Calian Group(Q3 2026 Earnings)

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Corporate Speakers:

- Jennifer McCaughey; Calian Group; Director of Investor Relations
- Patrick Houston; Calian Group; Chief Executive Officer
- Will Majic; Calian Group; Acting Chief Financial Officer

Participants:

- Nicholas Boychuk; ATB Cormark Capital Markets; Analyst
- Sam Schmidt; CIBC; Analyst
- Rob Goff; Ventum Financial; Analyst
- Benoit Poirier; Desjardins; Analyst
- Paul Treiber; RBC Capital Markets; Analyst
- Gregory MacDonald; Stifel; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Calian Group Third Quarter 2026 Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today Jennifer McCaughey, Director of Investor Relations.

Please go ahead.

Jennifer McCaughey^ Thank you, Marvin. And good morning, everyone. Thank you for joining us for Calian's Q3 2026 Conference Call.

Presenting this morning are Patrick Houston, Chief Executive Officer; and Will Majic, acting CFO. They will walk you through our Q3 results, provide insights into the performance of our various businesses and share our outlook for the remainder of the year.

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 Patrick.

Patrick Houston^   Thank you, Jennifer. And good morning.

We delivered an exceptional third quarter, achieving year-over-year growth that significantly exceeded any prior Q3 performance.

Importantly, this growth was delivered from a meaningful larger revenue base, making the magnitude of the results that much more important.

Revenue grew 20% year-over-year including 16% organically, driven by the continued strength of our Defense and Space Solutions portfolio and strong results from Essential Industries. This top line growth translated into significant operating leverage with adjusted EBITDA growing 35%, meaningfully outpacing revenue growth. The result reflects the combined benefits of higher volumes, stronger execution and a more focused and efficient operating model.

We secured $168 million in new contract signings, bringing our year-to-date total to $660 million.

We also recently announced a 15-year agreement valued at close to $300 million with Raytheon U.K., a landmark contract that reflects the trust of our defense partners placed in our capabilities.

This puts us on track for a second consecutive year of bookings exceeding $1 billion.

Taking all these transactions into account, our pro forma backlog approaches $1.6 billion with approximately $1.3 billion of that in defense. Beyond strong financial performance and strong signings, we've also continued to take steps to strengthen our portfolio.

At the end of June, we entered into an agreement to acquire Galaxy Broadband, further strengthening our portfolio in areas closely aligned with our strategic priorities.

With our supported by strong fundamentals and a growing backlog, we have built a compelling foundation to deploy additional capital and drive sustainable long-term growth.

Now a few words on our operations.

Let me begin with Defense & Space.

Our Defense & Space segment continues to perform exceptionally well. The results reflect both disciplined execution against our long-term strategy and the significant tailwinds across our end markets.

In Q3, the segment delivered 20% revenue growth.

Nearly all of it was organic. Approximately half of that organic growth came from our technology solutions across both Defense and Space.

Importantly, this performance is not simply a function of favorable market conditions.

It reflects deliberate investments we've made to strengthen and expand our product capabilities, and those investments are now translating into meaningful growth. The adjusted top line performance translated into 25% year-over-year growth in adjusted EBITDA.

I'd like to take a moment to provide a bit more color on the two recent strategic developments I mentioned earlier, our 15-year $300 million contract with Raytheon and our agreement to acquire Galaxy Broadband.

On August 11, we announced a 15-year agreement with Raytheon U.K. to support the British Army's collective training program.

It's set to begin in October 2026, following the conclusion of the current project NUMIDIAN contract.

It provides nearly $300 million of contracted base revenue over the term with an additional variable component of comparable potential consistent with the structure of our existing agreement.

This is one of Calian's largest defense training programs as the renewal deepens our commitment to allied military readiness across the U.K. and Europe.

It's a strong validation of the trust our defense partners place in Calian's expertise.

On June 25, we announced a definitive purchase agreement to acquire Galaxy Broadband Communications, a Canadian leader in satellite communications and remote connectivity solutions. Galaxy is a highly strategic fit for Calian. The company has built a strong reputation in delivering reliable connectivity to government, Ascent and critical industry in remote communities across Canada.

Its satellite communications and multi-orbit expertise directly complements our existing capabilities while significantly expanding our ability to support customers operating in complex and remote environments including the Arctic.

On August 11, Crown Capital debenture holders approved the transaction, clearing an important milestone towards closing.

We expect the acquisition to close in the coming weeks, subject to the completion of the remaining closing conditions.

Beyond our core operations, we're taking deliberate steps to expand Calian's role as an innovation partner, bringing together advanced technology, deep integration expertise and real-world operational experience to solve some of our customers' most complex challenges. Three announcements this quarter, I think that reflect that ambition.

First, we launched ATHORA, a sovereign system of systems interoperability and orchestration platform built to accelerate military readiness and capability integration across D5 ISRT environments, marking Calian's evolution from service delivery to purpose-built defense platforms.

The second I'd mention is the announcement of a cooperation with Cohere to evaluate and integrate sovereign AI solutions in defense environments, positioning Calian at the forefront of responsible AI adoption for our defense customers. And third, we announced the formation of Calian's first integrated Arctic Maritime Security Consortium, uniting six Atlantic organizations to deliver end-to-end maritime capability in support of Canada's evolving defense priorities.

Taken together, these initiatives are more than a series of announcements. They're deliberate building blocks in our strategy.

We're expanding Calian's role in the defense ecosystem and positioning the company to compete for and win larger and more complex opportunities as Canada and its allies accelerate investment in next-generation defense and security capabilities.

The Defense & Space segment is performing at a high level, and we believe we're still in the early stages of the opportunity ahead.

Strong organic growth, landmark contract wins, the contribution from strategic acquisitions and a growing innovation portfolio give us increasing confidence in the long-term outlook.

We are investing to match the scale of the opportunity and expect Defense and Space to remain a significant driver of profitable growth for Calian in the years to come.

Let me turn to Essential Industries.

Our Essential Industries segment continues to build meaningful positive momentum with improvements across both revenue and margin. This progress is being driven by strengthening market fundamentals, better execution across our teams and the successful integration of acquired capabilities into the broader Calian platform.

In Q3, revenue increased 20%, reflecting strong organic growth.

What began as a modest start to the year has steadily strengthened.

Organic revenue growth accelerated to the high single digits in Q2 and crossed into double digits in Q3. This trajectory reflects improving demand primarily across our U.S. commercial business and nuclear services.

On the acquisitive side, AMS has been a meaningful contributor to the quarter and has provided -- proved to be a strategic asset for this segment.

It has meaningfully expanded our presence in the Arctic, a region of growing importance to our customers and to Canada more broadly and provides a compelling platform to advance our longer-term strategy in this critical geography.

On profitability, adjusted EBITDA increased 46% in Q3, with margins approaching 8%, on track with our target to exit FY '26 in the high single digits.

On a year-to-date basis, revenue increased 21% and adjusted EBITDA was up by 59%, demonstrating the operating leverage embedded in this business.

Looking forward, I want to highlight several recent Canadian government sovereignty announcements that we believe are positive demand signals for this segment, specifically for our health and nuclear service businesses.

On the health side, the Canadian government has announced increased recruitment initiatives for the RCMP, CBSA and other frontline public safety organizations.

As these agencies work to expand their workforces and address staffing shortages, we expect this to translate into demand for our health services platform.

Our national healthcare capabilities are well positioned to support these agencies, and we see this as a durable long-term tailwind for the business.

On the nuclear side, Canadian government's nuclear energy strategy which includes plans to develop up to 10 new reactors over the next 15 years, represents a potentially transformative long-term opportunity for our nuclear services business. The scale of investment contemplating this strategy is significant and with our established expertise and deep industry relationships and proven capabilities in the nuclear sector, we believe Calian is exceptionally well positioned to be a meaningful participant in Canada in supporting Canada's nuclear ambitions over the coming decade and beyond.

I'll now turn it over to Will to discuss Q3 financial results. Will?

Will Majic^   Thank you, Patrick.

Our third quarter results reflect what happens when disciplined execution is a favorable market environment. Q3 was a record quarter with double-digit revenue and adjusted EBITDA growth and organic growth at its highest level that we've seen in several years.

Now let me walk you through some of the highlights. Q3 revenues increased 20% to $230 million, a record quarterly high, reflecting strong execution across both of our operating segments, Defense and Space and Essential Industries.

Of this amount, acquisitive growth contributed approximately 4%, driven by the partial quarter contribution of AMS which we closed in May 2025 and Infield Scientific which closed in October 2025.

Organic growth was more compelling, delivering 16%, a double-digit performance that was driven across both segments and reflects the strong momentum we have been building in the first half of this year.

At a high level, organic growth in the quarter was driven by stronger-than-expected demand for our technology solutions, complemented by a timing benefit as a portion of the activity originally anticipated in Q4 was accelerated into Q3.

In Defense & Space, the Canadian National Defense was a key contributor again this quarter, deepening its reliance on our capabilities across operational readiness, IT and cyber and healthcare. This ongoing partnership reinforces our position as a trusted mission-critical partner.

Our GNSS product portfolio also saw strong geographically diversified demand, a direct reflection of our targeted marketing efforts.

In Essential Industries, our U.S. commercial operations maintained the momentum built in the first half of this year, achieving year-over-year growth for the third consecutive quarter, a clear validation of our turnaround strategy and the leadership who is driving it. Nuclear Services also saw positive organic growth in the quarter.

Stepping back, Q3 marks our fourth consecutive quarter of positive organic growth and our second consecutive quarter at double digits. Q3 gross profit increased by 17% to $78 million as compared to $67 million for the same period last year and represents a record third quarter high. This increase reflects revenue growth, changes in mix and contributions from recent acquisitions.

Q3 adjusted EBITDA increased 35% to $26 million, significantly outpacing top line revenue growth. This was driven by strong top line performance, combined with the gradual pace at which investments in Europe are ramping which tempered costs in the quarter.

And as a result, adjusted EBITDA margin reached 11.1%, up from the 9.9% for the same period last year.

Turning to cash flow and capital deployment. That strong operational performance translated into the cash flow statement, reflecting our continued ability to generate and retain cash within the business.

In Q3, we generated $24 million in cash flow from operations compared to $25 million for the same period last year. This slight year-over-year decrease was primarily attributable to higher working capital requirements, specifically an increase in accounts receivable which offset the benefit of improved profitability.

Let me walk you through the key working capital dynamics we experienced in the quarter.

As we outlined in Q2, we made a deliberate short-term investment in working capital in order to capitalize on a period of heightened demand for technology solutions. That strategy played out as anticipated as we saw meaningful cash conversion of those receivables in Q3.

However at the same time demand for technology solutions remained robust throughout the quarter which led us to continue to extend working capital to capitalize on that growth.

I want to be clear on the nature of this movement. This is entirely a revenue growth and timing dynamic.

It is not structural.

We are observing in the balance sheet is simply a short-term impact of the rapid demand we have been addressing.

Our DSO profile and customer credit quality remain consistent with prior quarters and remain very healthy.

As we have communicated previously we expect working capital to scale in line with revenue growth.

Looking beyond the working capital dynamics, the underlying cash generation story is compelling.

Operating free cash flow increased by 46% year-over-year to $18 million, reflecting solid cash conversion at 69% of adjusted EBITDA.

On a year-to-date basis, operating free cash flow increased 57% to $55 million with a cash conversion at 72%. These results demonstrate the quality of our earnings and the ability to generate meaningful cash from our core operations even as we continue to invest in growth and work through acquisition integrations.

Optimizing working capital efficiency and sustaining strong free cash flow generation remain key priorities as we close out the year.

Turning to capital deployment.

During the quarter, we used cash on hand to support key investments and priorities.

We funded $3 million in capital expenditures, reinforcing our investment to ongoing growth initiatives and returned $3 million to shareholders through dividends.

Share repurchases were not a priority this quarter. These actions are consistent with our balanced capital allocation framework, investing in the business to drive long-term value while maintaining a disciplined return of capital to shareholders.

On the M&A front, while no transactions were closed in Q3, we expect to close the acquisition of Galaxy Broadband within the next few weeks.

Now I'll take a look at the balance sheet.

As of June 30, 2026, we had drawn $141 million on our debt facility, reflecting a decrease of $26 million from Q2.

We closed the period with net debt of $95 million, resulting in a net debt to adjusted EBITDA ratio of 0.9x, providing us with flexibility to act decisively on near-term opportunities.

With compelling growth dynamics across defense, space, nuclear and health, our focus is squarely on capitalizing on the opportunities these markets present. To do that, we are taking a deliberate look at our capital structure to ensure it is aligned with our growth ambitions, and we remain open to leveraging all available means to put capital to work where we see the greatest potential.

Now let's turn to fiscal '26 outlook.

Our outlook for fiscal '26 has strengthened again since last quarter, reflecting an encouraging upward trend since the start of this year.

Our long-term growth targets remain unchanged, where we are targeting annual revenue growth of 10% to 15%, driven by a combination of organic expansion and strategic acquisitions. This is consistent with our historical track record which stands at 12% revenue CAGR over the past decade.

Consistent with that long-term framework, for fiscal '26, we expect revenue growth in the mid-teens and adjusted EBITDA growth in the low 20% range. This performance would represent another record year for Calian and further demonstrate our ability to translate top line growth into even stronger earnings growth.

Achieving these objectives and building the foundation for what comes next requires us to invest ahead of the opportunity. Winning in our target markets means showing up as a capable, well-resourced partner with the talent, infrastructure and technology to execute at scale.

We are making focused commitments in Europe and Canada to accelerate our product portfolios as well as position ourselves for larger opportunities. The pace of these investments will accelerate in Q4 and into fiscal '27.

From a capital deployment perspective, we expect working capital usage to track in line with revenue growth and should finish the year in the $15 million to $17 million range. CapEx is anticipated to be slightly north of $10 million, supporting both ongoing operations and targeted growth investments.

Our dividend policy remains unchanged for the remainder of the fiscal year.

On the M&A front, note that as AMS reached its 1-year anniversary in our portfolio, it will no longer be reflected as acquisitive growth beginning in Q4, and its results will be fully absorbed into our organic baseline.

Now turning to our near-term activity.

We expect to close the acquisition of Galaxy Broadband within the next two weeks for an upfront payment of $24 million. Given the timing, its contribution to Q4 will be modest. Combined with the earlier closing of Info Scientific, we will have deployed approximately $35 million in upfront capital this year or roughly $50 million inclusive of earn-outs.

While our total capital deployment fell short of our initial ambitions, this was the result of several factors: market conditions, timing and above all else, our disciplined approach to ensuring we transact at the right targets at the right valuations.

That said, we are actively working to increase the pace of acquisitions.

Over the next 12 months, we see an opportunity to deploy capital more actively as we move with greater urgency to strengthen our capabilities and position the business for the opportunities ahead. To support this, we are continuously evaluating our capital structure to ensure we maintain the financial flexibility and liquidity needed to act decisively when the right opportunities present themselves.

Our pipeline remains robust with multiple active discussions underway and some in advanced stages.

We are optimistic about completing additional strategic transactions in the coming quarters.

As we have previously communicated, M&A remains our highest capital deployment priority.

We will continue to pursue targets that meaningfully expand our capabilities and broaden our market reach, meaning transactions that we are confident will create long-term value for our shareholders.

We remain open to resuming share buybacks on an opportunistic basis, subject to market conditions and our broader capital allocation framework.

As always, our priority is to ensure capital is deployed where it can generate the greatest long-term value for our shareholders. And to that end, we intend to renew our NCIB when it comes due at the end of this month, subject to the TSX approval.

We view the annual renewal of the NCIB as a matter of course ensuring this tool remains available to us should conditions make its use appropriate.

In summary, we entered the final quarter of fiscal '26 with strong momentum and a clear line of sight to a record year.

Our financial position is strong.

Our approach to capital allocation is disciplined and the opportunity ahead is significant.

We are focused on delivering today while continuing to build the capabilities, scale and our platform.

I will now turn the call back over to Patrick for closing remarks. Patrick?

Patrick Houston^   Thank you, Will.

Before we take your questions, let me take a step back for a moment. Three quarters into the year, the results are compelling. Revenue is up 17%, organic growth at 11%, the strongest we've delivered in years. Adjusted EBITDA is up 41%, fourth consecutive quarter of record results, and each one delivered off a larger base than the last.

The numbers are a reflection of our evolving strategy.

What we're doing is repositioning Calian.

We've concentrated our capital in mission-critical markets and moved from delivering services to building platforms.

We've added capability where our customers are heading the Arctic, sovereign AI, multi-orbit connectivity and nuclear.

We've anchored a 15-year relationship with Raytheon U.K. that extends our defense footprint well into the next decade.

The result of the business with a pro forma backlog approaching $1.6 billion and a pipeline of opportunities in front of it that is larger than anything we've seen in this company's history. That is why we're investing ahead of the curve. The demand signals in defense, nuclear and health are not cyclical, but rather multiyear government-backed commitments.

Our job is to be ready to compete for that work at scale, and we intend to be.

Finally, I want to thank our employees across the globe. Records like these ones are not produced by market. They're produced by people who execute quarter after quarter for customers who depend on them. Thank you.

With that, Operator, we'd be happy to take questions. And I'll pass it over to Marvin, who will lead the session.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Nicholas Boychuk of ATB Cormark Capital Markets.

Nicholas Boychuk^ I want to start the questions first on the new U.K. contract you signed this week with Raytheon. Just a little bit of an overview, specifically what it is you guys are offering, the history and background with that relationship, if it is something that's a follow-on order. The pace and the scheduling of the $296 million, if it's evenly throughout the 15 years or if there's some sort of a cadence to it. And you mentioned that there's a little bit of a variable upside.

Just curious what unlocks that and what the magnitude of that could be?

Patrick Houston^ We've been working on this renewal.

If you remember, this was originally the acquisition we did of Mabway about 3.5 years ago which includes the work we've been doing with the U.K. MOD doing the land forces training.

So it's been a successful acquisition and a successful delivery from the team there. This is kind of the evolution of that as the MOD has consolidated some of these training platforms.

So we've worked with Raytheon U.K. to do that.

So this puts us and Raytheon in place to do the same work we've been doing for the next 15 years. The structure is similar to the past where there's a base commitment of capacity. And then every year, we kind of plan out what the variable activity is and that drives that component.

We'd expect that component to probably be approximately the same size as the base level.

Nicholas Boychuk^ Sorry, just to confirm, so the variable component could effectively be a doubling of the $296 million over 15 years?

Patrick Houston^ Correct.

Nicholas Boychuk^ Okay. And then on the organic outlook that you're referring to in the space and antenna business, I'm curious if you're seeing any change in either activity, be it size of contract, terms, deliverable requirements on your part? Just how the outlook for that over the rest of the year looks?

Patrick Houston^ For the rest of the year, I think it's unchanged.

I think going forward, I think one of the dynamics is we're seeing larger programs in Canada which has been a new development, mostly driven by the defense investments and the inclusion of space and the programs there.

So I think that's a much more positive outlook that I think it will be a driver more in the midterm. And internationally, we've continued -- we announced a big program in the Middle East last year, and the team is working on delivering that, and we're in the early stages of that, but I think that will continue into next year.

Nicholas Boychuk^ Okay. And just last for me on the size. You mentioned you're competing on these larger and more complex opportunities.

I'm curious if that ties into your M&A strategy and whether or not having more scale in certain platforms benefits you in terms of how you'll win and bid on these opportunities and what that might mean in terms of the pace of M&A, but also the size of opportunities you'd be looking to bend in.

Patrick Houston^ It's a great point.

We're trying to address that really in three ways. The first is just the organic investments we're making into our own platforms.

I think you saw us talk about ATHORA, and there's a multitude of other ones we're making.

So I think that's important so that we can bring more comprehensive solutions to these opportunities.

The second one is kind of the partnership and ventures models that we've launched.

We're trying to bring other like-minded companies that can complement and bring a more comprehensive solution. And the third one is the one you mentioned on M&A.

We are continuously looking for assets that will complement kind of the capabilities we have today allow us to go after larger opportunities.

And I think in this market right now scale will be rewarded.

So we are -- to Will's comments, we are trying to prepare ourselves so that we can accelerate the pace, we can find strong ideas that we can deploy capital on and build more scale that will be rewarded over the longer term.

Operator^ Our next question comes from the line of Stephanie Price with CIBC.

Sam Schmidt^ It's Sam Schmidt on for Stephanie Price. Nice to see the Raytheon contract announced this week. Are there any other kind of larger contracts in the pipeline that are coming up for renewal over the next year or so? And can you talk a bit about Calian's level of visibility and confidence into securing those renewals and maybe also whether you see opportunities to grow those contracts on renewal?

Patrick Houston^ I wouldn't say there's any of the major ones that kind of anchor some of our relationships are coming due in '27.

I think you have to look beyond that like '28, '29 to start to see some of those come up.

So I think that's the timeline on some of the major contracts.

Sam Schmidt^ Okay. That's helpful. And then maybe just a follow-up.

Can you share an update on Calian's initiatives to expand the footprint and capture defense spending in Europe?

Patrick Houston^ Yes.

I think we mentioned that on the last call that this was a point of investment.

I think we've seen just continued growth. This has been mostly a 4-year journey, starting with a few small acquisitions that have built on top of each other and driven kind of strong double-digit organic growth.

So we've gone back to that team and looked at how do we invest more business development support to go after more opportunities in the places we are today but in also new geographies in Europe.

So I think we're at the early stages of those investments, but we're hopeful they'll start to pay off here into next year and beyond.

So stay tuned.

But certainly, we're building on momentum there. And certainly, the defense spending pace that we've seen in Europe, I don't think it's going to slow down here in the next couple of years.

So we're trying to position ourselves to respond to that.

Sam Schmidt^   That's helpful. And then just one more for me.

It was nice to see the raise '26 outlook. How should we think about the sustainability of this growth level? And can you share some color on the timing benefit to organic growth in Q3 that you mentioned in the prepared remarks and how we should think about organic growth for Q4?

Will Majic^   Yes. I'll take that one.

I think our outlook still kind of remains longer term in our mid-single digits from an organic perspective.

We were able to capitalize on a few things in the quarter.

One was timing.

So that pulled some of the amounts from Q4 into Q3.

And then we were also -- there's a part of the demand that we're seeing this year for some of our technology solutions that's a little bit less predictable. You saw that pretty significantly in Q2, and we continue that in Q3 here. That's not one that we can bank on every year. When we see that come up, we're able to rapidly go and address that need for the customers, but it's not something that we can bank on every year.

So I'd say from an organic perspective, we're still targeting that longer term midterm around mid-single digits from an organic perspective.

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

Rob Goff^   Congratulations on the quarter, a very significant beat on the quarter.

Well done.

In terms of building on the organic growth and capturing the opportunity, how do you look at scaling up? Will the OpEx investments be coincident with the growth? Will there be upfront investments?

Or how do you see the two being married together?

Patrick Houston^ Good question.

I think I look at it more broadly.

I've challenged the team going into next year and the year after to say how do we think about this company to try to capture larger opportunities and drive long-term sustainable organic growth.

So that goes between what's the delivery model and platform we need to respond with the business development team and sales to capture these opportunities, what the balance sheet and capital structure look like that allows us to take advantage of these.

So I try to challenge the whole team to look at every single part of this business and say let's position ourselves so that we can respond to these.

So I think it's a broader one. To your point on timing, like inevitably, some of it has to be ahead of the revenue in order for us to make sure we can capture these larger opportunities.

Obviously we'll do it in a disciplined way.

But I think that's the plan we have.

Rob Goff^ And perhaps a tougher question.

With the government looking to spend just so much more, how do you see the government streamlining the process to commercialization of budget commitments?

Patrick Houston^ Yes. That's -- I'll speak to Canada specifically. Like that's been an evolving mandate.

I expect to see the Defense Investment Agency be named a department here in the fall once the government comes back.

I think that's a positive signal.

I think they're trying to streamline the ability of policy to turn into industry engagement and procurement.

So still lots of changes there, but I think they're positive.

I think they're trying to accelerate. You certainly saw that momentum last year to get to the 2%.

I'm confident they'll meet that and exceed that again this year. And then it's how do they establish a platform to continue to do that into the years to come because this is not a 1- or 2-year thing, but rather a decade investment.

And we're certainly engaged at all levels to try to understand what the process will look like going forward and how we can best respond.

Rob Goff^   And one just quick question.

With respect to contracts that you're seeing in the marketplace, are you finding that the duration of those contracts is typically being extended?

Patrick Houston^   I wouldn't say there's been a drastic change yet.

I think what they are looking for is a combination of value, sovereignty, economic impact in Canada and matching the need going forward.

So I think they're looking to see how do they get all those things when they procure the next service or platform.

So certainly, that's where it comes back to how we can deliver what -- how we can partner to make sure that our offer kind of meets all of those criteria.

Operator^   Our next question comes from the line of Benoit Poirier of Desjardins.

Benoit Poirier^   Congrats for the strong results. Yes. Just in terms of overall backlog, slightly down quarter-over-quarter, but it doesn't include the recent contract extension with the British Army. When we look at the defense and space market, obviously very strong macro backdrop.

So I would be curious if you could maybe qualify or quantify your bidding pipeline in light of the strong environment we see.

I feel that you have more discussion than you've been having in the past.

So just curious to know more about the bidding pipeline.

Will Majic^   Yes. Thanks, Benoit.

I think from a pipeline perspective, we're seeing just both with the market conditions and the scale of our business, like we're seeing larger opportunities that we're going after.

I think that's what Pat's mentioning, like we're going to need to continue to make investments in the business to capitalize on those larger opportunities.

But those are there, and we see those continuing in the pipeline.

I think those are -- that's been a positive for us.

Benoit Poirier^   Okay. Great color. And just in terms of organic growth, obviously very impressive.

But if we look specifically for essential industry, the volume was driven by U.S. commercial operation which tends to be less predictable.

So if you were to exclude that, what would be kind of the overall organic growth? And is there any change in terms of your view around some potential divestitures?

Patrick Houston^   Sure.

I look at the organic growth over a longer period, Benoit.

I think that's an easier way to talk about the trending.

Obviously Will mentioned earlier, we're targeting high single digits. This year, we're delivering much better than that.

I think the team is executing well so we should deliver better than that performance. Going into next year, it's how do we set ourselves up to do that again.

On the divestiture, I think I mentioned it last quarter, like we said, we've taken an effort to do the portfolio review to look at various assets and that we come to a conclusion here at this point in the summer.

So I think that's still on track.

Benoit Poirier^   Okay. That's great. And in terms of shared services, it increased 16% year-over-year, driven by increased headcount, but slightly down on a percentage basis.

So how could we look at the shared services going forward? And you mentioned that we should expect an increased pace in terms of investment.

So is it more in terms of CapEx? Any thoughts about where we could see those higher investment gentlemen?

Will Majic^   Yes.

We've been investing to grow the business.

I think that's been reflected both in the top line and both combined with our EBITDA and EBITDA percentage.

So we do take investments from a shared services perspective.

I think take a step back then looking forward, we have been making some pretty targeted investments to try and see how we can get more efficiency from cost perspective.

So just this last month, we put in a team. This is a new team that we've created here at Calian to try and drive efficiency. That's going to be a near-term cost for us, but will result in some savings in the kind of mid- to longer term. This is a team that's going to be focusing on process that's going to be looking on how do we automate, how do we get more efficient, how do we lean out process, implementing AI. This is going to be a big focus for us going into next year.

Benoit Poirier^   Okay. That's great. And last one for me in terms of M&A, you're looking to increase the pace of M&A.

So any comments you could provide in terms of where do you see the greatest amount of opportunity, whether it's defense space or essential industries or any color about the geographic regions that you're looking at?

Patrick Houston^   Sure.

I think what you've seen, as well like I think we've continued the effort to work the pipeline and find strong opportunities we can execute.

I think infield was a strong transaction, ANF.

We're certainly very optimistic about Galaxy Broadband coming on to the team and really delivering strong results for us.

I think what you've also seen the team is really trying to hone in on the kind of the renewed strategy where the M&A is really complementary and helps the scale of both space and defense and essential industry.

So we're trying to focus the M&A in those core areas.

I think it's still Canada, U.S., Europe is really kind of the geographical areas that we're targeting. And we're optimistic that we can not only continue the M&A pace that we've been doing, but even accelerate here in the coming years so that we can build more scale and take advantage of the opportunity ahead of us.

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

Paul Treiber^   Just a follow-up question on M&A. You mentioned in the prepared remarks, the dollar capital deployed was a little short of your expectations. And does that stem primarily from valuations above your threshold? And how do you think about valuations within your target markets? I imagine defense and space, the multiples have gone up quite a bit.

So how do you -- like where do you see the opportunities within those strategic markets to deploy capital?

Patrick Houston^ Paul, I'd say it's more about focus than necessarily about valuations on why the capital deployment maybe was a bit less than we would have expected this year. Again like I just answered in the last question, like I think we're still happy about the acquisitions we did, and I think there's still a pipeline to go for us to execute.

So it's not a concern, but more about a focus.

On the valuations, yes, I think indefinitely, when the market is reflecting better growth, valuations generally will inch up.

I think we're still working hard to try to find companies that have that strong synergy with us that will allow us to accelerate the growth once we buy them. And to the extent we can do that, then we can potentially look at different valuation or deal structures that facilitate that.

So I think we're trying to be creative, disciplined at the same time but also kind of accelerate the pace.

So I still think you'll see us do acquisitions in this area and make them as successful as the last one.

Paul Treiber^ Okay. That's helpful. Just you mentioned also a review or a look at your capital structure. How should we -- like where do you see that going? Meaning do you expect to help it -- that review to help or changes to help lower your WACC and that would potentially open up more M&A?

Would you lean more into debt or potentially you looking for equity financing, just given the flexibility there?

Patrick Houston^ I think I've challenged the team to be ready on all fronts, Paul.

I think coming off the year we posted this year and a strong opportunity set going forward, both organic and M&A, I think I'm trying to challenge the whole team to say what do we need to take advantage of that.

So that's across the whole business. Capital structure is a component of that. You know that we like to be ready to kind of take advantage of the moment.

So we're looking at all options to make sure we're there. And then when the right one comes into focus, we'll push on that one.

Operator^ (Operator Instructions) Our next question comes from the line of Greg MacDonald of Stifel Nicolaus Canada.

Gregory MacDonald^ Will, thank you for the walk down or the context on working capital.

I think that was helpful. Question I want to ask is on margins. And I'm going to kind of approach it from sustainability of plus 11% margins going forward.

So some things going on there.

You mentioned IT services which is margin accretive, had an impact this quarter. And I noticed that product sales, in particular, also had a significant impact.

I don't know versus consensus, but certainly relative to what we expected.

Can you talk a little bit about margin sustainability at the 11% plus level and opportunities that you had looked at, are looking at in essential industries. Just where are you in terms of the timeline and the margin strategy overall?

Will Majic^ Yes. I think for us, like margins, we try to look at this on a longer-term basis, like we delivered very strong in the quarter.

But if I take a step back, like we've been growing our margins, both gross margin percentage and EBITDA pretty significantly year-over-year. And this is one that we're going to continue to push on.

So we mentioned some of these investments, like those might impact us in the next couple of quarters.

But I think again like we're trying to push on creating a business that we can scale that we can find efficiency in that will drive higher revenue growth while also maintaining EBITDA percentage in the business.

So I think this is one that we're going to continue to push on to try and continue to increase that margin profile.

Gregory MacDonald^ A quick follow-on to that. And I guess lots of questions on M&A, so I'd be remiss not to ask one myself.

But as -- when you think about the types of companies that you're looking at from an M&A perspective, are those companies that will continue to allow you to be accretive on the margin side? Or like are these companies that have higher than 10%, 11% margin profile?

Patrick Houston^   Yes. Historically, the majority of our transactions we've done has been accretive.

Obviously that was starting from a point where the margins were much lower than they are today.

I think that strategy was successful in terms of both growing margins organically, but then bringing on new businesses that can do that.

I think we still strive to do that going into the future.

Obviously as the margins continue to increase, that becomes more difficult.

But certainly, that is part of the criteria we look at that can be either at or above the margins we have.

We're also looking at them through other lenses, whether they're strategic and help us try to go after larger programs, can they work together with Calian? What's the one plus one equals three.

So we try to look at it through across multiple lenses, but certainly, margin is one of them.

Operator^   I'm showing no further questions at this time.

I will now turn it back to Patrick Houston for closing remarks.

Patrick Houston^   Thanks, Marvin, and thanks everyone, for attending.

We look forward to providing you an update on our next quarterly call. And with that, we can close the call.

Operator^   Thank you for your participation in today's conference. This does conclude the program.

You may now disconnect.