarterly numbers. Over to you, Patrick.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Thank you, Kevin. It's exciting to report another revenue record quarter with quarterly revenue of $123 million, an increase of 17% from our previous record, just 3 months ago. Our ability to deliver on multiple new and ongoing projects during the quarter speaks to our team's ability to deliver despite any challenges.

For the year, revenue ended at $432 million, an increase of 26%. Our long-term growth plans include consistent contributions from both organic and acquisitive growth. Organic growth for the year was 21% and acquisitive growth continued at 5%. We also completed 3 new acquisitions in our fourth quarter, which will contribute additional acquisitive growth in the coming quarters.

Gross margins ended the quarter at 18.6%, down from our previous quarter due to some of our new projects in the mobile hospital provisioning having lower gross margins, and some increased deployment costs in our Advanced Technology segment.

For the year, gross margins were 20.6%, down slightly from the previous year. Our EBITDA performance highlights our objective of achieving profitable growth. EBITDA in 2020 was up 35% when compared to the previous year, and after adjusting for the adoption of IFRS 16, EBITDA growth was up 23%, roughly in line with our record revenue growth.

The company has also had a strong year in terms of new wins and signings. All 4 segments contributed to $693 million of new business signings during the fiscal year. This leaves our realizable backlog at $1.3 billion and total backlog at $1.5 billion. This is up 15% from where we started this fiscal year.

Our capital deployment initiatives have continued in our fourth quarter, with 3 acquisitions and total capital deployed of $18 million. Our total liquidity position between cash on hand and our unused credit facility at the end of the quarter stood at $84 million. I'll now turn the call back over to Kevin.

**Kevin Ford - President & Chief Executive Officer**
Thank you, Patrick. I would like to spend a moment to talk about the acquisitions we've completed since our last update. We've been busy executing our M&A strategy and acquiring quality companies that will provide long-term returns for Calian and support our growth objectives.

With 2 acquisitions in Learning, 1 at Advanced Technologies, and 1 in IT recently, combined with the Alio/Allphase acquisition earlier this year, M&A is playing an important role in each of our segments.

Cadence and CTS are both highly regarded training companies located in the UK and Norway. Both companies have strong track-record of developing and delivering complex training to NATO directly, and NATO-member countries. These 2 companies and their strong management teams will deliver immediate diversification to our Learning segment, which has been primarily based in Canada and will provide access to new markets, in which we previously did not participate.

EMSEC is a leader in providing emission security and technical surveillance countermeasures. With large government and defense customers, their focus on quality and delivery match Calian's DNA. We see synergy with our existing cyber security and defense manufacturing business units, as we help customers secure their assets.

Finally, Tallysman, a global leader in the development and manufacturing of precision Global Navigation Satellite System antennas joined Calian in early September. The team has built a robust portfolio of highly-regarded products and have established distribution in every continent. The team is working on many exciting opportunities with OEMs in the automotive, farming, rail and robotic markets. We welcome these acquisitions to Calian and are excited to grow together in the coming years.

Lastly, the traditional markets in which Calian operates are managing through this pandemic. Management expects organic revenue growth and earnings opportunities in most or all of its segments 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, customer utilization of existing contracting vehicles and any impacts due to COVID-19, specifically government relations, regulations related to social distancing, stay-at-home orders and broader travel restrictions.

Based on currently available information of contract backlog, sales opportunities and our assessment of the marketplace, we expect to continue our growth posture in the coming year. However, the environment that resulted in higher costs in Q4, specifically in our Advanced Technology segment, we expect to continue in the first half of this fiscal year.

Coming off a record year, in the backdrop of a global pandemic, I'm happy to see the midpoint of our guidance demonstrating a 10% growth profile for both revenue and EBITDA. My goal since taking over as CEO was a 10% growth minimum posture for Calian. With now 3 years of over 10%, and specifically 26% in fiscal 2020, our guidance supporting another year of over 10%, or potentially 10% growth, I'm confident that our strategy remains intact, is solid, and then we can continue on our pivot to that innovative global growth company.

I would also note that our guidance does not incorporate any additional M&A activity. And should we close on any new M&A opportunities their contributions would be incremental. Our guidance for the fiscal year ending September 30, 2021, includes revenue ranges of $450 million to $490 million, adjusted EBITDA in the range of $38.5 million to $42 million and adjusted net profit in the range of $25.2 million to $28.3 million.

Please see our press release and MD&A for detailed reconciliation of our guidance. So with that, Darrell, I'd like to now open the call to questions.

**Operator**

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of Amr Ezzat with Echelon partners. Please proceed with your questions.

**Q:** Good morning, guys. Thanks for taking my questions and congrats on another record quarter. First, can you guys give me more color on the higher costs on the ground system project? Maybe you could remind us first of all, how far along this project is. Then maybe you could walk us through the process by which you guys reassess the costs of that project. I'm trying to get a sense of how much cushion or leeway you have on potential further overruns.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, so this is the large ground system project for a North American carrier. The total project size is about $100 million. We've recognized on revenue to date about $75 million in absolute. And so we're about 3 quarters through from a revenue perspective. The costs were mostly relating to – we're into the installation phase now, as we roll out the 22 sites across North America.

Obviously, they're all in the U.S., so traveling, as you could imagine right now to get to these sites and install them as efficiently as possible, this environment has not been conducive to that. So we did see some increased costs from an installation deployment perspective. And when we looked at going forward, we're not – we're being conservative, we're not expecting any of that to improve in the next 6 months, given the current situation with COVID and the traveling in the U.S.

So it's prudent for us to adjust our cost on that project to reflect that. And so far, we've installed 8 of them and we have 14 sites to go, which we expect to complete in fiscal 2021 and finish off that project. And as well bring back the working capital that we have on that project, which right now sits at about $55 million.

So as we complete those installations and reverse that, we should get that back. So I think our focus now on this project is to complete it, turn it over to the customer. It's been a complex project for us, because we use – this is a new band using our carbon fiber antenna. So I think there's long-term benefit of this project for us, as we use what we've learnt on this one and apply it to new bids that we have.

We've got lots of opportunities going with our new carbon fiber antenna. So I think long-term, this is going to be an important project for us in terms of establishing a new technology and a new differentiating factor for our satellite system business unit.

**Q:** So, thanks, that's very good color and it answers my working capital question. Okay, when I'm thinking about your guidance for next year, the implied EBITDA margin of 8.6%, I assume there's margin impact from that project, and perhaps, maybe other COVID-related costs. I'm just trying to get a sense of how much impact, I guess, is embedded in that margin, trying to get a normalized number.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I think – and there certainly is an impacted. And we've been concerned on the COVID impact in terms of – assuming that there will be some impact, I think right now, just to say that there would be none in the next, yeah, 12 months would be a bit naïve. So I think we're expecting some with which affected our EBITDA guidance.

It's likely about $1 million to $1.5 million of impact on the ground system, which otherwise wouldn't have been there minus these factors. So I think it is a bit lower, but ex those factors, I think, it would be more in line with this year. And to the extent that we can mitigate those and execute during the year, then there's [not going] [ph] for us to do better.

**Q:** Okay, okay, thanks. That's very helpful. But maybe you guys can give us some high-level color on the pace of bidding activity. In your Advanced Technology segments, you had a sound few quarters, and obviously, you're delivering on this large project. How does like the future looks?

**Kevin Ford - President & Chief Executive Officer**
Yeah, it's Kevin. So I'll take that. So from my perspective, from our Advanced Tech group, overall, and specifically, ground segments, we actually see quite a lot of proposal activity. We announced earlier this year also the win of another ground system for a European carrier. So we actually see activity both in our legacy business in the context of our RF ground system.

But as Patrick mentioned, as we now go to market with a carbon-fiber antenna, that we're manufacturing, we're actually seeing opportunities for those as well. So, right now, I would say very busy. If Pat Thera was on this call who runs that segment, he would say he's pinned in the context of both not only delivery, but the strong proposal activity that we're seeing in our legacy, our business. So yeah, so very, very strong. And I think we're going to see good opportunities moving forward. As it has been frankly over the last couple of years, we don't see any slowdown in that segment at all.

**Q:** Okay, maybe one last one for me and I'll jump back in the queue. Kevin, on the M&A environment, how's the pipeline looking? You've executed on a few, but maybe you could speak to us about valuation levels and how they're evolving. I'm assuming that you guys are looking at larger targets, which sometimes come with a larger embedded multiple. Are you guys still like seeing value out there?

**Kevin Ford - President & Chief Executive Officer**
Yeah, from my perspective, great question, I think we definitely still believe there are value opportunities out there. I think the key thing is being patient and working with our M&A team, Patrick and our supporting cast frankly on M&A, to find those value opportunities. We are cognizant that certain elements of the market are white hot right now and multiples are reflecting that.

So we're also trying to be smart acquirers in the context of not buying at highs, and in the same spirit, looking for good value for us, in support of our strategic plan. So absolutely, we see some good opportunities. We will absolutely continue to focus on M&A, as well as our organic growth initiatives.

And right now, as I mentioned, one of the unique elements I find of Calian is with our 4 segments. We have an opportunity to find opportunities in each one of those segments, and roll through each of our segments as we acquire and integrate. So absolutely, we see opportunities, we see value, but you just got to make sure you're looking through the right lens in today's market for sure.

**Q:** Great. Thanks, guys.

**Kevin Ford - President & Chief Executive Officer**
Thank you. Thanks for your questions.

**Operator**
Thank you. Our next question is coming from the line of Benoit Poirier of Desjardins Capital Markets. Please proceed with your question.

**Q:** Good morning, Kevin. Good morning, Patrick.

**Kevin Ford - President & Chief Executive Officer**
Good morning, Benoit.

**Q:** Yeah, could you maybe discuss about the new additions to the team. And here, I'm referring to Michele Bedford as the new Chief Commercial Officer, and also Seann Hamer as the new Chief Technology Officer. What are you expecting from those person going forward, Kevin?

**Kevin Ford - President & Chief Executive Officer**
Yeah. Thanks, Benoit. I think I'll start with Seann and the CTO role. Those that have been with Calian and with me as my tenure as CEO, I talk about that pivot to that innovative global growth company. And right now, I believe we're about halfway in that pivot. From my perspective, the CTO was an important addition to our corporate leadership team. As we looked at it, if you think about our M&A playbook, what I think we need to continue to do is formalize, invest in our innovation playbook.

We go to market today with innovation across each of our segments, obviously, our Advanced Technology group, so we have global products. And so we have innovation today. But what I wanted to see was somebody focused on innovation moving forward across each of our segments in support of our 3 years of growth objectives.

And what I mean by that is Seann's role is going to be working with each of the divisional leaders in the context of their strategy, how do we identify, harness reward, and also go-to-market with new innovative products or capabilities, and how do we also value and assess innovation in our acquisitions. So Seann has got a long-term history of Calian here of innovating, he's been responsible for the majority of our products that have gone globally. And already I'm seeing strong north focus on our innovation agenda, just by the fact he's come on board. So he will be our innovation leader, or innovation voice or innovation strategy, leader for the company.

As far as Michele and our CCO role, from my viewpoint for Calian now, again, on that support that in an innovative global growth company. Our – we have a very strong foundation here of execution, we have – we deliver across many different segments, we deliver mission critical elements to each of our customers. So our foundation has always been about excellent customer delivery, with a strong wrapper on financial – sound financial management, and you don't have 76 consecutive profitable quarters without that in place.

What I want to do with Calian is not ever put cracks in that foundation that will be our foundation going forward. That is going to be the foundation we will continue to build this company on. But we need to strengthen our marketing and sales acumen in the company. We've done well over the last couple of years, I think, everyone would agree that the brand is getting stronger, I think, we have going to market now with the united brand, we've allocated to the 4 segments, which I think is almost as easier for both our shareholders and our customers.

But what I'm asking Michele to do is take us to another level with regard to our brand, with regard to our marketing strategies, especially in today's COVID world, which is everything's going primarily digital. And as well be the voice across our sales acumen to make sure that we are the best company in the context of how we execute our sales processes. So she's come on board, her experience is coming to us from Microsoft. She's running global sales and marketing experience in teams. And again, already, I see her coming in with a whole bunch of ideas of how we support that pivot innovative global growth company. And so we're happy to have both Seann and Michele in their new roles.

**Q:** That's great color, Kevin. And maybe when we look at the guide, the revenue guidance for fiscal 2021, what could drive via guidance from or move the guidance from the low-end to the high-end? And what would be kind of the breakdown between organic and then many?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I think, what moves to add, if you think last year, we started and we were able to increase guide twice last year through a combination of organic momentum as well as retiring some risk that we had some M&A. So I think it's really do the same playbook again this year, I think, we've got a good pipeline of M&A, we need to continue to work on that pipeline, and see if we close some transactions this year, that would be – would help on the financial performance. I think, we've obviously identified a few risks, both COVID, project execution, off to the team is working to make sure that don't happen, and we can retire them and help on the guidance.

And I think there's still lots of opportunities you think in our health group, the pace of that group has changed drastically from March to now, if you think before RFPs took several months to complete now, we're getting requests across candidates to deploy COVID response measures in the matter of days. And we did, we win the next day, and we're deploying the following dates. So the pace has increased tremendously. So I think there's lots of opportunity in Health, as new initiatives come that we don't even are aware of right now. And to the extent we can realize on some of those, I think that would again, kind of help us get above the current time.

**Kevin Ford - President & Chief Executive Officer**
Yeah, Benoit. It's Kevin. I think, the other elements that we're seeing is, into the credit to the team over 4,000 people of Calian. We've basically transitioned our company to a mobile delivery organization. We've protected our manufacturing sites. But everything else we're doing is in a mobile context. And this year, if you think about our learning business to take a step back, well, we've now basically gone back to full speed on our learning delivery, so that will be some positive contributions this year assuming, again, as Patrick said with COVID that the world just doesn't shutdown totally again.

So between the COVID opportunities as is creating for the company, we will look at the effect of the M&A that we did later in this year, fueling some of the growth this year for sure from a M&A perspective. And then, again, we are very busy across each of our segments on new proposal activity. And if you look at last year of over $600 million signed a new business in a COVID backdrop, and the fact we're actually able to increase our backlog, despite having a record revenue year, I think it just demonstrates just how strong that sales funnel is, and pipeline is, and I'm not expecting that to slowdown. And frankly, everything I'm seeing in each of the segments is everyone's very busy on both delivery and new opportunities.

**Q:** Okay, perfect. And last one for me. When we look at Advanced Technology, obviously, you mentioned some color about the impact on margins on EBITDA margin at fiscal 2020, fiscal 2021. But when we look back at fiscal 2017, 2018, 2019, you work kind of in the range of 15%, 18%. So as you bid on larger contracts, although, right now you're building composite, which is higher value, how should we be thinking about EBITDA margins, specifically for Advanced Tech beyond fiscal 2021 under a more, let's say, normalized environment?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I mean, it's – these large projects, are always very competitive and complex. So with that brings lower margins. So I think that'll always be part of the business going forward. To the extent we win those, what we've really tried and spent a ton of time over the last couple years has been to diversify that segment into multiple different things. We've introduced our own products, which bring higher margins, we've done acquisitions, all of them with margins in the plus 50%. To it again, kind of diversify, get into more market verticals, where the margin opportunity is bigger, the sizes are smaller than the charged ground systems. But, the margin profiles are much better.

So I think as we continue, that's the path is continuing to diversify, have a mix of both maybe lower margin, higher size contracts and the mix of higher margin projects. And the combination of that should allow us to continue to increase our gross margin and EBITDA margin year-over-year.

**Kevin Ford - President & Chief Executive Officer**
Yeah. I want to be very clear on this I've been watch, Kevin again. So this – what I call the large ground system, the headwinds we've been facing, I look at this is not a long-term issue for the company. To Patrick's point, the acquisitions, our product business, if you actually look at our

gross margin profile, and pull that out, it's going very, very well, and both on both gross and EBITDA margin. So I don't expect us to be now a trend accounting group.

The other thing I'm very happy to see is that and you've known us a long-time, when we've had these large projects go through the company in the past, to print normally the year after, we'd go into a decline mode, which is basically, we were able to backfill that revenue. But not only have we been able to backfill it, we're actually guiding that we're going to continue on our double-digit growth posture. So I know you've followed the company for a long time, I hope you appreciate that backfilling, $70 some odd million of revenue, and actually continue our growth profile, I think, also indicates to me how strong that 4 piston engine is running.

And I want to be clear to our analysts and shareholders that that margin impact we're seeing is not a long-term expectation of ours that's going to continue, and as Patrick said, we're doing many things that are going to continue to prove that longer term. We just need to get move, to get through this project. And we'll be fine.

**Q:** That's great color, Kevin. I appreciate. Thank you very much for the time.

**Kevin Ford - President & Chief Executive Officer**
No problem. Always appreciate the questions, Benoit.

**Operator**
Thank you. Our next question is come from the line of Doug Taylor with Canaccord Genuity. Please proceed with your question.

**Q:** Yeah, thank you. Good morning, Kevin and Patrick. I'd like to pick up on that last point that you were just making, I think, the guidance and the growth implied in the guidance is certainly a positive surprise for many of us, particularly as you're lapping or you have to backfill $50 million in Advanced Technologies from the satellite contract. And then, with the SMC business, it looks like, about $26 million, there are a little over $20 million.

Can you speak to whether you expect those businesses being Advanced Technologies and Healthcare, so you're expecting to grow in those businesses specifically that you had these large contracts? And, if not or if that is expected to taper were you seeing the acceleration outside of those businesses to make up for that?

**Kevin Ford - President & Chief Executive Officer**
Yeah, great question. I think for us the momentum that we're seeing is really coming in all 4 segments. From Advanced Tech, yes, we have that large ground system project. But as I mentioned earlier, we've run another ground system implementation, we have very strong delivery – sorry, proposal activity. So we have that we don't expect that slowing down. We've got our new products that we're going to market with. We've got now the Tallysman acquisition, which takes us our whole antenna line into a whole different sphere, and just a global business that's going to make us relevant and things like autonomous vehicles and precision agriculture and drone technology.

So for us right now, we're excited, because our legacy business and Advanced Technology continues to go well, and the ancillary products we've been building as well as the acquisitions that we've been layering in is extending our product business on our product capabilities with higher margins and also a global marketplace. So we expect lots of opportunities in Advanced Technology continue across multiple areas, including even our core manufacturing in the defense business.

In Healthcare, the – as I've said before, the look – our asset, we have the one the largest, if not the largest national network of medical practitioners in Canada built through our defense contract, 32 bases over 60 different – 60, 70 different categories of healthcare practitioners. And we're getting now known as the company to come to wherever it may be in Canada to support healthcare requirements. We have now people in Nunavut, we have people right across the country, we've just worked with the province of Alberta and COVID opportunities.

So I believe just the organic growth on the poll from that network is going to continue to be significant especially in the COVID backdrop. And then you add in the Alio and Allphase capability of deploying network, network in pharmaceutical, the industry both in the context of trials and patient support programs. And then you bring in some of the software we brought in from the Alio and Allphase acquisition, this home application is called health outcomes managed everywhere. We're going to start introducing more technology into our healthcare business.

So core business will be strong, more technology enablement, and I think that's going to be again positive support. Our IT business quickly is all about our cyber business right now, as well as our legacy, Sandra moves that organization from not only cyber but to cloud migration, we see a lot of opportunities there and continue to focus on cyber, obviously everyone going virtual, we're seeing lots of opportunities, specifically with our federal governments on cyber – large cyber opportunities.

And as I mentioned, a learning to thrust there one is getting the fence back to their learning pace prior to this COVID. And then secondly, that whole European exposure now in for our learning business coming out of the blocks, Doug, it's going very well. We are seeing – we're ahead of our pace that we thought we'd be there on new opportunities and training opportunities for both, not only NATO now, but also other military customers in that area. So I think all of those elements is why I'm still very positive on the company's trajectory here, and I believe all segments have an opportunity to grow.

**Q:** So let me drill down on a couple of points you made there. I think, you specifically in the Learning segment, I mean, obviously challenging, but challenged by the pandemic. And so I guess, I'm surprised that you mentioned that you're back up to full speed there, given I think a lot of that business is kind of in person. So I'd like to understand the degree to which you've been able to shift that to remote delivery. And just so, I mean, that'll help me assess the risks and opportunities around that business.

**<u>Kevin Ford - President & Chief Executive Officer</u>**
Yeah, I appreciate the question. So when you think about a lot of our – if you think about our classroom based training and things that we would do in the classroom based, a lot of that work

now, both in the development of the training material and the actual delivery of the training of the learning exercises have been basically, we are able to now work with our customers to do those virtually, and in some cases in-person where it makes sense to do so. So while we thought initially, obviously, a slow down as everyone to try to reset how we're going to deliver learning, we think that we have an operational capability to work with our customer and predominantly the military here to keep those courses going in a virtual setting. So that's number 1.

Number 2, on the exercises, yeah, I think you can appreciate that. There's only a certain amount of time that our military – men and women in the military their job is to be ready and to be ready, they need to train. And so you can only slowdown learning and training for a period of time. And at some point, you just need to get on with it. And I believe our customer is getting on with it and to their credit and showing the absolute dedication of our military to be ready.

So we believe just as a natural case of military training has to get back at it, because you can't do is not be ready. Their job is to be ready. So I think what we're going to see is a balance of that virtual than in-person, where it makes sense to do so the protocols, and could it face headwinds again in on the COVID side, it could and we factor that mindset into some of our guidance coming out of the blocks here that let's assume that we will also see some headwinds, but right now, we're basically back to full speed.

**Q:** And then the business JV with SMC and mobile hospital, I mean, are you factoring in any repeat of that type of work into your guidance or is your guidance assuming that the current contract there? It gets completed and is not replaced with the same sort of work this year.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, right now we haven't built in additional work there. Obviously, I think there is a big opportunity we've developed a new capability in relationships. But to the extent that, these hospitals do get deployed, there could be additional demand. But we haven't built any of that, because right now, we don't have visibility to it was certainly ready and willing to jump in as the situation needs it.

**Kevin Ford - President & Chief Executive Officer**
And I think, Doug, as well for us, and as Patrick said earlier, we're seeing on that healthcare side, just that time from high Calian to close of sale has been expedited in so many fronts here, especially on some of our government businesses, record setting in some ways, and it's important, specifically the COVID response. The question I've got for our team is what happens with vaccinations, what happens with more COVID screening, what happens with those elements. So we haven't really factored any of that in because as Patrick said, it's really not a normal government sales cycle receive this income, and for 1 year or 2. We're literally getting calls where 2 weeks later, we're deploying.

So we really haven't factored that into our guidance. Because to be fair, we just don't want to over inflate guidance until we actually are clear on what exactly is going to happen in the second wave or potentially third wave. But we do definitely see opportunities, whether it's in mobile, respiratory hospitals, whether it's in COVID screening, this whole vaccination program that's going to have to kick in assuming there's a vaccine. So we still believe there's good opportunities, but really has not been factored heavily into our guidance.

**Q:** Okay, one last question for me, just a clarification. Patrick, I think you said an additional $1 million to $1.5 million impact from COVID in the fiscal year 2021 guidance. Is that in addition to a like impact versus 2020, and being almost $4 million in gross margin impact? So are we talking about an increased impact from COVID in the fiscal year 2021 guidance versus last year, or slightly decreased?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
I think, $1 million to $1.5 million is visibly on the ground system project in terms of kind of EBITDA yet for the increased cost. That's really just for that project. I think from a guidance, what we've done is assume that there'll be some short-term kind of pauses in learning again, but not to the same extent that to Kevin's earlier point, I think we're getting more and more prepared, and have a better contract, and we didn't come to March earlier this year. So right now, we factored in a small amount there and then off to the $1 million and $1.5 million on the ground system costs.

**Q:** Okay, I'll pass the line. Thank you very much.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Thank you.

**Kevin Ford - President & Chief Executive Officer**
Thanks, Doug.

**Operator**
Thank you. Our next question is come from the line of Deepak Kaushal with Stifel. Please proceed with your question.

**Q:** Oh, hey, good morning, everyone. Thanks for taking my questions. Kevin, Patrick, a couple of questions there on visibility beyond 2021, as some of these big projects roll on. Kevin, I just wanted to know maybe for both you guys, how do you guys manage this like you have a big mix of long-term projects, you bidding on big long-term projects? What are the kind of metrics you look at in terms of pipeline coverage? Just to track how you manage those projects for loss and visibility over the longer term?

**Kevin Ford - President & Chief Executive Officer**
Yeah. Hi, Deepak. Thanks for the question. So from our – from a company perspective, we have a very rigorous 3-year planning cycle as well as a 1-year business plan cycle that I review with the board, in the context of growth opportunities, what's organic, what's M&A to look it. So number 1, we really have a disciplined approach to looking at – looking ahead here, if I can say it that way as well as the investment that's required to generate the growth that we're trying to achieve in our either a business or 3-year strategic plan.

And number 2 is with the backlog to your point, every year we can go into the backlog, and I'm looking at Patrick, it's not 60%, 70% of our business at a minimum is likely in backlog even on a growth profile and as we add more long-term contracts or new project. So then the focus is what's our coverage on that delta to our budget? And we have implemented now CRM tools in the company to allow us to track sales funnel and then coverage. And I always like to see 3 to 4 times coverage on basically the targets we've set for the segment.

So that's part of that evolution of our sales culture here as well as our sales processes that have more visibility, so that when I'm sitting and talking to my shareholders or to our analysts, when I look at guidance that I have some comfort level that the words and the ranges that we're doing are achievable and that basically, it's based on fact. So a lot of rigor in this company, believe me on and how we look at that for the guidance, the forecast and sales coverage. And I think we continue to evolve and get better and that's an area we're going to ask Michele to continue to work with us on just looking ahead as you said, 2, 3 years out on what that opportunity looks like.

**Q:** Got it. And so look I'm not a math-whizz here. But, if you're posturing for 10% growth, how fast is your pipeline growing obviously faster than that. But what are you guys seeing particularly?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I think, we're the pipelines really growing as we've gotten into more market verticals, we have more whitespace to go after, right. So we're in [Two-GSS and 10S] [ph] emission securities, European training, which 12 months ago were not in our pipeline at all, because we had no assets or path into that, right. So as we keep doing some of these acquisitions and expansions, we gotten new opportunity, now we start to address that, bring into the pipeline, and then start to add, so that's really, one of the reasons we're doing this M&A is to allow to diversify customers I think you saw that this year where, our government revenue as a share and reduced as we add more and more new customers, and I think then it's expanding that customer as well as looking for similar customers to sell our products.

**Q:** Okay, got it. And then when I think of M&A that you've done for this year, pretty recent order. Obviously, you have a lot of financial capacity. Can you talk about your capacity to integrate here? Again, this fully decentralized? I mean, how many transactions can you do per year? And what's kind of your capacity?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, no, great question. I think for us, as you can imagine, when you look at the size of some of those transactions somewhere smaller, when you think about the transactions this year, some are larger. So obviously the answer the question depends on the size of the acquisition as well as, as we move through each of our segments what's the capacity within the segments to integrate, so if you think about the 4 that we've done recently, they've all been in each segment has basically done an acquisition this year, Advanced Technologies with the Tallysman piece learning we have CTS net and the cadence recently in the UK, IT at EMSEC, and then health at our Alio and Allphase acquisition in January. So the beauty of our model is that you can actually acquire one segment and then move on integration for that segment, and then move on in each of the

segments into opportunities and literally roll through our segments as we do that, it won't be long that, months from now, it'll be year that we've had Alio and Allphase in the company. So that's number 1.

Number 2 is the way we structure our acquisitions is we have a 2-year we'd like to normally put in a 2-year earn out structure that facilitates us to ensure the company keeps not only motivated, but rewarded on the context of continued growth as per projections when we acquire them. We're finding that of best practice, because it gives us that 2-year window to basically work with them on an integration plan in our M&A playbook. In some cases, we will integrate the back office right away, and others, we will let that run for a period of time, and align our capacity to integrate with the ability to integrate what their back-office capability.

So for us right now, the model is we have the playbook, we have the integration plan, we have an integration plan for each acquisition, we have the 2-year [end of period] [ph], the 2-year period to integrate. And from a capacity perspective, right now, even though we've done 4 or 5, I still believe we do have capacity. And when you look at our OpEx increases in G&A and other elements, a lot of that is into injecting new capacity into our company to do with both organic and acquisitive growth in support of our growth trajectory.

So I think, right now, we still have capacity and we assess that with both my corporate team and our board of directors. And so it's a great discussion, but right now, I do believe we have capacity. And I think, we've continued to do well to companies that we've acquired this year on all of them coming out of the gates very quickly on the growth trajectory, which has been fantastic.

**Q:** Got it. And thank you for that. That's very helpful. My last question, if I may, just related to some of the goings on in the world today. You mentioned opportunities with the COVID vaccine. And, as COVID goes through its process, I'm just wondering what kind of opportunities you might see with the change in U.S. government particularly you're working on some NATO, expanding with NATO countries in Europe. Any kind of read through there any kind of read through in general on a change in administration, the U.S. trade business?

**<u>Kevin Ford - President & Chief Executive Officer</u>**
Yeah, it's interesting. I think, we'll see how this plays out. Obviously, in January, we'll see the change of administration and see some of the policy frameworks that are put in place. For my viewpoint, as I think I've mentioned the past – frustrating for me, as somebody who's been in the service over 50 years, I've talked about in the past, I've lived long enough to see walls be torn down. And now we see walls being built again, and I'm not talking physical walls, whether these are trade tariffs, we see Brexit, we see everything going on.

So the one thing I will say that even if the current administration, we've had business in the U.S., our largest ground project in the U.S. So we still see U.S. definitely as the target customer. And we will see with the new administration, if there's opportunities' to look at our presence in the U.S. But we want to do so those that Calian, we had a presence in the U.S. years ago in Washington on the military side and decided to sell that element of our business with it was just doesn't make sense. It didn't make sense for us at that time, just because of the foreign controlled interest rules in the whole element.

So we have some experience there. So we will look at the U.S. as a market we expect on whole thing that not just in the U.S., but the world continues to work on its posture on not just the physical walls, but these trade walls that have been built up. And obviously we're watching Brexit as well.

Canada and Europe signed the European – updated European trade agreement recently, we're obviously looking at that. We continue to invest in the Europe market in the short-term, Deepak, we see that as a great extension for us for a whole bunch of reasons. So right now, focus will be obviously domestically, we're definitely looking at that European markets. And we'll assess the U.S. market moving forward as we let the new administration come in and see the policy framework they're willing to put in with regard to trade and foreign controlled interest.

**Q:** Okay. Great. That's great. Thank you again for additional color, guys. I appreciate to take my questions.

**Kevin Ford - President & Chief Executive Officer**
Thanks, Deepak.

**Operator**
Thank you. Our next question is come from the line of Furaz Ahmad with Laurentian Bank Securities. Please proceed with your question.

**Q:** Hey, good morning. I was hoping we could just dig into the IT segment a little bit. It's good to see you guys making the investments in people and that segment. Just curious, is that expected to continue into next year? And then secondly, what's your timeline on starting to get some returns on those investments of people?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah. Hi, Furaz. Yeah, I think – like we said, before historically, about, 80% to 90% of our revenue, not has been in the Ottawa region, right. So we've built up quite a strong presence there, but as part of our kind of growth strategy was to try to get out of Ottawa, and just address new geographical regions. So your point, we've added salespeople in Toronto, we're seeing that as a market that we want to try to make some headway here in the next 12 months.

I think we hired those people midway through the year. So I think we're hoping that they start to see some contributions from them in this fiscal year. And we've got a few different larger projects in Toronto that we're bidding on. So I think that's certainly an area where we want to focus in on and try to get a foothold there, and make our brand recognizable to that kind of small, medium-sized business, as well as various kind of provincial and government entities.

**Kevin Ford - President & Chief Executive Officer**
Yeah, Furaz, it's Kevin. And I think we are recognized. And one of the reasons I want a CCO is and IT is a great example. Our brand in the Toronto region is still needs a lot of work with regard

to our segments, to be honest. And we will focus on that, and we've made investments to your question. We've made investment in sales headcounts in Toronto, to Patrick's point. So that takes time.

When you're establishing a brand, it takes time. I expect – I want to reiterate. My expectations for each one of my segment leaders is I want a minimum 10% growth profile. So, Sandra, who runs that segment, knows that, takes that to heart. She's diversifying our business with cyber. She continues to diversify our geography. And I'm expecting that segment to get up to that minimum level. And I'm confident the team will do so.

**Q:** Okay, that's great color. And I'm just curious, I mean, I'm sure you've looked at buying versus building for that segment. Is the biggest detriment to buying, the acquisition multiples in that space, because I imagine they're quite lofty, given the interest in this space?

**<u>Kevin Ford - President & Chief Executive Officer</u>**
Yeah, what we're seeing is, depending on where the IT company lives, if I can say it that way, clearly, any kind of health IT assets right now, with a digital health or like we're seeing – obviously, and I know you folks know this, is we're seeing incredible expansions on multiple expectations there. So we just got to be careful on those types of things.

In our cyber business as well, we do think there are opportunities for value in cyber. We've seen some recent transactions. And, the beauty of our trading multiple now and where we've been, we think we can go after more targeted companies that have the margin profile and the growth profile that we're looking for and still be accretive coming out of the block. So that's giving us a bit of confidence and buying power I think there.

So we will look at that. Definitely the focus for us is going to be on that cyber piece, also looking at managed services capabilities in cyber, continue to expand our product portfolio, product resale capability, and geographic presence to Patrick's points earlier. So we're fishing in a very small lake. We know exactly what we're fishing for.

And I'm confident, if we just stay patient, continue to look for the right company that would like to be acquired by a company like Calian, because of the cultural alignment, then I think we will be successful, but we will make sure that when we do that, that we're confident that long-term that company is going to help us achieve our growth objectives.

**Q:** Okay, that's great color. Thank you. And just my second question is just on the AgTech business. You mentioned that the Fuel Lock product saw some weakness in the quarter. I was just curious, was that the same case for the BIN-SENSE product as well?

**<u>Patrick Houston - Chief Financial Officer and Corporate Secretary</u>**
Yeah, we did see a bit of a slowdown in the fall. I think what we saw with distributors so far, who generally held a certain level of inventory kind of reduced their inventory as part of their kind of COVID adjustments. That did slow down kind of our second wave of orders, which usually comes in the late summer.

So I think it did result in a bit of a slowdown this year, but I think going into next year, might actually provide us a bit of momentum, because the inventory levels are basically nothing now and to the extent next year is a good year, they should build that up, and then, hopefully we can see it come back towards next year.

**Q:** Okay. And, I guess, in your guidance, is a normal year kind of baked in?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I think we baked in a normal year, again, kind of from a conservative standpoint, but I think that should certainly give us hopefully a good start to the year and then if we can finish with the second wave of strong orders, we can likely overachieve.

**Q:** Okay, great. And then, just 2 quick housekeeping ones for me, in terms of CapEx for 2021, should we expect something similar to this year?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yeah, I think so from a CapEx, we finished the R&D kind of capitalization of carbon fiber. So that we had them in the first quarter, so that should be lower this year. And then the other CapEx, I would expect it [run this year] [ph].

**Q:** Okay, great. And then, just lastly, for the EBITDA outlook, I was just curious, is that post-IFRS-16?

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Yes, it is.

**Q:** Okay, great. Thanks a lot, guys.

**Patrick Houston - Chief Financial Officer and Corporate Secretary**
Thanks, Furaz.

**Operator**
Thank you. There are no further questions at this time. I would like to hand the call back over to Kevin for any closing comments.

**Kevin Ford - President & Chief Executive Officer**
Okay, thank you, Darrell. Again, great questions, everybody. I really appreciate the dialogue today with regard to the business. I hope you're sensing my absolute positivity in a COVID backdrop of not only our results for fiscal 2020, but of our growth prospects moving forward. 3 years ago, we embarked on a journey in this team and I challenged the team, 3 years ago in our strategy to be a double-digit growth company consistently and maintaining our profitable growth posture.

As we've seen, as I mentioned earlier, 10%, 11%, 12%, now over 20% growth, it doesn't happen, because Kevin Ford says it should happen. It happens because we have amazing people at this company. And I want to end on that. I want to thank those amazing people for rising to the challenge of COVID-19, pivoting our company to mobile, completing 4 acquisitions, growing the company by over 20%, growing our EBITDA by over 20%, signing over $600 million in business, and more importantly, having our core purpose of helping the world communicate, innovate, lead healthy lives and stay safe.

I would book a parade for this company right now if I could, but I can't. And I'm trying hard to thank them. And I want to thank all of our shareholders for the support and interest as we've gone through this. But this is one proud CEO at the end of this phone call today.

I appreciate the comments today and the concerns on EBITDA and those numbers, and I totally get it as a publicly-traded company. But you have to understand the achievement this company just made was spectacular. And the effort it took of all those 4,000 people to make it happen is something I'm extremely proud of.

And I am confident that any headwinds we are facing going forward, we will knock those down. And we will continue on the posture that we've set out 3 years ago, with our new 3-year strategy.

So with that, any other comments or questions, please don't hesitate to reach out. We look forward to talking to you in 3 months and seeing what craziness this world brings and how we manage through it, because I'm confident we will manage through it. So thank you again for your time. And with that, Darrell, we can end the call.

**Operator**
Thank you on behalf of the Calian Group. Thank you for your participation. This concludes today's teleconference. You may disconnect your lines at this time.