

Calian Group (Q2 2025)
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Corporate Speakers:

- Jennifer McCaughey; Calian Group; Director of Investor Relations
- Kevin Ford; Calian Group; Chief Executive Officer
- Patrick Houston; Calian Group; Chief Financial Officer

Participants:

- Doug Taylor; Canaccord; Analyst
- Rob Goff; Ventum Financial; Analyst
- Scott Fletcher; CIBC; Analyst
- Paul Treiber; RBC Capital Markets; Analyst
- Jesse Pytlak; Cormark Securities; Analyst
- Benoit Poirier; Desjardins; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Calian Group Second Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded.

I would now like to hand it over to your first speaker today, Jennifer McCaughey, Director of Investor Relations. Please go ahead.

Jennifer McCaughey^ Thank you, [Viktor]. And good morning, everyone. Thank you for joining us for Calian's Q2 2025 conference call. Presenting this morning are Kevin Ford, Chief Executive Officer, and Patrick Houston, Chief Financial Officer. They will review our Q2 results and discuss future growth opportunities for Calian.

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^ Thank you, Jennifer. And good morning. Let me begin by recognizing that our Q2 results fell short of expectations. While this is disappointing, it's important to highlight that the shortfall is primarily limited to headwinds in our ITCS segment. The rest of the business continues to demonstrate resilience and performance in uncertain times. Notably, our overall defense business, which remains a high-growth area and a

strategic priority for us, is performing well giving us confidence on the broader trajectory of the company.

Let me start with our ITCS segment. Year-to-date, we've experienced a 15% decline in revenue, but a significantly sharper drop in EBITDA compared to the same period last year. This indicates that the core challenges are more cost related than revenue driven. Importantly, several of these cost pressures are temporary and should start to unwind in coming quarters. Let me take a moment to clarify what occurred during the quarter.

First, delayed procurement decisions by the Canadian government due to the elections affected our decisive business unit in the strongest quarter of the year. While we had anticipated some slowdown with the pending election, the impact was more significant than anticipated. The good news is that we believe this is a timing issue, and we will recapture these opportunities in the back half of the year.

Second, delayed procurement decisions by the U.S. commercial customers due to longer-than-anticipated refresh cycles, coupled with tariffs. The market uncertainty surrounding tariffs led customers in our U.S. business to delay investments as they assess the impact on their respective businesses. We expect that this uncertainty will continue while businesses absorb the new policies and adjust their operating models. Third, we are incurring increased costs due to our cybersecurity platform transition from our in-house version to the Microsoft platform. Essentially, we are supporting two platforms until the transition is complete, which is expected to be finished at the end of this year.

However in just six months, we have made meaningful progress across our North American market. We are seeing strong momentum with a growing number of clients with over 30 customers now migrating to our next-generation AI-infused platform powered by Microsoft technologies. Concurrently, our data and AI practice has accelerated its pipeline growth, now exceeding \$20 million. Some of these customers we have recently actively engaged with include (inaudible), Crescent Energy and Select Waters.

Finally, we are actively investing in future growth by accelerating our pivot towards a services-led organization. Our strategic focus is on delivering AI-driven innovation across cybersecurity, data and AI, application modernization and business applications. This shift is already creating strong momentum with key customers like Apache Industries for leveraging expertise to modernize and scale their digital capabilities.

As we support our customers through their transformation journeys, we are seeing longer sales cycles than initially forecasted, and these are natural consultative engagements that drive deeper impact. While this has resulted in a temporary higher cost base, we are confident that our investments in talent, solutions and delivery capacity will translate into long-term value creation and sustainable profitable growth. To summarize, ITCS faced headwinds from macroeconomic conditions, the ongoing transition of our cybersecurity business to a new platform and the challenges of repositioning towards a higher-end margin managed services model.

That said, it's important to note that the impact is not uniform across the segments as our on-demand services, for example, have remained stable and they continue to perform reliably. The underlying fundamentals of the ITCS business remains strong. The market opportunities in cybersecurity and managed services are substantial, and we're firmly focused on positioning the company to fully capitalize on them.

While the market is increasingly competitive, we believe partnerships with Microsoft and the recent investments we are making, combined with our proven mission-critical solution capabilities are positioning us well to gain market share. While we're in the early stages of our transformation, we are highly confident in the long-term outlook for ITCS.

A key part of our strategic plan is to improve our margin mix with greater percentage of business stemming from our cyber and data and AI practices, and we believe this transition will create a stronger, more resilient and higher value ITCS well positioned to lead in mission-critical industries. Achieving this requires ensuring the business is appropriately structured and operationally prepared to capture this growth, and that's exactly where our capable team of leaders are driving their efforts.

Overall, we've made meaningful progress. But given the evolving dynamics and broader market uncertainty, it's clear that ITCS will need a few more quarters to complete its transformation and return to sustainable growth path. In the meantime we expect continued volatility and pressure in this segment. Elsewhere, our other three segments have felt some impact of the federal election and tariff-related uncertainty, though to a much lesser extent. Despite these challenges, they continue to demonstrate resilience and remain steady in a still uncertain operating environment. While we have challenges, we are supported by a solid backlog of \$1.1 billion, and I'm happy to report that's now \$1.4 billion with the closure of the AMS acquisition. Patrick will share more details on our Q2 results shortly. Let me provide you an update on our defense opportunity.

Last quarter, we provided you with an overview of our renewed go-to-market strategy for defense, which we are currently executing. Our overall defense business, which represents close to 50% of our revenues continues to grow. In fact, trailing 12-month revenues reached \$363 million, up 10% from FY '24. More specifically, year-over-year, our international learning business has grown 395%. Our health business has grown 10% and our Advanced Technologies business has grown 19% in this area. We're seeing growing momentum in defense, particularly in Europe, where we've recently secured several net new contracts.

While we are unable to disclose the details such as deal size duration or customer names due to security sensitivities, what matters most is the strength of our current pipeline now exceeding \$1 billion, which highlights sustained demand for mission-critical defense solutions. We are positioning the company to capture this growing demand by assembling a strategic leadership team with the experience, networks and track record needed to drive results.

As you may recall last quarter, we appointed a Regional VP of Global Defense and Security and a Managing Director for our U.K. Defense, which has strengthened our bench. With this team in place, we're confident in our ability to turn high potential opportunities into concrete outcomes. In the U.S., we continue to strengthen our brand presence and expand our commercial footprint in defense. We've begun generating incremental revenue by successfully cross-selling our existing products and services to U.S. commercial customers.

At the same time we're actively progressing towards FCA compliance, which is a key milestone. Once achieved, it will position us to begin marketing our defense products and services to the U.S. government, an important step in our long-term growth strategy. Turning to Canada. With the Canadian Arm Force's budget costs starting to taper off in the third quarter and the federal election behind us, we expect investments in defense to gradually increase. A major driver is Prime Minister McCartney's defense spending plan, which is expected to reach 2% of GDP by 2030.

In fact, the little election platform promised an additional \$30.9 billion in new defense spending over the next four years with a commitment to buy Canadian where possible and prioritize Canadian raw materials. The plan includes filling this cash shortage of 14,500 members who inevitably will require training and healthcare.

While the timing of the contract awards is difficult to predict, the tailwind is undeniable. As we have said many times, defense is a marathon, not a sprint. Overall, the Defense segment continues to act as a strong tailwind for the company. The global need for defense capabilities aligns with Calian's defense operational readiness platform, which delivers a comprehensive suite of services backed by decades of proven experience. These include training, IT infrastructure, health services, cybersecurity, space communications and manufacturing.

With all of these defense opportunities in the works, we strongly believe we're set up to participate in a meaningful way as the activity racks up. Besides defense, we believe space and health are backed by strong fundamentals and favorable tailwinds. In line with our strategy to sharpen Calian's focus and drive sustainable value creation, we are taking steps to simplify our operating model and align the business with high potential mission-critical markets. Recent cost base adjustments and the launch of a portfolio review aligned to our growth markets will better position us to capitalize on strong industry tailwinds. These measures reinforce our commitment to operational excellence and long-term shareholder value.

We are actively reviewing our assets, investments and business lines to ensure alignment with our long-term strategic growth objectives. This portfolio review may include exploring options for noncore assets, refining our go-to-market approach, doubling down on high-growth areas, optimizing our cost structure and reassessing capital allocation priorities. Our goal is to focus resources where we see the greatest potential for greatest value and value creation. Earlier today we announced the acquisition of AMS, a provider of healthcare services to the Canadian North including the Northwest Territories, Yukon,

Nunavut and parts of Canadian Northern provinces. AMS is a great fit for Calian Health for a number of reasons.

It broadens our healthcare solutions service offering into primary care, care medicine and air and ground ambulance, expands and strengthens our geographic footprint and competitive position in Northern and Canada and will enable cross-selling opportunities for both government and industrial customers. Its established brand in Northern healthcare, its contract backlog of roughly \$250 million, combined with its key partnerships with indigenous communities will be an asset as we work to scale the business over the next several years. AMS provides Calian with a strategic footprint in the North at a time when the federal government is making substantial investments in the region.

Our presence in North, coupled with our strengthened relationships with provincial and territory governments will position us favorably to secure new contracts as Northern investments are rolled out. In the coming years, we believe there will be increased demand for health and defense products and services in Canada's Northern strategy and planned federal investments. Our portfolio review will position us well to gain from this.

Now I'll turn the call over to Patrick to discuss consolidated results for Q2 and our outlook for FY '25. Patrick?

Patrick Houston^ Thank you, Kevin. Q2 revenues decreased 4% to \$194 million as the combined growth of 7% from Advanced Tech, Learning and Health was more than offset by the ITCS underperformance with revenues down 25%. Acquisitive growth was 4% and was generated by the contributions of the nuclear assets acquired from MBA and Madway.

Organic growth was down 8%, primarily impacted by the ITCS segment, as Kevin explained earlier. Excluding ITCS, organic growth would have been 1%. Despite these levels, we continue to have high-performing assets in our portfolio, such as our nuclear services, which increased 91% and our GNSS antennas, which increased 22%. We continue to grow outside Canada with 42% of total revenues coming from international customers in Q2. This is the highest quarter of international revenues, both in terms of revenue dollars and as a percentage of overall revenues.

On a trailing 12-month basis, revenue stand at \$745 million, in line with FY '24. Gross margin was 33%, slightly below the same period last year due to revenue mix. It represents the 12th straight quarter above the 30% mark. Adjusted EBITDA decreased \$10 million from \$27 million last year to \$17 million. Of the \$10 million decrease, \$8 million was attributable to ITCS for the same reasons explained earlier. As a result, adjusted EBITDA margin decreased to 9% from 13.5% last year.

On a trailing 12-month basis, adjusted EBITDA stood at \$79 million, reflecting a margin of 10.6%. While our Q2 shortfall was largely confined to the ICCS segment, we took proactive steps in April in light of broader market uncertainty including concerns around

tariffs and increasing recessionary signals. We implemented targeted reductions in overhead and discretionary spending and temporarily paused select investments. These measures are designed to enhance our operational resilience and help mitigate potential economic headwinds in the quarters ahead. As a result of our lower adjusted EBITDA, adjusted net profit stood at \$11 million or \$0.93 per share, down from \$19 million in the prior year. In the quarter, we posted only a small net profit, mainly due to noncash accounting charges, which we amortized over approximately five years post acquisition.

Let's take a look at our cash flow and capital deployment metrics. Cash flow from operations was \$10 million in this quarter compared to \$36 million in the same period last year. It was impacted by lower net profit and working capital usage in the quarter versus positive working capital last year. We maintained our working capital efficiency level in Q2 by using 9% of revenues. This is a similar level from FY '24, but down significantly from FY '23 when we stood at 14%. Operating free cash flow stood at \$10 million, representing a 56% conversion from adjusted EBITDA.

On a trailing 12-month basis, operating free cash flow stood at \$57 million, reflecting a conversion rate of 72% above our target of 70%. Turning to capital deployment. In Q2, we used our cash in a portion of our credit facility to make CapEx investments of \$2 million. We also provided a return to shareholders in the form of dividends of \$3 million and continued buying back shares to the tune of \$4 million. In the last 12 months, we've invested \$13 million in dividends and \$14 million in share buybacks for a total of \$27 million. We continue to believe that Calian shares are undervalued and plan on continuing to deploy capital towards repurchasing shares in order to deliver long-term value to our shareholders. We plan on repurchasing approximately 6% of shares outstanding in FY '25 through a combination of daily purchases and block trades under our NCIB.

As Kevin mentioned, we completed the acquisition of AMS earlier today. This demonstrates our continued ability to identify strategic assets that fit into our growth initiatives and acquire them at attractive valuations. We paid \$21.5 million at closing for 100% of the shares and have an earn-out payment of up to \$5 million in the first year. We continue to spend considerable time evaluating opportunities in defense, space, healthcare and growth markets and plan on continuing to deploy capital towards M&A alongside our activities on the NCIB.

Now let's take a look at the balance sheet and cash availability. As of March 31, we had drawn \$120 million on our debt facility. During Q2, we drew an additional \$5 million on our facility to support our current operations and buy back shares. We ended the quarter with net debt of \$57 million, representing a net debt to adjusted EBITDA ratio of 0.7. This is well below our threshold of 2.5x, and we have ample capacity on the balance sheet to pursue our growth with close to \$200 million in available funds. Despite a more challenging quarter, our last 12 months adjusted EBITDA yield, operating free cash flow yield and adjusted EPS yield were approximately 15%, 11% and 9%, respectively. This demonstrates our ability to generate solid returns and reflects our focus on operational

efficiency, robust cash generation and profitability, positioning us well for sustainable growth.

Now let's turn to our FY '25 outlook. Given ongoing economic and geopolitical uncertainty as well as limited visibility and timing to key opportunities in the ITCS segment, we've made the decision to withdraw our guidance. The current market environment remains uncertain and is rapidly changing with many moving variables, making it difficult to provide a reliable and meaningful forecast at this time.

In addition, we have a concrete plan to address the issues in ITCS. It will take some time. It's important to emphasize that this decision does not alter our confidence in Calian's long-term growth trajectory. While we have withdrawn guidance, we can offer a few data points to assist with modeling as our other three segments are performing to expectations. Excluding ITCS, we expect combined adjusted EBITDA from our Health, Learning and Advanced Technologies segment, inclusive of corporate costs to grow over FY '24 levels in line with previous expectations. The primary variable remains the performance of the ITCS segment.

Our confidence is underpinned by strong momentum in signings. We secured approximately \$248 million in new business during the quarter with both new and existing customers. Our backlog remains robust at \$1.1 billion and will further increase by roughly \$250 million with the addition of AMS today. Turning to capital deployment for FY '25. We are targeting neutral to slightly negative working capital for the year. We anticipate to have an earn-out payment of about approximately \$5 million with respect to the acquisition of (inaudible) in Q3.

We expect to maintain our CapEx investments for the year at approximately \$8 million to \$10 million. We expect to maintain our current dividend of \$1.12 per share, and we plan to accelerate our share buyback program by combining our daily purchases with block trades. Again we intend to repurchase up to 6% of our public float under the NCIB.

I'll now turn it back over to Kevin for his closing remarks. Kevin?

Kevin Ford^ Thank you, Patrick. In closing, I want to leave you with a few thoughts. While our Q2 results came in short of our expectations, they're essentially isolated to headwinds in the ITCS segment. The rest of the business remains resilient and is expected to close out the year as expected. In fact, although we have withdrawn guidance, we still believe that we'll end the year with record-breaking revenues and showing positive year-over-year EBITDA progress when combining the Learning, Health and Advanced Tech segments together and factoring in our corporate costs. Our goal remains to continue to build a purpose-driven organization, growing 10% to 15% per year through a combination of organic growth and acquisitions and creating value for our shareholders.

Over the past year, we have engaged with numerous shareholders who have shared valuable perspectives on ways to enhance shareholder value. Suggestions have included

refining our strategic focus on key growth markets, increasing share buybacks and finding efficiencies, among others. I want to assure you that your voices have been heard, and we are actively working to address these priorities.

As you heard Patrick say today we will maximize our share buybacks with the objective of repurchasing up to 6% of our float in order to deliver long-term value. In addition, we began a portfolio review to better position the company to capitalize on the significant tailwinds that emerging defense helps face in emerging markets. The strategic shift will involve a realigning of our overall approach, looking at options for noncore assets and doubling down on high conviction growth areas, all supported by a clear and actionable execution plan. To help support us with this exercise, we've been actively refreshing our Board in the past few months to align with the evolving needs of the business.

We are pleased to welcome three outstanding new directors, each bringing deep public company expertise and valuable perspectives. Lisa Greatrix had strong financial acumen and capital markets expertise that will support our focus on operational excellence. Josh Blair brings a proven track record across AI, data services and healthcare, industries closely aligned with our growth ambitions. We just recently announced and welcomed Eric Demirian, the Chair and Board of the Board of Descartes Systems Group. His extensive experience in finance and M&A across diverse markets makes him a key strategic asset as we pursue scale and transformation.

In terms of doubling down on growth initiatives, let me say a few words on Defense and Space. A few years ago, we made a strategic decision to position Calian for growth in the European defense sector through targeted investments and acquisitions including our recent acquisition of Mabway. This foresight is now paying off. Our international learning defense business has grown by 395% and 75% organically. With global defense budgets on the rise, we are well positioned to secure upcoming contracts. What's more, the global space economy is poised for significant expansion in the coming years. This growth is driven by advancements in satellite technology, lower launch costs and increasing integration of space-based services across various industries including communications, transportation and defense.

Right now we are seeing a lot of activity in our space sector. We have numerous RFPs currently pending responses amid rising demand for space in Europe and growing attention in Canada given the Buy Canada Movement. In fact, there's significant growth and opportunity across both defense and space sectors, and Calian is uniquely positioned at the intersection of both. With shared technologies, overlapping capabilities and common demand for precision and reliability, the synergy between these sectors allows us to leverage our experience and drive innovation across these domains.

We are a company focused on innovation, increasing our R&D investment year after year. Artificial intelligence is transforming industry, and our company is actively embracing this change. We're investing in AI and embedding it across our products and services. And as a result, we are driving innovation, improving performance and delivering smarter, more efficient solutions for our customers. From automation to

advanced analytics, AI is helping us stay ahead in a rapidly changing technology landscape. Moreover, we are also encouraged by the growing Buy Canada Movement, which is gaining momentum across both public and private sectors.

As a Canadian company, we are well positioned to benefit from this shift, especially as customers and government entities increase and prioritize local suppliers who understand domestic needs, comply with Canadian standards and contribute to national economic resilience. This trend aligns well with our capabilities and footprint, and we believe it will create a new opportunity to expand our presence and deepen our relationships within the Canadian market. For example, in the Canadian defense sector, we not only want to capitalize on growing demand in training and healthcare, but also the OEM opportunity. Calian is one of a handful of Canadian companies with the breadth and depth to manufacture mission-critical military equipment when failure is not an option.

We design, build and test custom components to meet or exceed military performance standards across our plants located in Ontario, Quebec, Saskatchewan and Germany, and we want to drive growth here even further. Collectively, these actions position us well to navigate the path ahead, take the company to its next stage of growth and enhance shareholder value. Having said all of this, I am optimistic about the future growth because our company is built on a solid foundation. We maintain a strong balance sheet that gives us flexibility to invest strategically, a proven track record of execution and a successful M&A strategy supported by a robust pipeline. With a healthy backlog of now \$1.4 billion and a high free cash flow conversion, we are well positioned to capitalize on favorable trends in our end markets, an encouraging combination that sets the stage for continued success.

In Q2, we grew some businesses, as I mentioned, like International Learning and Defense, GNSS antennas and nuclear services by 395%, 22% and 91%, respectively. We signed \$248 million of new contracts, representing a book-to-bill ratio of 1.3 and stepped up our share repurchases. More recently, we refreshed our Board and completed the acquisition of AMS, which will position us for growth in the North.

In closing, despite some headwinds, we believe the company is well positioned for growth in the years ahead. Our strong fundamentals, strategic focus and disciplined execution gives us confidence in our ability to navigate challenges and seize emerging market opportunities. Above all, we remain committed to creating long-term value for our shareholders by building a more resilient, focused and future-ready business.

And with that, [Viktor], I'd like to now open the call to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will come from the line of Doug Taylor from Canaccord.

Doug Taylor^ I guess I'll start by asking some questions about the ITCS unit, which I'm sure will be the focus. It sounds like you've taken some steps already to buffer margins, understanding top line visibility isn't what you'd like for the reasons you've mentioned. But should we be thinking of Q2 as the floor here for that unit? Or is it too early to say that in terms of profitability based on what you can see and the expectation of some second half catch-up on some Canadian government stuff?

Kevin Ford^ Yes. Great perspective question. From my viewpoint, when I look at ITCS, Doug, I really see kind of a three-step process here from moving forward. So number one, as I mentioned, the platform conversion that we're working on right now I think it's going to take a couple of quarters to finalize the end of the calendar year. Our expectation will be well pretty well done that.

So that's going to help reduce some costs. Converting the funnel that we have, which is growing, it's quite strong. That, again is a timing issue. Then just the macro environment we're getting with the federal election getting -- coming on board the U.S. commercial environment. So in answering your question, I think the next couple of quarters is what it's going to take to get this thing back on a solid growth trajectory.

I want to reiterate my confidence in the strategy that the team has in doing exactly that. So it's not a quarter-by-quarter discussion. I think it's a couple of quarters, we'll continue to see some variability there. But the trajectory is strong. The trajectory is built on a solid strategy, and I'm confident in our ability to move that into the growth column.

Doug Taylor^ Maybe one more question on that. I mean the duplicate platform cost issue that you mentioned, given the pressure we've seen on the margins in that unit. Can you quantify what that part of the calculus is here versus the demand side?

Patrick Houston^ Right now several million dollars like from a cost perspective, Doug. So that's certainly something that was needed. We just had to do that to our in a better position to grow. But that is obviously a onetime thing. Once we're able to complete it, as Kevin mentioned, that should significantly help margins.

Doug Taylor^ Is that \$1 million in the quarter or is this an annualized figure?

Patrick Houston^ A couple of million for the year.

Doug Taylor^ Okay. That's great context. Then, I mean I do want to ask a question on the AMS acquisition, which is one of the highlights here. You talked about the backlog that, that business bringing in. I think just my understanding is \$250 million, which is -- appears pretty substantial relative to the revenue profile of that company. Is that -- so could you maybe expand, is that a single long-term contract? Is there growth anticipated for that business based on the contracts that you've got in hand? And I believe there's an earnout. And can you speak to what that's tied to?

Patrick Houston^ Yes. Great question, Doug. The backlog really is a combination of several relationships they have with many of the provinces in the north. So I think it just speaks to AMS has been there for almost 20 years, delivering healthcare. They're probably the strongest delivery partner in the north on healthcare for par medicine, and that was really the reason why we thought it would be a great fit to Calian. So long-term visibility. I think the growth is really going to be combining the two together and going after as North becomes more important for Canada, there's going to be a lot of new opportunities. I think the combination of Calian and AMS, I think positions us well to be the leader in that space. The earnout is tied to kind of EBITDA performance over the first year, and that's kind of pretty traditional for us, and we anticipate them meeting those numbers.

Operator^ Our next question comes from the line of Rob Goff from Ventum Financial.

Rob Goff^ My question is actually a bit more of a follow-up on Doug's. It's with respect to the ITCS, what will it take for you to have the confidence and the visibility that revenues will return to growth? You did talk about the pipeline, but we don't know the term of that pipeline. So just sort of asking you what triggers will give you that confidence?

Patrick Houston^ I think to me, the -- I think for me right now as you mentioned, the confidence is really going to -- I want to reiterate, I have confidence in the team. number one, I want to reiterate that. I know in a tough quarter, it may feel that that's not necessarily needed to be said. But I want to say it. I have confidence in the team. I have confidence in our leader, confidence in the team's ability. So number one, I have confidence in where we're positioning ITCS and the trajectory and the transformation we're under. The visibility, I think will come in as we look at that funnel, as you talked about, the conversion of that funnel.

Some of the macro areas, I expect the election will take another -- we'll see what the budget has for the Canadian federal election. We'll see if there's any confusion still with regard to priorities, which I don't think there will be. So I think the macro factors such as the Canadian government will start to unwind here now. We'll get a better sense of this government's priorities and spending. The macro environment in the U.S. is the question mark for me right now as to just where that goes in the next couple of quarters and as well the platform conversion.

So the confidence is going to be a combination of those elements where we've converted the platform, we have our customers on it. We see the macro environment in some of our key markets unwinding and then basically converting that sales funnel. We have a big push right now from our marketing engine to continue to work with our team on creating a very strong funnel. So -- and we're seeing some success there. So I think it's going to be a combination of factors, Rob, I think is one thing. I want to reiterate, I am confident in their team's ability and trajectory, and I know the numbers may not show that this quarter. But I think a couple of quarters out, we'll be very excited about where this segment is going.

Operator^ Next question will come from the line of Scott Fletcher from CIBC.

Scott Fletcher^ I will stick with the ITCS for my first question here. You gave us some good details on the underperformance, whether it was related to decisive or the U.S. markets. Is there anything you can -- any more detail you can share on how much of the decline was maybe on the U.S. side versus on the Canadian side, whether it was similar between the two or if one was maybe worse than the other?

Patrick Houston^ Yes. I'd say probably about a third of it was in the U.S. I think we did end the quarter with some backlog. So I think we are seeing some signs. But again it's hard to decipher exactly. So I think we did see some delays. I think in Canada, we did see some delays certainly around the election, but the team is working hard to try to recapture those in the next year. So some of it is temporary and the team is working hard to try to recapture.

Scott Fletcher^ Great. Then on those temporary delays, I mean those are pretty established relationships you have with the Canadian government. Are they giving you any type of signal that this is a timing difference that you can expect some of those seasonal Q2 strength to recur in the back half of the year? Or like have these folks -- yes, just anything that they've given you on that would be helpful.

Patrick Houston^ Yes. You're right. The relationships are deep. I think these are key projects for them. So I think there is confidence that those projects will happen eventually. I think a lot of it is getting reset with the new government, everyone getting their new budgets and then reassigning kind of those projects of high confidence, but I think the team is confident that those projects that we were working on will still be there.

Kevin Ford^ Yes. It's Kevin. I think for me, another thing that we're doing here is we're having a very proactive government relations campaign that I'm working with my team on right now. I'm spending a lot of time with this basically ensuring that as the government assesses priorities, spend opportunities, 2% GDP opportunities that they are very cognizant of Calian capabilities. We are uniquely positioned. There's no other company like us that can handle a multitude of missions or capability. I talked about the north. We talked about NORAD modernization.

So from my viewpoint, a good relationship, but we're not taking it for granted. We are going to go hard at government with regard to our value proposition across all of the priority areas. So I think that's -- I didn't mention that in my speech, but I want to reiterate to our shareholders that this is an opportunistic time and we're going to capitalize that on our Canadian footprint and ensuring our government understands that we are ready to take on more.

Scott Fletcher^ Okay. Then I'll ask one more on the portfolio review that you mentioned. You discussed noncore assets. You guys have a diverse set of assets here. Is there anything you can share as to what may be considered noncore? Or would it be sort of

outside of defense? It sounds like that would make some sense. Then would the IPCS business, would those be considered in the review?

Kevin Ford^ Yes. I think I prefer not to comment on specifics with regard to areas of what we consider noncore. The discussion -- we're in the middle of Board meetings right now. And as I leave this call the next discussion I'm having with our Board is just on our strategy update, where we think the opportunity is from a growth perspective.

So I prefer not to comment on specifics right now but I want to reiterate and reconfirm to the market, to our shareholders. This isn't a business-as-usual environment. We recognize that. We've had many great discussions with our shareholders. on the simplification of Calian. I believe we're a mission-critical solutions company when you look at what we do. And from my viewpoint, what we want to do is take that capability and point it -- continue to point it at markets that value that. That's where I'm looking at core, noncore is who values the capability for non-fail solutions. That's the discussion I'm about to walk into with our Board with regard to some of the work we've been doing to ensure that we are aligned to these markets. So stand by and nothing to comment on specifics right now but we have lots of discussions happening on exactly that question.

Operator^ Our next question will come from the line of Paul Treiber from RBC Capital Markets.

Paul Treiber^ Just a question on visibility in the near term and medium term. Specifically, could you comment on RPO and then also backlog and the timing for conversions on both of those? Because I think RPO for the next 24 months is up 36%. So how do you see that -- what's your expectation on the timing of the ramp or conversion of that RPO to revenue?

Patrick Houston^ Yes. I'd refer to the NDA, Paul, there's a disclosure on what we think the backlog that will burn off in the rest of the year. So I think we've got decent coverage, especially in our Health learning businesses. We've got good coverage. I think AC, we're certainly -- there are some orders we're trying to book in the second half, but those will be important. Then the backlog is strong, like we talked about this morning, it's up to \$1.4 billion. So going into next year, I think we're going to have as high as coverage we've had in many years.

Paul Treiber^ And secondly, just on nuclear, seeing really strong growth in that segment. How should we think about the size of nuclear in terms of quarterly revenue? Then just given the bookings in the quarter, what's the typical duration of nuclear bookings? And how quickly do they convert to revenue?

Patrick Houston^ Good question. I mean nuclear overall for the year, we should be well past \$30 million this year in that business, and that's a huge increase. If you think when we started this journey four or five years ago, that was a couple of million dollar business. So huge growth from that team. I think there's still a lot of upside, lots of investment in Ontario and across Canada really on nuclear. Strong signings this quarter.

We had almost \$20 million in signings in nuclear. I think usually those are -- think of Paul, probably about a year to deliver that. So I think the signings sets us up for another strong year next year.

Paul Treiber^ Then just lastly, just on the comment about looking at noncore assets, the - and without getting into specifics, but at the Investor Day you laid out good, I guess returns on acquisitions over time. So what would be -- what would you define at a high level in terms of noncore or nonperforming assets among acquisitions you made or even organic businesses?

Kevin Ford^ Yes. I think right now the -- where we see the opportunity and from our viewpoint right now with defense, as we've talked about defense, space, healthcare as being a primary focus, again that we feel there are segments that have tailwinds, there's spending as well as the ability to sell our mission-critical solutions capability into them, both domestically and globally.

So those clearly are going to take focus. We also have emerging markets that we're looking at, things in energy, for example, look at our nuclear business. It was a couple of weeks ago, I was crawling around the nuclear reactor, meeting with their executive team and the value that we're providing.

So for us right now we want to capitalize on what I think are definitely mid- to longer-term tailwinds in areas of space, defense and health. We also want to continue to position the company for long-term growth in emerging markets that we believe will value and consume mission-critical solutions.

So that's areas such as energy. So this is all areas. And noncore for me, Paul, will be something we're going to continue to assess. And it doesn't necessarily mean noncore is something that we would shut down. I think it's more a matter of areas that we just want to make sure that our investment is pushed into those growth assets. That's the focus right now make sure that we get those right. With those being right, the trajectory of Calian remains very strong.

Operator^ Our next question will come from the line of Jesse Pytlak from Cormark Securities.

Jesse Pytlak^ Just on the \$1 billion pipeline in Europe for defense opportunities, can you just speak to the composition of that pipeline? Is it a few large potential deals or a larger collection of smaller opportunities?

Kevin Ford^ Yes, great question. It really is -- it's exciting actually because it's a combination of -- when I look at the portfolio in Europe right now and as I mentioned, we hired Major-General (Ret.) Roch Pelletier to come on board now. I had a briefing from him recently on the opportunity, the strong team we have in Europe already. We've decided a Managing Director.

So number one, the pipeline is right across Europe and the U.K. It includes NATO, European countries and U.K.-based opportunities. Number two is the funnel is a combination of, I would say transformational opportunities for Calian with regard to larger opportunities, long-term programs and a combination of smaller opportunities that establish our presence and allow us to continue to grow in that region.

So it's exciting. It's good to see it. It's validated. You tie that in with the Canadian opportunity that we think will emerge as the government gets organized now around this 2% of GDP, let's be clear, Defense will be a focus for Calian moving forward. These are validated pipeline opportunities that our team is now maniacally focused on ensuring we have our highest to go after and close.

Jesse Pytlak^ That's helpful. Then maybe just moving over to your comments you made on the opportunities that you're seeing in space. Can you just speak to what may be service or product areas you're seeing the majority of that activity in?

Kevin Ford^ Yes, great question. From my viewpoint and probably one of the areas that we've got to continue to work from a Calian perspective, to be honest, on our brand is we are a center of excellence in space for everything ground-based to the sky. So we talk about our strategy of wanting to own the ground to the sky. Our ground infrastructure, our software solutions, our [orbit] solutions, our communication products are all about connecting the ground to the sky.

We've been doing this for over 50 years. And I don't think we're recognized enough globally as a center of excellence. That's something we're working on with Valerie and our team there, a great space team. So number one, we want to own the ground to the sky. We will not build satellites. We're not a satellite operator, but we will own the integration and the solutions required for those networks to work, whether it's LEO, MEO, GEO, we are well advanced now in talking to many companies about whether it's our teleports, whether it's our software solutions, our ground-based antennas, we are uniquely positioned to grow in that marketplace as a global leader in ground-based solutions.

So that's our role. And frankly, we stand by. We're going to get more aggressive on this with our tone as well as our market presence in that. So very exciting times there as well.

Operator^ (Operator Instructions) Our next question will come from the line of Benoit Poirier from Desjardins.

Benoit Poirier^ First question, in terms of revenue growth, you broke down the revenue growth between ITCS and the rest of the business, so minus 25% versus plus 7%. So if you would look at organic growth, could you maybe break down the same? I'm just trying to see what would be the implied organic growth, excluding ITCS. So I don't know if you can share those numbers.

Patrick Houston^ Yes. I think Benoit, for non-ITTS, it was slightly positive. I think it was 1% or 2% for organic. I think that should increase here in the second.

Benoit Poirier^ Perfect. In terms of SG&A, when you mentioned the potential to optimize your cost structure. So you mentioned some color about the platform conversion. But when I look at SG&A, was mostly up from \$40 million to \$45 million. So could you quantify what's kind of the potential to reduce SG&A going forward? And also when we look inside the corporate costs, what we call shared services, also reached \$11.6 million. So I was just wondering whether there was something nonrecurring? Or is \$11.6 million a sustainable number going forward?

Patrick Houston^ Good question. We -- I mentioned, I think in my remarks that we did some reductions. So we are looking at everything, like I think when you're in these modes like just on us to go through all of our expenses, make sure we're investing in drive growth. We've made some adjustments. So I think that will help kind of get the margin.

Kevin Ford^ Benoit, it's Kevin. We continue to invest as well with our Mike Mulder and his team on process efficiencies, technology, leveraging AI and our own internal processes. So we continue to have a focus on efficiency on corporate operations. So I just want to reaffirm that it's not business as usual, to make sense of word the team is both on cost reduction, but also process efficiencies is where we continue to focus.

Benoit Poirier^ Okay. With respect to the acquisition of AMS, could you talk maybe about the historical growth profile at AMS and maybe more detail about the cross-selling opportunities. You made a few comments in the opening remarks, but I was curious to maybe get a little bit more granularity on those cross-selling opportunities.

Patrick Houston^ Yes. I think there's certainly consistent organic growth. I mean the big step function has been when they've been able to expand into new territories and secure those long-term contracts. So I think that's really what's driven the growth. I think going forward, that's going to be similar. We're going to try to expand, get more footprint, and that should be significant step functions in the growth.

Kevin Ford^ Yes. I think Benoit, it's Kevin. This is an exciting acquisition for us. number one, we haven't done an acquisition in 12 months. I just want to reiterate, I think that demonstrates our disciplined M&A engine. We've been looking at a lot of different opportunities and closing on this one met all of our criteria as far as not just the financial metrics, but strategic metrics. So we're excited to have AMS as part of the Calian family.

If anyone is looking for us, welcome. We'll have our welcome in the next couple of days here. But when you think about the discussions that are happening in this country right now about the North, we saw this as a fantastic opportunity for us to strengthen our presence for our health business for sure, because we have been working in that area, but this will strengthen it.

Our relationship with indigenous communities is strengthened, and we're excited about that. And now as I talk about our discussions with government in areas such as North and NORA modernization and defense, how better positioned are we now as Calian to talk

about our ability to support the growth in the North for whatever the purpose may be. So I think it's exciting. It's not just for our health business, it's for health, it's for our defense footprint. In a value Canadian mindset, I think this is just so well timed for us to strengthen that message to the current government.

Benoit Poirier^ Okay. In terms of capital allocation, you mentioned in the presentation that you want to reassess priorities. Obviously you've been active on buyback, M&A. So any thoughts about potential scenarios that you're looking at right now?

Patrick Houston^ No. I think for the balance of the year, I think it's going to be both of those, Benoit. So the M&A, we still have lots in the pipeline. So we're still working to close our next deal now that we've got AMS closed. I mentioned the buyback, we'll be accelerating that. We plan on buying up to 6% of the shares here this year and then we'll reassess going into the next year.

Benoit Poirier^ Okay. And given today's announcement, do you still plan on expanding in the U.S. as announced earlier? And I understand the guidance is withdrawn, but any thoughts about whether the fiscal year '26 targets mentioned earlier at the Investor Day so \$1 billion in revenue and \$125 million in EBITDA still achievable?

Patrick Houston^ Yes. On the U.S., we're still going ahead. I think there's still some -- we've got some really interesting products that have some interesting opportunities in the U.S. that we're still going at specifically in our Space segment. So I think those are still opportunities that we're pursuing.

Kevin Ford^ Yes. I think from my viewpoint, Benoit, the U.S. Clearly, right now if you look at our geographic footprint between Canada, Europe and the U.S., we're seeing obviously really strong opportunities in Canada, very strong opportunities in Europe, as I mentioned, but also very strong opportunities in the U.S. I think we're all just trying to work through the current macro environment there and understanding how a Canadian company can compete in that market. That being said, our team in the U.S. continues to find and close exciting opportunities, whether it's our Teleports based in Hawaii and Guam, our space discussions, our positioning in the defense marketplace and then our commercial focus now as we repivot into more of that Microsoft cyber capability.

We still believe the U.S. is a good long-term market for Calian. We obviously are working through what many companies working through right now just on the macro turbulence that may be in that market. But frankly, our team is still at it and we still see opportunities there. So we will invest. We will continue to invest. But we want to make sure in the short term that we're really operationally focused on those areas that have the short-term tailwinds that we've talked about in defense space in those areas.

So absolutely, we'll continue to be in the U.S. We'll continue to focus in the U.S., and we'll make sure that we're prioritizing investments in all our geographies based on the opportunity funnel.

Operator^ I'm not showing any further questions in the queue. I would now like to turn it back over to Kevin for closing remarks.

Kevin Ford^ Thank you, [Viktor]. I appreciate you facilitating today's call. I want to thank everyone for attending. We look forward to providing an update in the next quarterly call. You have the CEO that's very excited, obviously a tough quarter. But in the same construct, very excited about the position we have going forward, very excited about our footprint, very excited about our foundation. I know that I speak on behalf of the 5,000 people that are committed to continue to take this company to new heights. So looking forward to giving you that update next quarter, and I appreciate the time today.

And with that [Viktor], we can close the call.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone have a great day.