Transcript of
Calian Group Ltd.
Calian Fourth Quarter 2022 Conference Call
November 25, 2022

Participants

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Calian's Fourth Quarter 2022 Conference Call. At this time, all participants have been placed on a listen-only mode. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Ms. Jennifer McCaughey, Director of Investor Relations. Jennifer, the floor is yours.

Jennifer McCaughey - Director of Investor Relations, Calian Group Ltd.

Thank you, Jenny, and good morning, everyone. Thank you for joining us for Calian's Q4 and Fiscal Year 2022 Earnings Call. Presenting this morning are Kevin Ford, Chief Executive Officer; and Patrick Houston, Chief Financial Officer.

As noted on Slide 2, please be advised that certain information discussed today is forward-looking and subject to important risks and uncertainties. The results predicted in these statements may be materially different from actual results. As a reminder, all amounts are expressed in Canadian dollars except as otherwise specified. With that, let me turn the call over to Kevin.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thank you. And before we begin, I think it's important that I introduce you, Jennifer McCaughey, our new Director of Investor Relations. We're looking forward to having you on board. And Jennifer has over 25 years of experience in Investor Relations and will help us to drive our IR program. So welcome, Jennifer. And good morning, everyone.

The fourth quarter capped off another record-breaking year for Calian on several fronts. Q4 revenues reached $161 million, up 26% compared to the same period last year. This growth was primarily driven by our expansion in the United States and Europe. Gross margins set a new record, reaching over 31%. Similarly, adjusted EBITDA increased over 50% to reach $19 million, significantly outpacing revenue growth.

When I spoke with you last in August, I spoke of supply chain slowdowns affecting near-term revenue. Our teams worked diligently this quarter, and we were able to make significant gains in our ITCS segments in the final months to deliver orders for our customers and recognize revenue earlier than we had previously forecasted. This, coupled with the dedication of our staff, the power of our four-piston engine and the successful execution of our strategic plans delivered an outstanding quarter.

I would also like to highlight our continued push to win new customers and extend our relationship with existing clients. This quarter, we recorded $161 million in new contract signings with approximately $100 million from existing customers and the balance from new customer wins. I'd like to turn now to fiscal year '22 results. I am pleased to report that FY '22 represents another record year across several key performance metrics as we continue our growth through acquisitions and our journey to bring differentiated solutions that truly add value to our customers.

Revenues increased 12%, in line with our objective to deliver consistent double-digit growth. In fact, I'm proud to say that this year represents the fifth consecutive year of double-digit growth for Calian. Acquisitive growth this year was very strong, coming in at 19%. Both acquisitions we completed in FY '22 have exceeded our expectations and helped us diversify both our ITCS and Learning segments.

Organic growth took a pause this year, coming in at a negative 6%, primarily impacted by two factors. The first being the unwinding of the peak COVID response business in our Health segment and the second being our completion of a large ground system project for a North American customer. While organic growth revenue took a pause this year, our five-year trend of driving organic growth has been strong. And Patrick will discuss our guidance for next year, where we expect organic growth to return in fiscal '23.

You've heard me frequently say that we are looking to grow properly across all of our segments. This year, we successfully expanded gross margins and EBITDA margins, coupled with our growth. This is our fifth consecutive year we have grown margins at a pace ahead of revenue.

And I would sum up the year in this way: our team continued to deliver our strategy. Despite COVID or the uncertainty of recent economic impacts, we continue to deliver for our customers, go into new geographies, diversify our offerings and reinvest in our business to position Calian to continue the momentum of the last five record years.

However, our success in FY '22 can't be told through numbers alone. During the year, we had some leadership announced their retirement as we welcome new talent. Sacha Gera took over as President of the ITCS segment, and Michael Muldner started as our CIO. And I would be remiss in not thanking Jerry Johnston, our previous CIO, for his 30 years of service and wish him well in his retirement.

We completed two acquisitions, which have exceeded all expectations and has again shown our ability to complete successful M&A transactions. We also expanded our service offerings through several initiatives. We launched Nexi, relaunched Corolar Virtual Care, added market-leading technologies in the synthetic training, virtual reality and immersive training as well as expanded in the space market, designing, developing, manufacturing and delivering ground-based solutions to name just a few.

As we celebrate the company's four-year history this year, let me take a few minutes to demonstrate how far we've come in the last five years. Revenues have almost doubled from $305 million to $582 million, representing a CAGR of 18%. Profitability has outpaced top line growth. Gross profit more than doubled to $169 million, representing a CAGR of 27%, and gross margins increased from 21% to 29%.

EBITDA performance was the strongest ever over the last five years, growing by 164%, representing a CAGR of 27%. And EBITDA margins have grown from 11% -- or sorry, from 8% to 11%. This performance has been the product of multiple initiatives, but above all, it has come from our entire team, bringing their commitments and talent to the work every day to transform our business.

Over the same time period, we were able to successfully diversify our revenue streams by geography, customer and offering. In FY '22, our revenues outside Canada represented 29% of total revenues, up from 20% in 2018. Revenues from commercial customers surpassed the 50% mark for the first time in our history from 32% just a few years ago. We were able to do this while continuing to grow our legacy Canadian government business. And today, 27% of our revenues are generated from technology products, demonstrating a progressive pivot to a technology company.

Each of these milestones is a significant indication of our strategy in action and further motivates us to continue to execute our plan. As we complete the last year of our Imagine2023 Strategic Plan, we are focusing on developing a clear path on our journey to become a $1 billion company, which we're looking forward to share with you. So stay tuned.

For now, let me provide an update on the results by business segments. If you've been on one of these calls before, you've heard me mention our four-piston engine and how growth in one segment balances the potential decline in another in any specific quarter. This diversification allows us to capitalize on opportunities across multiple diverse markets. The broader trend of continued investment in IT and cyber across North America has helped propel our ITCS group to a record year, and the quickly evolving landscape in the global military training market has meant a robust pipeline in our Learning Group.

These have offset temporary pauses in our Health and areas of our Advanced Tech segments. Both of these segments have promising opportunities starting in fiscal '23. So let's begin with IT and cyber. This segment posted impressive revenue growth for both the quarter and the year. Revenues tripled to $69 million in the quarter and more than doubled to $173 million in the year. This growth was driven by our expansion in the U.S. market with the acquisition of Computex on March 22. Their performance has greatly surpassed our expectations. To provide some color on this, we expect it to generate about $75 million in annual revenues when we first acquired Computex, but in fact, we generated $71 million in seven months since the acquisition.

Our top line growth was also the result of our continued expansion of our Canadian-based cybersecurity offerings and increased demand for managed security platforms. In addition, the easing of supply chain shortages allowed us to deliver a backlog of orders to customers in the quarter, in effect, recording record revenues we expected to deliver in fiscal half of '23. In Q4, gross margin increased to 36% and EBITDA tripled to $12 million. In FY '23, we expect this momentum in our cyber market to continue as we exceed the robust demand in the market, and our offerings are well positioned to deliver value for the customers.

Turning to our Health segment. The pace of new business in Health has not yet picked up to the level where it offsets the lost remnants of the impact of COVID-19, resulting in a decline in revenue quarter-over-quarter. We've continued to focus on service delivery and building up a network of health care practitioners across Canada and what has been a very challenging backdrop coming off two years of COVID fatigue. While revenues for Q4 declined 11% to $39 million from $44 million from the same period last year, gross margins and EBITDA margins held steady at 25% and 16%, respectively, a testament to our proactive management of costs.

In fiscal '23, we expect a return to organic growth. Despite the reduction in revenue this year, we remain optimistic about our market position and our three-pronged approach to drive future growth, including digital health technologies, pharmaceutical solutions and health solutions and services.

In fact, after quarter end, we won a contract with the Provincial Health Services Authority of British Columbia to provide hospital nursing services support across all five health authorities. Turning to our Advanced Technologies segment. As we near the completion of our largest ground system project, which has impacted revenue growth. Our diversity into adjacent markets has begun to yield results. These lower volume, but higher margin divisions has resulted in gross margin and EBITDA margins increasing significantly to 33% and 15%, respectively. Currently, we are seeing strong demand in our software engineering for satellite and communication customers as well as demand for our precision location services through our GNSS products.

Looking to FY '23, we expect to return to organic growth. The diversification I mentioned in our space and terrestrial division over the past several years is going to help us offset with a slower second half for awards of new large ground system projects. And we've already seen some breakthroughs with the announcements of a new $12 million project for the three new earth observation antennas.

Turning to our Learning segment. In Q4, revenues increased 24% from the previous year, coming in at $22 million. Similarly, for the year, revenues increased 23% to $92 million, up from $75 million from last year. This growth was driven by the acquisition of SimFront at the start of the year, which allowed us to expand our Canadian military training presence as well as expanded into the United Kingdom. We've also brought technologies that are relevant commercial customers, and we have continued to develop a pipeline of opportunities.

In Q4, gross margins were down slightly from previous quarters due to the timing of software and projects. For the year, gross margins and EBITDA margins increased to 25% and 18%, respectively, versus 23% and 17% in the prior year. In fiscal '23, we see continued demand for our services and technology in the military training space in Canada and Europe, and this should put us on track to break the $100 million revenue mark for the first time in our Learning segment.

Now I will turn the call over to Patrick to discuss cash flow, balance sheet, and our guidance outlook for fiscal '23. Over to you, Patrick.

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Thank you, Kevin. Driven by significantly higher EBITDA, profitability increased. Net profit in FY '22 increased to $14 million or $1.19 per share, up from $11 million or $1.07 per share for the same period last year. The significant increase in profitability was offset by increased charges as our acquisitions have outperformed and achieved their earn out targets. The amortization of intangibles for current acquisitions is tapering off and will result in further net earnings in coming periods.

Adjusted net profit, which isolates the one-time impact of acquisition-related charges, grew 19% to $44 million or $3.87 per share, up from $37 million or $3.50 per share last year. Through execution and accretive M&A transactions, we've been able to grow this by a 150% in the last five years. This continued strong profitability translated into robust cash flow generation and has become a staple of our operating efficiency.

While posting record EBITDA margins and growing this at a pace significantly above our top-line growth, our conversion to cash flow has consistently improved as we have gained greater scale and have been able to implement further operating efficiencies. We generated operating free cash flows of $47 million this year. This is up 38% from last year and up 213% in the last five years.

During those five years, we've increased our cash flow conversion from 50% to above 70% in this most recent year. The strong conversion and focus on managing working capital in the longer-term means that our already strong liquidity position will strengthen in the coming periods, allowing us to continue to invest in our M&A agenda.

We continue to have a disciplined approach to capital deployment in FY '22. When we say disciplined, we mean consistent deployment of capital with the view of getting maximum return for the amount invested. As Kevin mentioned earlier, the early returns from our last two acquisitions have been strong. Their performance has been above expectations, and both will be key contributors in fiscal '23.

We've continued to pay earn-outs as they're earned and again showing that the acquisitions we've made are growing and consistently hitting or exceeding their targets. We've maintained our dividend rate at $1.12 per share. We continue to see the dividend as an important part of our balanced capital deployment strategy, and we'll reevaluate the size of the dividend in future quarters.

Our CapEx levels have been remained stable despite significant increase in the size of our business over the last five years. This again speaks to our improved operating cash flow efficiency. We continue to invest in capital that will help us scale and not inhibit our growth aspirations.

After making all these investments, we ended the year with a solid balance sheet. As of September 30, we're in a net cash position once again. Our cash on hand of $43 million, combined with our unused credit facility provides us with $115 million of net liquidity. And we are able to further expand its liquidity with our current lending syndicate if need be. This strong balance sheet position, coupled with strong profitability and cash flow conversion, positions us well in a more uncertain market and will help us continue to execute our strategic plans.

In addition, we're starting a new year in a position of strength. We signed an additional $699 million in new contracts in FY '22, of which over $400 million were contract renewals and extensions. We also exited the year with a robust backlog of $1.3 billion, of which over $400 million is planned to be realized in fiscal '23. As we seek out new customers in new geographies, this strong backlog of business will serve as our anchor as we look forward to another year of record growth.

Let's take a look at our guidance for FY '23. For the fiscal year ended September 30, 2023, we expect revenues in the range of $630 million to $680 million. At the midpoint, this reflects revenue growth of 13%, and this would represent our sixth consecutive year of double-digit growth and record levels once again.

It also assumes a return to positive organic growth with an even split between organic and acquisitive growth from the full-year impact of acquisitions completed midway through last year. We expect adjusted EBITDA in the range of $70 million to $75 million. At the midpoint, it reflects adjusted EBITDA growth of 10%. This growth takes into account the current economic conditions, cost increases, and continued impact on supply chains.

And finally, we expect adjusted net income in the range of $46 million to $50 million for the upcoming year. Our strong Q4 performance and ability to accelerate revenue will mean that our first half of fiscal '23 will be slightly lower weighted than the second half of the year as new business comes online fully.

Finally, I must caution the revenues and profitability realized are ultimately dependent on the extent and timing of future contract awards, customer realization of existing contract vehicles and any impacts due to COVID-19. Our guidance does not incorporate any additional M&A activity and should we close any new opportunities, their contributions would be incremental. Please see our press release and MD&A for a detailed reconciliation of our guidance.

Now I'll turn the call back over to Kevin to conclude our prepared remarks.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thank you, Patrick. So in conclusion, we had a record year yet again as our four piston engine continues to deliver on a consolidated level. What's more coming off a record year, we are on track to sustain this pace and deliver another record year, while continuing to search for strategic acquisitions.

I want to thank our staff for their commitments and dedication as they make all the difference in our results. I'd also like to thank our customers for their loyalty, our suppliers for their collaboration and our shareholders for their continued support.

We are also proud to announce the publication of our inaugural ESG report. It describes our journey as we work towards embedding ESG best practices into our business. We developed a strategic framework to build set priorities and drive value for our shareholders and stakeholders. You can find the report on our website.

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

Operator

Thank you very much. Ladies and gentlemen the floor is now open for questions. [Operator Instructions]. Thank you. Your first question is coming from Amr Ezzat of Echelon. Amr your line is live.

Q: Kevin, Patrick, good morning and congrats. Can you speak to the quarter-on-quarter growth in IT and cyber? There's an incremental $20 million in revenues, which is pleasantly surprising. Is that concentrated to one specific project or customer or how do we think about that?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. Good morning Amr. Yes, it was a tremendous quarter for the ITCS group. Part of it was dealing with some of the backlog that we had built up over the last couple of quarters. We're obviously working with our supply chain to get that product, and a lot of it started to come into focus here in the last quarter were able to deliver it. It wasn't one specific product, but just clearing out some of the backlog across multiple lot of our customers in several different industries. So it's strong performance from our team to make that happen given the current challenges on the supply chain.

Q: Okay. And what do you feel is a normalized like revenue levels like for IT? Is it -- I assume it's not like the $68 million or $69 million you guys reported?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

No, certainly, we did see a significant bump from that. So I think we get back to a more -- somewhere between the Q3 and Q4 performance going into next year. We're still feeling a lot of momentum on our IT business. And certainly, they're white-hot right now. So I think they're going to continue that momentum into next year.

Q: Fantastic. Can you give us a little color on the pace of new projects starting in Advanced Tech? I mean you guys recently announced the Natural Resources Canada contracts. You've got the European project as well. I'm trying to get a sense if you feel that Q4 was a trough quarter for Advanced Tech essentially.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Thanks, Amr. It's Kevin. So for Advanced Tech, it's important to look at all the moving parts between our space, terrestrial and defense business. From our legacy space business right now with the announcement of the three antennas, we had announced earlier a NASA antenna with regard to our InterTronic team in Montreal. And our GNSS products, our global positioning precision location antenna business is actually growing significantly year-over-year.

So right now, I'm expecting Advanced Tech to actually to make a turnaround this year from a growth posture. We see good backlog. We see good opportunities. And then when you look at our aerospace and defense element as well as our terrestrial element with our IntraGrain, we're seeing good push across each of the divisions within that business unit.

So right now, I'm expecting a good year from Advanced Tech and right now, coming out strong with a few key wins to kind of propel that growth for next year. So definitely Advanced Tech is going to come back this year and across a bunch of cellular projects that I'll talk about at our Investor Day later. But we're definitely going to give us some more exposure to our shareholders with regard to all the exciting things happening at Advanced Tech right now.

Q: Fantastic. And then, Kevin, your stock price has held up well in the face of very weakish markets, and you guys remain pretty underlevered. Can you maybe give us an update on your appetite for M&A? And how would you characterize like the current markets? Are you guys seeing a lot of attractive opportunities? Or what's happening?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. We continue to see good momentum on the M&A side. We're still quite busy looking at a lot of targets and working with some key opportunities. So the pace that we set here in the last couple of years of doing one or two strong deals that have really performed, I think, is our objective here going into next year. So that's what I continue. And we certainly have the balance sheet to execute those deals. So I think we're well positioned as long as things come into focus to have another good year from an M&A perspective.

Q: Then maybe one last one, Patrick, on the working capital side. Anything to read -- any jump in accounts receivable? What is driving that?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. I mean we really pushed hard to finish the year strong. We did deploy some extra cash towards the working capital to make sure some of the material came in so that we could realize the revenue. But I think a lot of that is very, very short term and should kind of reverse back out in the next couple of quarters. So I wouldn't be overly concerned. And I think it was the right thing to do to make sure we're well positioned to have the equipment and parts we need to deliver revenue in Q4 and into next year.

Q: Great. Thanks, congrats on a strong quarter. I'll pass the line.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thanks, Amr.

Operator

Thank you very much. Your next question is coming from Doug Taylor of Canaccord Genuity. Doug, your line is live.

Q: Yes, thank you. Good morning, Kevin, Patrick, and congrats on a very robust finish to the year.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thank you.

Q: I wanted to ask a couple of questions about the Health unit and what's implied in your guidance. I mean, obviously, last year, there was some volatility related to COVID work. Can you speak to what degree you've factored, I guess, I'd call it, any temporary or short-term work into your guidance for the Health unit in the year ahead?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Thanks, Doug, it's Kevin. So we've really not factored in any additional COVID-19 or immunization work that really dominated the last, frankly, a couple of years in our Health business unit. So we haven't factored that in. And a lot of our work right now is getting back to what I call business as usual with regard to health care services. As I mentioned, the product launch we're doing now focusing on that, our pharma business, contract research, patient support programs. We're kind of getting back to what I consider to be a normal health care business. And so right now, nothing is factored in that would be aligned to COVID-19.

Q: Okay. And I see from your disclosure, you talked about some temporary slowdown due to some contract transitions. Can you shed a little bit more light on this and when you might expect those to be resolved?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes, our pharma business certainly runs kind of on a cycle where we get projects. We work on them for a couple of years to deliver. And then usually, the customer who comes on with an additional project. We did see some gaps there in Q4 where some of the projects were winding down, and we hadn't started the new ones. But we have a strong pipeline on the pharma side for FY '23, and we think it was just more of a timing issue than a slowdown in the business.

Q: Okay. So nothing related to your kind of foundational contracts supporting military and things like that in the Health unit? And are there any of those upcoming that we should be aware of?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

No. They've continued. Strong demand from that strong base of customers we've built over the last five years like 50 contracts across Canada, those have continued. Our biggest struggle has been finding the resources. Health care workers in general have been very tired after COVID-19, and it's been -- that's probably our biggest challenge right now, but the demand from the customer side continues to be strong.

Q: Okay. Maybe last question for me, I mean, in your IT and cyber, you're talking about relief from supply chain -- previous supply chain issues. You also speak, on the other hand, to some part shortages in your Advanced Tech unit. Is there visibility to relief on those if it is supply chain-impacted as well? As we've started to hear from other hardware vendors that most of that's loosening up.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. We've got some promising feedback here in the last couple of months. But we've seen kind of lead times actually reduce from what we were getting lead times or more than a year on certain parts come down. So that would point to things getting better here in the next three to six months. But again, it's a bit of a waiting game to see if that actually comes true. But some of the information we've gotten seems to indicate better '23 than '22.

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

And Kevin, just it also -- but I did mention before because the question I remember on the Advanced Tech Group, we do have a backlog of products that are sold, again, waiting for parts. So we think that will relieve first quarter, second quarter for sure. So I'm hoping by this time next year, we're not talking about this anymore, Doug.

But in the same spirit, a lot of opportunity. And I think, again, with backlog and parts, we're going to see that unwind in Q1, Q2 in Advanced Tech. So still very optimistic on that based on my discussion with Pat Thera who runs that. So hopefully, we see that actually happen over the next quarter here.

Q: I hope we're not talking about it anymore as well. Thank you.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. I'm sure you're -- I'm sure you're talking about asking the question.

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Thanks, Doug.

Operator

Thank you very much. Your next question is coming from Benoit Poirier of Desjardins Capital Markets. Benoit, your line is live.

Q: Yes, thank you very much. Good morning, Patrick. Good morning, Kevin.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Good morning, Benoit.

Q: Yes, just to come back on Advanced Tech, you made a great comment about the expectation of positive organic growth going into fiscal '23. Just in terms of margin profile, could you maybe provide some color given the completion of the large ground system contract and positive organic growth assumption, whether we could see further upside in terms of EBITDA margin, specifically for Advanced Tech?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. Thanks, Benoit. Yes, I think you start to see some of that this quarter as the mix kind of went away from the large ground systems business to some of the adjacent markets Kevin spoke to that we've been working hard to expand into. And you saw the margins kind of tick up this quarter.

So I think right now, it's in the near term, maintain those margins. And hopefully, by the end of the year, we're improving it back to kind of historical levels for AT just as the mix gets better. So I think there's some room to grow there.

Q: Okay. Perfect. And on the Learning side, there was a good mix of organic growth contribution from the latest acquisition, although margins came down sequentially. So if you could provide more color about what could explain the drop from the 18%, what could be the reason behind the drop and also kind of a reasonable assumption we should be looking for fiscal year '23?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. I think as we've pivoted what was historically a very service-oriented business and more technology, we've seen the better margins. But that also brings a bit of variability depending on software sales and deliveries, which are generally much higher-margins. So I think that was the reason for the Q4 change. I would look at the level for this entire year, Benoit, as kind of a guidance on what we can deliver next year in Learning.

Q: Okay. Okay. That's great. And for ITCS, obviously, you talk about the strong contribution in the quarter and kind of some expectations going into next year. It seems that you've been very good at leveraging the Computex acquisition. Just wondering about the opportunities to leverage Dapasoft in the U.S. Any opportunities there or any -- yes.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Thanks, Benoit. I think from our viewpoint, the acquisition, and Sacha and the team have been doing a great job in both not only integrating Computex into the Calian family but really remaining focused on our customers. And having actually visited our sales kickoff this year, it's probably the one of the most mature sales engines we've had in Calian. It's pretty incredible.

So now with presence in Houston, Florida, Minnesota area, we see great customer demand as organizations look to pivot. With regard to their cyber infrastructure managed services, the team is now driving more recurring revenue as well through that segment. So we're seeing those opportunities between our security operation centers that we now have now in Houston and Toronto.

So from my viewpoint, we continue to see great demand in network services, cyber services, our product relationships with organizations like Cisco. And we do believe that, frankly, that momentum is going to continue. So for going forward, we want to combine that organic growth engine that we acquired through Computex and iSecurity, as you remember, Benoit, about a year ago, two years ago and also look for other M&A opportunities to continue to expand our footprint in the U.S. So we expect ITCS to remain white-hot into the year, and it's definitely got our focus as we see that segment as definitely high-margin, high-growth opportunity.

Q: Okay. And in terms of working cap, Patrick, you mentioned color about Q4. What should we be looking at for fiscal '23 given you're still growing? But you mentioned that there could be some release in the shorter term. Should we expect still some consumption of working cap given the growth posture ahead of Calian ahead of you?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

I think our target is to be neutral to slightly positive. We've got some things coming back to us this year between the investments we made in Q4 and some of the ground system project unwinding. But that will be offset by some of the growth that we're forecasting, obviously, plus 10% growth again next year. So our target is to be neutral to slightly positive, and hopefully, some positive inflow here in the first half of the year.

Q: That's great color. And just in terms of tax rate, was there something unusual in the quarter that could explain maybe a higher income tax? And when we look at the compensation and change in fair value related to contingent earn-out total about $10 million in fiscal '22. So from a modeling standpoint, I'm just wondering how should we be looking at this -- those two items going into fiscal year '23. And if you could provide some color about the tax rate, that would be great.

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Sure. On the deemed content and the earn-outs, like we've continued to see overachievement from several other transactions, Tallysman, iSecurity and Dapasoft, SimFront. So we've booked pretty much all of the earn-outs now. So I'm not expecting any large changes on that going into next year.

And on the tax rate, yes, I mean, the net income was significantly impacted by that. So we've made the tax rate look unusually higher. But on a cash basis and against EBITDA, I think it's stable to the last period. We're still kind of on a cash tax in that 23% to 25%. So that's what I expect for next year.

Q: Great color. Thank you very much for the time.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thanks, Benoit.

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Thank you.

Operator

Thank you. Your next question is coming from Maxim Matushansky from RBC Capital Markets. Maxim, your line is live.

Q: Thank you and good morning. I just wanted to circle back on Advanced Technologies and, I guess, how much of what you've been talking about is for next year's waiting for parts? And how much of it is kind of the slowdown in the contract award timing? I'm just trying to wonder how much risk there is for some of those awards to slip later in the fiscal year or if it's primarily the supply chain issues that you have more visibility on.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

I would say right now, from a supply chain perspective, it's affecting certain elements of our products. We've been able to maneuver through that on our GNSS antenna. So we're not expecting a slowdown. We expect to see continued growth in our precision antennas. Specifically, some of our products are decimated products where we're waiting -- we have a backlog of orders, and we're just waiting for specific parts to move that. So it's not significant in the context of revenue, I'd say, but definitely a margin -- it's going to help with the Advanced Tech performance.

As far as the pace of business, again, with some wins in our belt here now and some good opportunities that we're right in the middle of the bid process. So these aren't bids we're waiting for. We're right in the middle of the -- they're going through the evaluations. And we expect the next quarter, we'll be hearing wins or losses, but we still have quite a few opportunities in the funnel. So we're feeling pretty good about the organic growth.

As I mentioned earlier, Advanced Tech, Maxim because of the backlog and parts -- or backlog, sorry, and products as well as just the bidding pipeline right now in our ground system business, our GNSS antenna business, our IntraGrain business, our nuclear business is going well. And we're having some good opportunities also in defense manufacturing. So again, I expect this to be a turnaround year for Advanced Tech in a growth posture across many, many factors that are going to give us some tailwinds this year.

Q: Got it. And switching to the Learning segment. I mean there's been continued rhetoric about military spending in light of the conflict in Ukraine. I'm just wondering if you're seeing any immediate impact from that on demand for Calian's business. Or we should think about that as more of a longer-term tailwind?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Great question. It's really going to be both short and long-term, I believe. So what we're seeing in the short term with our customers in both Canada and now NATO and Europe is an increased demand for training across multiple disciplines. So extra high rehearsal, cyber, talking more cyber requests. So in the short term, it's definitely going to give us some opportunity. And I think we built that into our guidance for next year from our Learning segment.

As I mentioned, we're pretty excited by -- we see the potential of our Learning business being over $100 million next year. On longer term, the defense spending, the way this works is that, that money sometimes takes time to get from budget into program. And so we expect longer term as well that this will be a positive tailwind for Calian across all of our businesses, whether it's on recapitalizing equipment, increasing the training capacity and pace the IT cyber spends. So we see both short and long-term. This is an opportunity, Maxim. And definitely for our Learning business, increased demand and training pace, I would say both in Canada and Europe.

Q: Okay. And finally, just on M&A. I know you mentioned looking at kind of the bigger deals. Is there any segment that looks more attractive in the near-term given kind of the changes in the macroeconomic conditions and movements of valuations? Are you seeing any particular segment that looks attractive, either from a valuation perspective or from a Calian strategy perspective?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. ITCS still is a focus for us just because of -- we've purchased a good -- a couple of good assets there that have really been performing. So we're looking -- and we've got a strong team there. So we're saying, how can we supplement that with additional assets that would give us either geographical reach or more net new talent, which is an issue in this space right now. It helps come back to us where I think the valuations were too high for us the last couple of years. That's come back. So I think that's helped and continue to see some good targets in both AT and Learning.

So I'd say right now, all four of them are pretty active from a pipeline perspective with ITCS and -- being one of our main focuses here for FY '23.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Maxim, it's Kevin. I think for me, the opportunity we have is that diversity again. So as Patrick mentioned, we have discussions going on in each of our segments. I can confirm that. So each of our segments right now is out with active discussions around M&A and -- but aligned to our strategy, we want to make sure that when we're doing acquisitions, it's supporting our strategy as well as our goals to increase margin and differentiation as well as diversification.

So all of our segments have opportunities, but we do take time and we make sure we're very rigid on our due diligence. So the pace of these will be really at the pace that we're comfortable that we found the right targets and the right ones that are going to support our strategy. So I would expect this year across each of our segments, hopefully, some activity. But we're not pushing it until we make sure we have the right type of company that will fit into Calian long-term.

Q: Great. Thanks. I'll pass the line.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thanks Maxim.

Operator

Thank you very much. Your next question is coming from Deepak Kushal from Stifel Capital Markets.

Q: Hi, yes. Just a quick correction. It's BMO Capital Markets now. Good to talk again Kevin and Patrick. And nice to have you in the call Jennifer. I have a couple of follow-ups here, I think, I can set some in. Just on the Advanced Technology, you mentioned a couple of orders that came through one for NASA and one for National Resources Canada, ground systems and antennas. Can you talk about what's particularly moving those forward given the delays recently? Is it certainty on interest rates? Or is it project specific factors here? What can we read through across the broader segment of that space side of the technology business?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes, hi. Good morning, Deepak. Definitely, to your point, we've seen some delays in new satellite launches. Some of the new LEO constellations are working through that, either looking at their debt posture. So we're seeing that definitely create some delays. The ones that we've signed were basically on the books and moving forward with regards to customers that had their funding and had a requirement short-term to get new observation data or deep space exploration.

So what we're seeing right now is still a good pipeline, frankly, of ground-based antenna opportunities. And with our acquisition of SatService and InterTronic, we also have the ability now to expand our antenna line with regard to the size and complexity of the antennas we build. So in the past, there were larger aperture antennas. Now we can do things and we've done a bunch of research development with a carbon fiber 4-meter antenna -- full motion 4-meter antenna, which is relevant for LEO constellations.

So in some ways, these delays have been good for us because it's allowed us to pick up our R&D and our product lines to be responsive to these as they come to market. So we have some good short-term opportunities and actually really excited about long-term because our product -- if you walked into the Calian restaurant of antennas, our menu is much for with regard to both capacity size, right, from GNSS now 15-meter antennas, whether in metal or carbon fiber. So we expect this to continue to be a strong push for us for, Deepak, in the next few years for sure.

Q: Okay. Great. And then just a couple of clarification questions. First on the M&A and then on the cash flow. On the M&A side, initially kind of sounded like you guys were focused on two segments -- or two big acquisitions and two big good acquisitions, one particularly being in ITCS. And then more recently, you said you're looking for activity in all four. I mean, how do you decide which segment to feed? Can you feed all four segments in the next 12 months? And just -- maybe just in general like your capital allocation process, how you think about capital allocation across your portfolio of businesses, if that makes sense as a question?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. No, it's a great question, I think. And frankly, as you look at the four segments, I want to reiterate a few things. Number one is that we have our strategic plans and business plans in place, and we look to identify in those plans where we want to grow something either organically, through R&D or new innovation. That's one of the reasons I carried the CTO position here or it's going to be an M&A opportunity.

So across our strategy, M&A, as a reminder, supports either diversification, innovation or both. And from a capital allocation perspective, working with the business unit presence, working with Patrick, who I've asked to run our M&A office, some of these things, the timing of them can be offset. We never really see something just a line where we have four acquisitions in one quarter or just the way these things play out.

So we are actually proactively monitoring. It's almost a daily discussion with Patrick, our M&A team, our business unit presence on the status of these discussions. And from a capital allocation perspective, right now, we are really looking to prioritize high margin, high growth, high scale opportunities across each of our segments, Deepak. So we will definitely -- we'll keep that M&A engine running.

And Patrick, any comments you'd like to make on capital allocation or our M&A pipeline?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes. I think you're bang on. We keep looking at all four. The timing on these is always uncertain, so it gives us some optionality. And on the size, again, as we've gotten bigger, I think we're focusing on those acquisitions that can really have an impact both strategically and financially across each of the four segments. So I think that's what you're going to see from us in the short to medium term.

Q: Okay. That's fantastic. And then just lastly on working capital. Patrick, you mentioned earlier on the operating cash flow, you're converting now 50% -- sorry, 70% up from 50%?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

Yes.

Q: And then given the growth expectations for this year, you're expecting to be working capital neutral. How should we think of that going forward? Because as you grow the businesses, the working capital requirements, certainly in some of the large projects, there's a big working capital requirement. Can you continue to grow the business at double digits and maintain working capital neutral here? Or is there some kind of cash investment required there that we're missing here?

Patrick Houston - Chief Financial Officer and Corporate Secretary, Calian Group Ltd.

I think it depends as the business goes. I think for the next year, certainly, we're looking for double-digit growth. We've got some working capital. We're trying to pull back in is going to kind of offset that growth. So that's why I'm thinking we can be neutral to net up next year.

And going forward, we're just being from a conversion perspective, as we scaled and gotten much bigger, we've gotten more efficient both from a CapEx, a tax perspective, which has really allowed us to convert that EBITDA into cash flow. So I think that's maybe a misunderstood thing about Calian, but I think it's certainly a highlight in this market today, and our ability to convert that kind of operating performance into real cash flow for the business.

Q: Okay. That’s helpful. Thanks. Well, look I leave at that. And appreciate you for taking my questions.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thanks Deepak. Appreciate it. Thanks everyone for the questions [indiscernible].

Operator

Thank you. Your next question is coming from Nick Agostino of Laurentian Bank Securities. Nick your line is live.

Q: Yes. Thank you and good morning everybody. I just want to understand, Kevin, on the M&A front, now that you've put -- you've got the CTO position in place and all that. How do you guys approach M&A? Do you just look at targets that are out there and take more of a business economics view and look at targets that give you good growth potential, maybe open up some market segments and give you some good economics? Or do you take as part of that decision product base? In other words, you're looking at your current offerings maybe identify some product gaps based on customer feedback and look at -- make that internal decision to either acquire or build? So I'm just trying to understand how you guys are approaching M&A. Is there a product gap approach to it? And if there is, what are the product gaps that you have identified within the four segments?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. Good. Thanks, Nick. So from an M&A perspective, it really does support, as I mentioned, our customer diversification and innovation. And I'll take Computex as a great example of that. So in one acquisition, we were able to diversify our customer base to no government. It was all private industry, SMB -- or sorry, mid market customers over 1,100 new logos, so massive tick mark on our customer diversification objectives.

Then you look at the innovation that acquisition brought with regard to the relationships with organizations like Cisco and CrowdStrike and then as well our managed security services now iSecurity. So when I look at the acquisitions going forward, we want to do the same type of thing. We want to find those acquisitions that bring us more diversification in our customer base, whether it's in certain sectors, whether domestically, whether globally.

And also, as you said, in product gap, look at more innovation. So buying organizations that are bringing some element of technology, some elements of differentiation through their products to help augment our current product/services mix. So it's a bit of all of it, to be honest with you, Nick, with regard to our approach here.

We match that strategy alignment with the financial metrics that we look for both in past performance and future performance. And then we spend quite a bit of time with the organizations to assess culture fit because we do believe that's a key element of these as well. So it's a bunch of moving parts in the M&A. And we learn from every one. There's nobody perfect in M&A, but we're learning from everyone.

And from my viewpoint, though, that innovation customer diversification across all that we do is going to be the main focus for M&A engine across each of our segments. So hopefully, I answered your question there. I rambled on there, but hopefully I answered your question.

Q: Yes. No, that was helpful. I guess just as a part B to that, you mentioned product innovations. When you look at your current offerings, are there any product innovations or ideas that maybe you think you need to add and you may be contemplating building or at the same time you're out there looking to acquire if the opportunities there? So is there anything that you have identified from a product gap? Or is it just you look at the M&A targets that are in front of you and you evaluate what innovation they might have as opposed to having something in mind?

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Well, I think for us, just at a high level, if you kind of walk through our segments, in our Health business, clearly, as you look at our Nexi and Corolar virtual care platforms, this year, we ran through Alpart [ph] here in Canada with Gordon and Sacha. We ran an opportunity to look at products that could build into our current product base, referring to as ecosystem development.

So I would say at our health care platforms, we'd be looking for pieces that could help augment that platform and basically continue to differentiate and provide more value to customers. In our Learning space, our SimFront/SimWave acquisition has been very an eye-opener for us and just on the amount of innovation and learning across virtual reality, war gaming, the things that are now being asked for by customers. So again, more opportunities to expand our Learning portfolio to make that training environment as real as possible in an immersive learning/virtual reality capability would be one.

If you look at our Advanced Technologies group, continued expansion of our space business is going to be an important element of this because we still believe long term that this is going to continue to be a massive growth opportunity for us to support our growth objectives. And we're looking at diversification of our antenna, our capability, recurring revenue opportunities.

And then on our IoT segments, again, we have got now quite a bit of -- as Sacha would tell me quite a bit of technology on the truck, and we are looking to amalgamate to integrate those technology components, but in the same context, look to invest in new capability to strengthen our cyber resilience offerings as well as building more ecosystems out there regarding products that could plug into our cyber services.

So it's -- believe me, there's a lot of discussions here that we have across each of those segments. So that's just to highlight a few. And I could probably spend 15, 20 minutes on this alone just on each of our segments as to all the different moving parts. But those are kind of the highlights and priority for the time.

Q: Okay. No, I appreciate that. I guess just one last one. I think you kind of highlighted the pretty strong demand or interest on the augmented reality. Can you just talk to how, I guess, the cross-sell that you're getting when it comes to your digital assets on the healthcare side, what the reception has been in the marketplace, the cross-sell, and more importantly, maybe specifically, what the growth rate is for those particular products? And I'll leave it there.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Yes. I think for me, as we launch the digital products and I expect -- my expectation here in the company is everything is a double-digit growth number. I want to see that. And -- but as you look at those product launches in Corolar and virtual care or Nexi platforms, they're definitely -- again, there's a lot of presentations right now. It's -- as you integrate new products and introduce new products to the market, it takes time.

So we're expecting this year not to see massive growth there. We expect to be investing on getting product understanding product awareness and working with customers, and we're doing lots of work now. We're hiring extra sales capacity in the U.S. to actually get these products to market.

And the point you made, I don't talk about enough, frankly. When you think about the convergence opportunities across our business units, we're definitely seeing more of those. We're looking at remote health care. We just recently did an opportunity where we combined our health care business with our satellite business to basically provide a remote health care units that then has a remote learning capability and a cybersecurity element to it.

So we're starting to see those opportunities that come across our business units in what we call a convergence opportunities. So standby for those. But -- so each and of the segments right now, we're going to have more innovation, more product gaps, as you said, things that we're fixing. But as importantly, we're looking for those opportunities to move across the business for collaboration with our business units for customers' biggest challenges.

Q: Okay. Thank you for that. Best of luck.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Thanks Nick.

Operator

Thank you so much. Okay. We don't appear to have any further questions in the queue. I'm now going to hand back over to Kevin for any closing remarks.

Kevin Ford - Chief Executive Officer, Calian Group Ltd.

Okay. Thank you, Jenny, and -- for facilitating today's call. Before we close, I'd like to mention that we will be hosting an Investor Day in Toronto on February 15. So please save that date, and more details will follow in the next couple of weeks.

So on that note, I want to thank you each for -- everyone, for attending. I want to thank everyone for the great questions, and we look forward to providing an update on our next quarterly call. So with that, Jenny, we can close the call.

Operator

Thank you very much. And thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation, and have a great weekend.