

Calian Group(Q2 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:

- Sam Schmidt; CIBC; Analyst
- Paul Treiber; RBC Capital Markets; Analyst
- Emma Feng; Ventum Financial; Analyst
- Michael Kypreos; Desjardins Securities; Analyst

PRESENTATION

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

Please be advised today's conference is being recorded.

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

Please go ahead.

Jennifer McCaughey^ Thank you, [Kevin]. And good morning, everyone. Thank you for joining us for Calian's Q2 2026 conference call.

Presenting this morning are Patrick Houston, Chief Executive Officer; and Will Majic, acting CFO. They will walk you through our Q2 results, provide insight 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.

Our second quarter results demonstrate a clear inflection point for Calian.

We delivered 18% revenue growth including 12% organic growth, supported by record deliveries and a strong pace of new contract awards.

In Q2 alone, we secured \$321 million in new contracts with over \$200 million coming from the Canadian defense sector and spanning multiple solutions. This brought our backlog to \$1.5 billion and gives us strong visibility into future growth.

Our top line performance also translated into strong operating leverage with adjusted EBITDA increasing 60% and significantly outpacing revenue growth. This reflects the combined impact of higher volumes, improved execution and a more focused operating model. These results are clearly -- are early but clear evidence of defense momentum building and that Calian is well positioned to capture it.

Over the past year, we have sharpened and simplified our business to better align our capabilities with the needs of our customers.

By integrating our expertise across training, spec, nuclear, health, manufacturing, IT and cyber, we're creating a stronger, more unified Calian, one that can pursue larger cross-functional opportunities and deliver greater value to customers.

As Canadian and global defense markets accelerate, Calian is positioned with the scale, expertise and mission-critical capabilities needed to support our customers and drive sustained growth for our shareholders.

Now a few words on our operations.

Let me begin with Defense & Space.

In Q2, the segment delivered 15% revenue growth, driven primarily by organic performance and broad-based demand across our mission-critical solutions. Growth was led by technology solutions and operational readiness services where Calian's capabilities are increasingly aligned with the evolving needs of our defense customers.

Our position in the Canadian defense market continues to strengthen.

During the quarter, we secured new awards, extensions and program expansions across training, health services, IT and cyber, space communications, manufacturing and engineering. These wins reinforce Calian's role as a trusted partner to the Canadian Armed Forces and a key contributor to Canada's defense industrial base.

Over the past 12 months, we've secured more than \$550 million in defense contract signings, bringing our backlog to more than \$1 billion in defense.

We're also taking deliberate steps to expand our innovation partner. Through ventures in C5ISRT, along with the new agreements announced in Q2 with ADGA and Tessellate Robotics, we are building partnerships that bring together technology, integration expertise and operational knowledge to solve complex challenges.

Our space products and solutions continue to demonstrate clear market differentiation. This year, our team has delivered several high-value areas including precision location capabilities for the Arctic, software to support next-generation LEO constellations and deep space antenna solutions that enable exploration missions. These achievements highlight both the breadth of our expertise and the growing relevance of Calian's space capabilities in mission-critical environments.

Internationally, we're increasing our focus and investment in Europe in the second half of this year with targeted investments in talent, infrastructure and technology. These investments are designed to deepen customer relationships, scale responsibly and position Calian for long-term growth in a rapidly evolving defense market.

The opportunity ahead is significant.

Over the past decade, Calian has built a deep, differentiated defense and space platform.

Our focus now is to convert that scale into broader mandates, larger programs and more integrated solutions, positioning Calian to serve as a prime partner for customers seeking trusted end-to-end mission-critical capability.

Let me spend a moment now on Essential Industries.

Our Essential Industries segment continued to build positive momentum this quarter, supported by improving market fundamentals, stronger execution and the successful integration of recently acquired capabilities.

In Q2, revenue increased 25%, led by the contributions of AMS. This acquisition has meaningfully expanded our presence in the Arctic and provides a strong platform to advance our broader strategy in a region of increasing importance to our customers.

We're also encouraged by the return to organic growth after a modest start to the year.

Organic revenue growth accelerated to the high single digits in Q2, reflecting improved demand across parts of our portfolio including early signs of recovery in our U.S. commercial business.

For the first half of FY '26, revenue increased 22% and adjusted EBITDA grew 70%, demonstrating the leverage in the business as volumes improve and our teams execute with greater discipline. These results reinforce the progress we're making and the

opportunity to unlock further value in this segment. Essential Industries remains an important part of Calian's strategy.

Our work across sectors such as health and energy strengthening the resilience of our portfolio, expands our customer reach and positions us in markets where reliability, expertise and operational performance matters.

Looking ahead, our priority is clear: deliver for our customer and drive margin expansion through efficiencies and operational improvements.

With targeted actions underway improving demand and a stronger execution across the segment, we're well positioned to deliver meaningful margin improvement through the balance of the year and exit FY '26 at high single-digit margins in this segment.

In summary, we're increasingly operating as One Calian, a more focused integrated business with complementary capabilities that can be applied across multiple markets and customer missions.

With each segment has distinct priorities, the power of our model is how these capabilities come together across the business, we're connecting expertise, sharing technology and applying proven solutions from one market to the other. AMS and our Nuclear Service Capabilities, for example, create opportunities to extend beyond their current commercial markets.

Over time these capabilities can support dual-use applications in areas such as arctic, healthcare, energy, resilience and critical infrastructure, priorities that matter to both commercial and defense customers.

Similarly, our IT and cyber teams are increasingly collaborating across segments, allowing us to bring deeper expertise, broader delivery capability and more complete solutions to our customers. This is the value One Calian specialized capabilities operating through a simpler structure, coming together to solve large and more complex customer challenges.

With strong alignment and sharper focus and disciplined execution, we're building a more scalable business, one that is positioned to accelerate profitable growth capture large opportunities and deliver sustained value for customers and shareholders.

I'll now turn it over to Will, who will discuss our Q2 financial results. Will?

Will Majic^ Thank you, Patrick. Q2 revenues increased 18% to \$229 million and represents a record quarter. This growth was driven by both Defense & Space and Essential Industries segments. Acquisitive growth was 6% and was generated by the contribution of AMS which we completed in May 2025 and InField Scientific which closed in October 2025.

We continue to build on the strong momentum established last quarter, delivering an impressive 12% organic growth. Notably, this robust performance was reflected across both of our operating segments. A significant portion of this growth in the quarter was driven by increased demand for our technology solutions across both Canada and in the U.S.

In Canada, national defense was a key contributor for this demand. Their reliance on our product solutions underscores our reputation as a trusted partner capable of delivering timely and effective support when it matters most.

In the U.S., growth was fueled by our U.S. commercial operations as customers who had previously paused purchases due to economic uncertainty are now returning. This renewed activity has resulted in these operations achieving year-over-year growth for the second consecutive quarter, highlighting the strength of our offerings and the resilience of our business in the face of changing market conditions.

This quarter marks the third consecutive quarter of positive organic growth, a clear indication that we are overcoming the challenges faced last year. The anticipated tailwinds in the defense sector are beginning to take effect, further supporting our upward trajectory.

As we move forward, the sustained momentum positions us favorably for ongoing growth and success in the coming quarters. Q2 gross profit increased by 24% to \$80 million as compared to \$65 million for the same period last year and represents a record high. This increase reflects revenue growth, changes in mix and contributions from our acquisitions.

As a result, gross margins increased from 33.4% to 35.1%. The increase that we saw in gross margin percentage was due to a higher mix of product solutions in the quarter.

We do see variability quarter-to-quarter in the revenue mix which will drive variation in our reported gross margin percentage in future quarters. Q2 adjusted EBITDA increased 60% to \$28 million, significantly outpacing the revenue growth. This increase was driven by higher gross profit. And as a result, adjusted EBITDA margin reached 12.2%, up from 9% for the same period last year.

Now turning to cash flow and capital deployment.

In Q2, we generated \$1 million in cash flow from operations compared to \$10 million for the same period last year. The year-over-year decrease was primarily driven by increased working capital requirements, mainly related to higher accounts receivable which partially offset the benefits of higher profitability.

We needed to invest in working capital in the short term in order to rapidly capitalize on Technology Solutions demand that we saw in the quarter.

We anticipate that these receivables will normalize and convert to cash in the upcoming quarters.

As a result of this and the working capital acquired through recent acquisitions, our working capital efficiency ratio slightly shifted to 12% compared to 9% in the same quarter last year.

Looking beyond these working capital dynamics, operating free cash flow increased by 119% to \$21 million, reflecting strong cash conversion at 77% of adjusted EBITDA. This performance underscores our ability to generate substantial cash from our core operations even as we invest in expansion and integration.

We remain focused on optimizing our working capital and maintaining robust cash flow generation as we move forward.

Now turning to capital deployment.

During the quarter, we used cash on hand and a portion of our credit facility to support key investments and priorities.

We funded \$4 million in capital expenditures, reinforcing our investment to ongoing growth.

Additionally, we paid \$5 million in earn-outs relating to the May 2025 AMS acquisition, a testament to AMS' strong performance and successful integration into our operations.

We also returned \$3 million to shareholders through dividends. These actions reflect our balanced approach to investing in the business and rewarding our shareholders.

Looking ahead on M&A, our pipeline remains robust with multiple active discussions underway.

We are optimistic about completing strategic transactions in fiscal '26. And as we've outlined previously acquisitions continue to be our top capital deployment priority.

Let's take a look at the balance sheet and cash availability.

As of March 31, 2026, we had drawn \$167 million on our debt facility, reflecting a modest increase of \$3 million quarter-over-quarter.

We closed the period with net debt of \$111 million, resulting in a net debt to adjusted EBITDA ratio of 1.2x, well below our threshold of 2.5x. This conservative leverage position provides us with significant financial flexibility and resilience.

On March 26, 2026, we exercised \$75 million of the accordion feature on our credit facility, raising our total committed capacity to \$275 million. This expansion enhances

our ability to pursue strategic acquisitions and invest in internal initiatives that drive organic growth.

It also demonstrates the strong support and confidence of our lending syndicate in our performance and our long-term vision.

With the combination of our cash position, the unused portion of our credit facility and our remaining accordion, we have approximately \$240 million in available liquidity. This ample financial flexibility positions us to execute our growth strategy effectively, ensuring we can capitalize on both organic and inorganic opportunities as they arise.

Now let's turn to our fiscal '26 outlook.

Our outlook for fiscal '26 has strengthened since last quarter, reflecting an encouraging upward trend.

We are increasingly optimistic as robust tailwinds in the defense sector drive positive momentum and support our confidence in future growth.

Over the next several years, 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 revenue CAGR at 12% over the last decade.

As we execute on this strategy, our focus remains on expanding EBITDA, free cash flow and return on invested capital by prioritizing high-growth verticals, streamlining operations and deploying capital with discipline.

As a result, we expect adjusted EBITDA growth to consistently outpace revenue growth in the midterm.

We will balance this with investments to ensure our solutions continue to lead and ensure we can capitalize on upcoming opportunities.

The first half of fiscal '26 underscores this approach with revenue up 15% and adjusted EBITDA up 44%.

While we are pleased with our first half results, particularly with strong performance in Q2, it's important to note that Q2 is typically a seasonally high quarter for us and may not represent the pace for the remainder of this year. This quarter benefited from favorable timing and strong performance in certain areas which may not be as pronounced in the coming quarters.

Nevertheless, we remain highly optimistic about our future.

For fiscal '26, we anticipate double-digit revenue growth in the low teens and adjusted EBITDA growth in the high teens, reflecting a more favorable outlook than last quarter.

This confidence is underpinned by sustained momentum in our Defense & Space and Essential Industry segments as well as the full year contributions from our recent AMS and Infield Scientific acquisitions.

From a capital deployment perspective, we expect working capital usage to track in line with revenue growth and should finish the year in the \$12 million to \$14 million range. Capital expenditures are anticipated to remain in the \$10 million range, supporting both ongoing operations and targeted growth investments.

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

We continue to believe that a balanced capital allocation strategy includes the dividend, and our current target has been to pay out 20% to 25% of operating free cash flow.

At present, our dividend payout is below this range, and we will review both the appropriate payout level and whether this target remains suitable for our business going forward.

We plan to complete this review and make a decision regarding the dividend in conjunction with our Q4 results in November, at which time we will provide an update to shareholders. Consistent with our strategy, M&A will remain our primary use of cash as we continue to expand our capabilities and broaden our market reach.

For the remainder of the year, we expect to pay residual balance of the HPT earnout.

We remain open to resuming share buybacks on an opportunistic basis, subject to market conditions and our overall capital allocation framework. This approach preserves flexibility and ensures capital is deployed where it can deliver the greatest long-term value.

We remain focused on executing our strategy and driving value for our stakeholders.

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

Patrick Houston^ Thank you, Will.

In closing, Q2 and the first half of FY '26 demonstrates the momentum we're building.

We delivered strong revenue growth, significant adjusted EBITDA expansion and a growing backlog, also supported by disciplined execution and increasing demand in our core markets. Defense & Space continues to emerge as a key growth engine, while Essential Industries is making clear progress on growth, margin expansion and operating performance. Just as importantly, we're beginning a more focused and integrated business across Calian, our teams are working together to bring complementary capabilities to our customers, combining expertise in defense, space, health, nuclear, IT, cyber, manufacturing and engineering to deliver larger, more complete solutions.

Our balance sheet remains strong, giving us the flexibility to invest in talent, technology, innovation and strategic acquisitions.

We will continue to deploy capital with discipline and a clear focus on profitable growth, free cash flow and long-term results. The opportunity ahead is significant. Defense and space markets are accelerating, critical infrastructure needs are expanding and customers are looking for trusted partners who can deliver in complex, high-consequence environments, and I believe Calian is well positioned to meet that need. And with that, [Kevin], I'd like to open the call to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Stephanie Price with CIBC.

Sam Schmidt^ It's Sam Schmidt on for Stephanie Price.

I wanted to ask about revenue growth in the Defense & Space segment.

It accelerated from last quarter.

Can you talk through details on what drove that growth? And are there any pockets of strength to call out in certain regions?

Will Majic^ Yes.

So thanks for that, Sam. Defense & Space did see very strong growth in the quarter.

As we mentioned, this was primarily relating to our technology solutions within the context of Canada.

However we did see growth across the portfolio of Defense & Space through the services that we provide, both within Canada and also our European markets.

So I think this is really a strong demand across the portfolio and rapid delivery for some of our technology solutions.

Sam Schmidt^ That's good color. And then a second question for me. Margins expanded year-on-year in both segments.

Can you talk through drivers there including the net basis accounting treatment of certain product revenues? And how should we think about margin profile going forward?

Will Majic^ Yes. We're going to see this from time to time.

We do have periodically stronger demand in our IT solutions, and that is what drives some of the net recognition.

We did see that in the quarter. That did tick up from a gross margin perspective.

I think overall, like we've seen these margins in the past, not due to some of our net accounting, like this is really primarily a driver of product mix.

I think going forward, the percentage that we're at, not unobtainable.

We've been delivering on gross margin, growth and expansion over the past four years here. And I think that's one area of focus, both from an organic perspective and also through acquisitions to continue to expand our margins.

Operator^ Our next question comes from Paul Treiber with RBC Capital Markets.

Paul Treiber^ Just a question in terms of your long-term outlook, the sort of -- what do you see as the bigger drivers of that growth over the long term?

Patrick Houston^ I break it up into three parts.

I think one is -- I think you saw this quarter in my comments that we have a long track record with the customers we have.

I think there's certainly a strong opportunity to continue to do more of what we're doing today.

So I think that's the first pillar. The second one, I think you saw is us bringing our solutions together and going and bidding larger opportunities, really acting as a prime vendor there and bringing other industry partners with us to deliver complex solutions.

I think that's coming, and I think this environment affords that.

And the third one is really acquisitions.

If you know us, and I know you do, Paul, that we've consistently deployed capital on solid businesses and integrated them and grow them.

I think there's an opportunity to do that even more and get more synergies as this business has expanded.

I think you put those three together is how we achieve kind of the midterm growth targets that Will talked about in his comments.

Paul Treiber^ Just on the defense opportunity in Canada and NATO regions, there's been a lot of growth in defense budgets, and I think you've started to see that flow through to contract signings.

Can you speak to like the medium-term opportunity for your business within defense? I mean how you see the pipeline building, the opportunities and the investments that you're making to try to address that?

Patrick Houston^ Yes, absolutely.

I think Europe is certainly ahead of Canada. Europe has been on this path for the last two or three years. That's been the basis in which we've built our business there, and I think that's been a successful investment.

I think Canada, we're still early days.

It was certainly great to see them meeting the 2% of GDP here that they announced about a month ago.

I think that was a huge win for Canada, but certainly still lot to go.

I think the long-term target by 2035 is still to get to 5% which is a significant growth from where it is today.

So I think the opportunity is there.

We're certainly seeing that. You've seen we've signed over \$500 million in the last 12 months in defense, and I think there's even more opportunity going forward.

So we're certainly looking at investments across our entire portfolio to bring new capabilities, more R&D acquisitions to help us capture this opportunity.

So we're certainly trying to do -- look at it from an aggressive standpoint about saying what can we deploy to capture more and more of that opportunity going forward.

Paul Treiber^ And then it was nice to see a rebound or recovery in your U.S. commercial business and cybersecurity business. How do we think about the portfolio review and your possible divestiture of some of those noncore assets? Could you provide an update on how that's progressing?

Patrick Houston^ Yes. We've been putting some time and effort on that in the first half of the year in the spring here.

I think we'll get to some decision point here, I think in the next couple of months, and we'll have to decide whether it's something we want to execute on or not this year.

But certainly, we've been putting some effort to come to a conclusion there.

Operator^ (Operator Instructions) Our next question comes from Emma Feng with Ventum Financial.

Emma Feng^ Congratulations on the quarter. How would you characterize the demand environment you're seeing across the portfolio today versus maybe like 12 months ago? And are you seeing that translate into a faster conversion of pipeline to signed contracts?

Patrick Houston^ Yes. I think we're certainly seeing -- like I told Paul, like \$500 million in the last 12 months, I think is a strong indicator.

I think things are accelerating.

As we meet with government, there's certainly a recognition that in order to meet some of these targets that they had, not only the 2%, but even higher targets that they're going to have to continue to accelerate the procurement.

So there's still lots of progress there to go.

But certainly, as we meet with the customer, there's certainly a recognition that budgets are higher, there's a bigger opportunity for them to roll out new capabilities and programs.

So I think it's -- this is not a one-step function to go from where we were to a country that can spend this amount of in defense and do it with Canadian companies.

But certainly, we're starting to see early signs that we're going in that direction.

Operator^ Our next question comes from Michael Kypreos with Desjardins.

Michael Kypreos^ Maybe just I was curious, we've seen a lot of news flow on the increased presence of the Canadian Armed Forces that are now looking to be stationed in the Arctic for 12 months a year as well as some increasing presence in European countries and exercises.

Could you just maybe explain how this could impact your training and health businesses, both in Canada and in Europe?

Patrick Houston^ Absolutely.

I think those are positive drivers for us.

I think Canadian Armed Forces are getting asked to do more and more.

I think that's not going to change here in the near future.

We've been deployed side-by-side with them in Latvia, supporting them both from a training perspective and operations perspective, and we will continue to do that for sure, both in Latvia and other places going forward. The Arctic is a huge priority for the Canadian Armed Forces.

We were actually up there with them on some of these exercises that you saw in the news, bringing some of the technology that we had, both ours as well as partners, putting together interesting new capabilities and showing it to the Canadian Armed Forces and how they can operate in the Arctic.

So I think it's exciting to see them not only there, but also bringing industry with them to identify new technologies that allows them to deliver their mission.

So it's early days, but certainly an exciting opportunity for both Calian and industry in Canada to support them in the Arctic.

Michael Kypreos^ Perfect. That's helpful. And with some of the investments you mentioned on the prepared remarks that you're going to be making in Europe, could we expect a little bit of margin pressure in the second half?

Will Majic^ Yes. That's a good question, Michael. Thanks for that.

We do see margin compression just overall compared to the first half, given some of the demand that we saw. These are targeted investments that we're going to be looking to make in Europe to really expand the footprint, both with our existing partners and also looking to bring on new partners.

I think the European market is a massive unlock for us in the longer term.

So I think these investments are where we want to go after.

And we will see some other investments here in Canada just within the context of trying to find the right cost mix for the business, trying to look for those efficiencies.

We are much larger than we were 5, six years ago.

So I think there's a lot of efficiencies that we can look with the scale that we are, and we're going to be making some targeted investments in the back half of the year and in 2027 to really unlock those for the longer-term value.

Michael Kypreos^ Perfect.

Super helpful. And maybe just a last one.

In your outlook, you had mentioned that you now expect the dividend to remain unchanged for the year and you're a bit more opportunistic on the buyback versus previously being paused.

I'm just trying to understand if -- what explains this kind of shift in thinking? Is it maybe a lack of more attractive M&A opportunities or just taking a bit more of an aggressive posture on the buyback?

Patrick Houston^ No. I don't think so.

I think the dividend we said previous comments as we get it to a specific payout ratio, I think we're there.

So we're certainly going to look at it going into next year.

But for the rest of this year, we're just going to stay where we're at.

I think the buyback has been just an opportunistic thing.

I think when an opportunity presented us like last year, and we thought the stock was undervalued, we bought back almost 5% of the stock. And that's been, in hindsight, a good decision.

We're hopeful that's not the situation anymore going forward.

I think we have a lot of momentum in this business.

We've got a lot of opportunities on M&A.

So that's our number1 priority, as Will mentioned, is reinvesting in the business, and we've got lots of plans to do that.

Operator^ And I'm not showing any further questions at this time.

I'd like to turn the call back over to Patrick.

Patrick Houston^ Perfect, [Kevin]. Thank you. Thank you everyone, for joining us today and I look forward to speaking to you in August when we announce our Q3 results. And with that [Kevin], we can end the call.

Operator^ Thank you. Ladies and gentlemen, this does conclude today's presentation.

We thank you for your participation.

You may now disconnect.

And have a wonderful day.