FOURTH QUARTER EARNINGS CONFERENCE CALL

Moderator: N/A
March 18, 2016
7:30 am CT

Operator: Ladies and gentlemen thank you for standing by. Welcome to the Fourth Quarter Earnings conference call. During the presentation all participants will be in a listen-only mode. Afterwards we'll conduct a question and answer session.

At that time if you have a question please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator please press Star 0.

As a reminder this conference is being recorded Friday, March 18, 2016. I would now like to turn the conference over to Scott Stewart, Chief Executive Officer. Please go ahead sir.

Scott Stewart: Good morning and thank you for joining us for the 2015 Fourth Quarter Earnings call. Joining me on the call today is our Chief Financial Officer Stephen Taylor. And prior to commencing the call I will ask Stephen to read the following disclaimer about forward-looking statements. Stephen?

Stephen Taylor: On behalf of IBI Group I'm required to note at the outset that we may make some forward-looking statements. Statements made on this call which are not historical facts are forward-looking statements that involve risks, uncertainties, and other factors that could cause the actual results to differ materially from those expressed or implied by such forward-looking statements.

This forward-looking information includes or maybe based upon estimates, forecasts guidance and statements as to management's expectations. Although the company believes that the assumptions inherent in the forward-looking statements are reasonable such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

A number of factors could cause actual results to differ materially from those in forward-looking statements including general economic, market or business conditions and the factors discussed in the company's annual information form filed with the Canadian securities regulatory authorities.

Undue reliance should not be placed on the statements which only apply as of the date of this call. The company undertakes no obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise unless expressly required by applicable securities law. I'd now like to turn the call back to Scott.

Scott Stewart: Thanks Stephen. Before we begin I wanted to highlight that you can now access an audio recording of today's call on our Web site under the Investor's section. We know some shareholders have requested this and we are happy to make this feature available.

Yesterday afternoon management announced that it forecasting approximately $355 million in total revenue for the year ending December 31, 2016. We continue to see an increase in committed work to be delivered in 2016 with a backlog of approximately 11 months.

The company currently has $365 million of work committed and under contract for the next three years. We have returned to adjusted it EBITDA margins that are in line with industry averages. Throughout the year we took significant steps to strengthen our underlying business leading to material improvements in our balance sheet and capital structure.

In October the company refinanced its credit facilities under the existing banking arrangement. The new arrangement consists of a $90 million revolver facility that will mature on June 30, 2018. In December we achieved some major milestones for the company. We finance the redemption of the 5.78% debentures for $20 million in cash. The company also issued common shares under our rights offering the proceeds of which were used to repay the company's credit facilities and the indebtedness owing by the company to IBI Group management partnership.

Concurrently IBI Group Partnership issued to the management partnership Class B partnership units on terms substantially similar to those of the rights offering the proceeds of which were used to then repay the indebtedness owned by the company to the management partnership.

As well the company completed a private placement issuing shares to the management partnership in full satisfaction of the remainder of the indebtedness owing to the management partnership. The refinancing of our credit facilities, redemption of our 5.75% convertible debentures, successful completion of the rights offering and the private placement with the management partnership were all key steps to the improvements in our balance sheet and capital structure.

The company continues to demonstrate success in areas like major public infrastructure in transportation projects in Canada and around the world. We believe the company will benefit significantly from the potential increase in public spending in these areas.

It is only through the hard work and the dedication of the employees that we have been able to grow our volume of work, improve performance, attain operational efficiencies and implement cost-saving measures. Management continues its focus on providing the highest quality service to our clients and bringing a high level of innovation to our projects.

We remain cautiously optimistic and believe we are in a very good position for a successful 2016. I now turn it over to Stephen to discuss the operational highlights. Stephen?

Stephen Taylor: Thank you Scott. Adjusted EBITDA for the three months ended December 31, 2015 increased to $8.3 million from $4.5 million for the same period in 2014.

Adjusted EBITDA for the year ended December 31, 2015 increased to $34.4 million from $23.7 million for the same period in 2014. This is a result of stronger operating performance including the commencement of the work on the Eglinton Cross Town Light Rail Transit Project.

Revenue from continuing operations for the three months ended December 31, 2015 increased by $9.9 million to $84.9 million compared to the same period in 2014. Revenue from continuing operations for the year ended December

31, 2015 increased by $28.8 million to $327 million compared to the same period in 2014.

The increase in revenue from continuing operations is due to the growth in our Canadian business as well as the impact of foreign exchange on US and international revenues which are comparable to the prior period in local currencies.

For the three months ended December 31, 2015 the company had net income from continuing operations of $1 million compared to a loss of $4.1 million for the same period in 2014. Net income from continuing operations for the year ended December 31, 2015 was $11.3 million compared to $5.9 million for the same period in 2014. The increase is attributable to an increase in revenue and the positive impact of foreign-exchange gain offset by an increase in operating expenses.

Basic and diluted earnings per share from continuing operations was 4 cents per share for the three months ended December 31, 2015 compared to a loss of 18 cents per share for the same period in 2014. Basic and diluted earnings per share from continuing operations was 49 cents per share for the year ended December 31, 2015 compared to 26 cents for the same period in 2014.

Totals from operating activities for the three months ended December 31, 2015 were $14.2 million compared to $9.9 million for the same period last year. The increase in operating cash flows is primarily due to an increase in adjusted EBITDA of $3.8 million -- an increase in non-cash operating working capital of $1 million and a decrease in income taxes paid of $800,000 offset by an increase of interest paid of $2.4 million.

Cash flows from operating activities for the year ended December 31, 2015 was $30.8 million compared to $24.6 million for the same period last year. The increase in operating cash flows is primarily due to an increase in adjusted EBITDA of $10.6 million offset by a decrease in non-cash operating working capital of $6.6 million. Adjusted EBITDA for the year ended December 31, 2014 is inclusive of restructuring costs of $1.1 million.

The day's sales outstanding as of December 31, 2015 has decreased by 15 days compared to December 31, 2014. This balance now stands at approximately 85 days. Working processes decreased by $4.8 million since December 31, 2014. The decrease is a result of the company's continuing program to accelerate the process of completing billings offset by the increase in revenue for the year ended December 31, 2015 compared to the prior year.

There was a favorable impact of foreign exchange on WIP as of December 31, 2015 of $5.7 million compared to $2.5 million as of December 31, 2015. I'll now turn the call back to Scott.

Scott Stewart: Thanks Stephen. Operator we're now ready to take questions and we will respond appropriately.

Operator: Thank you. Ladies and gentlemen if you'd like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three-tone to prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your registration please press the 1 followed by the 3. If you're using a speakerphone please lift your handset before entering your request. Once again to register for a question please press the 1 followed by the 4 on your telephone. One moment please for the first question.

Our first question comes from the line of (Frederick Bastion) with Raymond James. From Bank of British Columbia. Please go ahead.

(Frederick Bastion): Hi. Good morning everyone.

Scott Stewart: Good morning (Frederick).

Stephen Taylor: Good morning (Frederick).

(Frederick Bastion): I'm just wondering your revenue guidance implies year over year growth of 8% to 9%. I was wondering how much of that is organic versus FX?

Stephen Taylor: Yes (Frederick) the total growth we're forecasting over 2015 is about $28 million. Twenty-four million of that is organic growth as you would call it. And the $4 million is the difference related to foreign-exchange.

(Frederick Bastion): (Unintelligible).

Stephen Taylor: So I guess one thing we did want to mention is that if the Canadian dollar follows the path that it has over the course of the last couple of weeks and strengthens against the US dollar we may be altering this guidance as and when that occurs.

(Frederick Bastion): I appreciate that. When was your sort of what's your reference point? Is it as of today or the beginning of last 2015, sorry 2016?

Stephen Taylor: No, the revenue number for 2016 was basically locked down on exchange rates in place at the beginning of December 2015.

(Frederick Bastion): Got it, okay. So all else equals your - all else equal your revenue would be slightly lower this year due to FX?

Stephen Taylor: Sorry. I didn’t understand the question (Frederick).

(Frederick Bastion): Given the movement in the Canadian dollar so far this year your revenues would be slightly lower all else equals if we get the same kind of currency exchanges for the rest of the year?

Stephen Taylor: Yes. If the trend continues where the Canadian dollar strengthens against the US then the revenue number will decrease somewhat.

(Frederick Bastion): Okay. Appreciate it. My question turning to operating expenses on a constant currency basis you reduced them dramatically during the year. However in the fourth quarter they were flat. Is this a sign that you brought your expenses as low as they can go or is there more room for them to go lower?

Stephen Taylor: No actually in the fourth quarter our operating expenses were probably a half a million dollars higher than a normal run rate because we have an initiative underway to streamline the organization structure. And when I say organization structure I mean all of the legal entities in the IBI Group which as you - if you’ve looked at the AIF you can see that our org chart is somewhat complicated.

We're in an effort to achieve tax efficiencies to improve operating efficiencies and governance in the organization. We have an operation, an initiative that started in the middle of November to do some streamlining. And there were some professional costs associated with that process that occurred in Q4. As I say it's about a half a million dollars and those - some of those costs will spill over into the first quarter of 2016 as well.

(Frederick Bastion): Okay. That's helpful. Now similarly we saw a step change in your DSOs during the quarter. Where do you see this metric trending this year and throughout the quarters?

Stephen Taylor: Well we believe that where we are at the moment which is about at the end of February we would have been at about 84 days. We think we're now entering the territory where competitors in our - to us in our industry are somewhere in that range between 75 and 85 days. So there still is room for some improvement.

But the significant improvement at the end of 2013 we were sitting at about 114 days. We brought that down to now as I say 84 days. There is room to improve somewhat with the implementation of our new ERP system and the related processes and procedures that go along with that. But I don't think we're going to say taking another 30 days out of those balances.

(Frederick Bastion): I appreciate that. No you did a great job in the last couple of years so you should be commended for that. Now lastly for me can you provide the number of working days for the coming quarters and how that compares to the same quarters last year?

Stephen Taylor: Yes. I don't have those with me on the call this morning so I'll send them to you (Frederick).

(Frederick Bastion): Okay great. Thank you. That's it for me.

Stephen Taylor: Thank you.

Scott Stewart: Thanks (Frederick).

Operator: Our next question comes from the line of Mona Nazir with Laurentian Bank from Montreal Quebec. Please go ahead.

Mona Nazir: Good morning.

Scott Stewart: Hi Mona.

Stephen Taylor: Hi Mona.

Mona Nazir: Hi. So just a couple for me, firstly on the organic growth I know you provided the breakdown for 2016 but just looking back at 2015 for the quarter and for the year do you have that same breakdown of organic versus FX?

Stephen Taylor: I do. But once again I don't have it with me on the call here so I will send that to you.

Mona Nazir: Okay perfect. And then I know you received a question on expenses. But maybe another way to ask is the margins of 10.5% for the year in 2015 do you think that's kind of the peak type margins for what you expect going forward as kind of a stable rate or could you see some expansion there?

Stephen Taylor: No. I think that what we have said in the past is that we believe that the range is somewhere between 8% and 12% for our industry. And certainly we've improved significantly from where we were in 2014 to get to the 10 plus percent that we are at the moment. We are continuing to push for cost efficiencies in the business and continuing to grow revenue as well.

And so we think that, you know, there is a possibility to move to the top end of that range. And that's what we're striving for in 2016 and 2017. Whether we'll get all the way there is, you know, that remains to be seen but that's our objective.

Mona Nazir: Okay. Then you also stated that you're well-positioned to benefit from increased infrastructure spend. I'm just wondering does the guidance factor any of that in? And then on that can you speak about how you see increased spend rolling out into 2016 or is it more of a 2017 impact for you?

Scott Stewart: The - Scott Stewart here. The guidance reflects the committed work and the expected work that we will secure for infrastructure spend which is largely in Canada. And it's projects like the Eglinton corridor, the vivaNext which is another major transit project, Edmonton and continuing major planning work on the Calgary infrastructure project and as well as continuing work in Ottawa on the Ottawa LRT as well as internationally in Israel and in the Middle East in major public transit initiatives. So the guidance does reflect it to the extent that we have committed work and reasonable probabilities of some additional.

There are other major infrastructure spends that we are and capital projects that we are pursuing and feel that we are in a very good position to succeed on but we have not factored any of that into the budget for next year. We do see though that with the program in place at the federal government level as well as various initiatives in the United States that it sets a very strong position to continue to grow in those areas in 2017.

Mona Nazir: Okay. And just lastly from me you made a number of strategic moves as you went forward with this recapitalization plan. Just looking at the assets that you have in place now. Do you see any more potential divestitures or you're sitting tight with what you have in play?

Scott Stewart: We don't see any further divestitures and it's really a matter of focusing on improving the operations of the - of what we have deploying the ERP, strengthening the processes that we have in place across the firm and really addressing both sectorial expansion as well as extending our business offerings both up and down the if you will, the delivery pipeline for projects. So some moving into other areas such as, you know, operations in various areas especially where we're delivering systems.

Mona Nazir: Okay thank you.

Operator: Our next question comes from the line of Maxim Sytchev with Dundee Capital Markets from Toronto, Ontario. Please call - go ahead with your question.

Maxim Sytchev: Hi. Good morning gentlemen.

Scott Stewart: Hi (Max).

Stephen Taylor: Hi (Max).

Maxim Sytchev: I was just wondering if you don't mind maybe revisiting a little bit your exposure to Alberta? I mean obviously, you know, all of your revenue is driven by purely infrastructure but not infrastructure work if you are seeing a slowdown and how much a role that could be? And also any update on the residential market here in Toronto in terms of, you know, what's your pace of work and outlook is there if you don't mind just maybe starting with that? Thanks.

Stephen Taylor: Okay. In Alberta we were cautious at the outset in our forecast for 2016. We did reduce the revenue expectation out of Alberta. And certainly Fort McMurray is down. What we are seeing is that both Edmonton and Calgary are delivering to the plan. And they have not - they're not they and me are not anticipating any significant change in that plan. We're watching it very closely though. We will see what happens as the developers decide sometime later this spring as to what the - what new construction work they will initiate. And that will provide important guidance.

But I would say at the moment we have for Alberta in Edmonton, Calgary we have about 75% of the business plan for Alberta in place and committed which is as good as it usually gets in terms of commitment at this time of the year.

The - in Ontario we're seeing a steady market. I mean it's improving especially with some of the big infrastructure work that we have with vivaNext and Eglington.

And the housing market more generally we're not doing a lot of what I would call Greenfield development anymore. There's some of that still it Ottawa and in Ontario. But the area that still is very active for us is the high rise condo mixed use development. And we have developed exceptional expertise both in Vancouver as well as in Toronto that we are continuing to export outside of those markets as well as supporting those markets. So and we're not seeing any change in that.

Maxim Sytchev: Okay. That's helpful. And actually I was wondering if you can maybe comment on the transportation outlook and just in terms of if there are any incremental bidding opportunities the likes of Edmonton LRT and Eglinton and any other geographies like you might be considering right now maybe anything in the US?

Stephen Taylor: Well for - in Ontario there are some major initiatives underway first. There's the Finch West which we are on a team that we're bidding for. We're one of three shortlisted firms, another PIII initiative. And that's a major project. There is as well and I mentioned it it tends not to be as noticed as because vaguely in dominating the market but is the vivaNext where IBI is the design lead on that. and that's another LRG project.

There is continuing major expansion with the TGC in a more conventional transit initiatives. And one of those is a very major project that the Roland Jung line in that station. As for the US there are major opportunities in the US. A lot of it will depend on the funding that might be available. I know that the, in the LA Metro area as an example there's an announcement of $150 billion program of public transit improvements all subject to then raising funds. And there are various other initiatives that we're part of where we have major offices like in New York, LA and Portland.

So we are - we're looking to take our acquired expertise and leadership in design as well as other kinds of services in public transit and lever that into the US especially as the US moves albeit slowly into the PIII market and infrastructure delivery.

Maxim Sytchev: Right. And do you mind maybe providing a bit of an update in terms of what you are seeing in the healthcare and education space right now both in Canada and the US just in terms of, you know, is it flat or slightly up or how would you qualify this market for yourself?

Stephen Taylor: The - well I want to mention that as an aside our Glasgow project which is one of the largest hospitals in the world just won a major design award which, international design award which we're just delighted with. As for the healthcare market generally it's taking on a different form. It’s we're seeing less of the major hospitals in more of smaller more diverse - dispersed facilities.

We see that we don’t see significant growth but we see stability in the market. It’s just of a different form and character.

Maxim Sytchev: Okay and on education?

Stephen Taylor: Education may we see some significant opportunities in education. It is an area for us that has strengthened tremendously over the last two years especially in the United States. And we’ve established a whole new brand that we take to market called Learning Plus. The growth in the United States in Texas, California and up along the West Coast has been significant. And we also are benefiting from opportunities in New York and also here in Toronto.

Just as an aside we are working for the three largest school districts in North America in New York, Los Angeles, and Toronto and delivering a range of design services to those and also extending services into those establishments including asset management at least in the case of Los Angeles so we see some opportunity there. But we are looking to integrate our design, learning plus design track across the US so that we really start to deliver higher end services in the education practice universally in those market areas.

Maxim Sytchev: Okay excellent. Thanks a lot for the call. I appreciate it. Thank you.

Operator: There are no further questions registered. My apologies we do have a question that just came from the line of Mark Neville with Scotiabank from Montréal Québec. Please go ahead.

Mark Neville: Hi, good morning guys.

((Crosstalk))

Mark Neville: I just had a question on the mechanics of the sinking fund. I was just curious as you put money into that fund at any time can that be applied against a credit facility or are there restrictions on that or just trying to understand how that works?

Stephen Taylor: Well Mark the sinking fund there are some provisions that those funds under very specific circumstances can could be used for redemption of some of other CDs. But basically that sinking fund is going to sit there until the maturity of the bank deal in June 2018.

Mark Neville: Okay. Okay so it’s primarily again it sells like it’s sort of earmark for the converts and it doesn’t go against the credit facility. So I guess you can't borrow again it doesn’t increase the availability in your credit facility as you put money in there?

Steven Taylor: That’s correct.

Mark Neville: Okay.

Steven Taylor: The availability of the credit line is $90 million total.

Mark Neville: Oh yes no I guess it just it doesn’t count as sort of a payment towards that…

Steven Taylor: No.

Mark Neville: …when it goes in there. Okay. Okay thank you very much.

Operator: There are no further questions.

Scott Stewart: I want to thank everyone for your questions and we thank you as well for joining us this morning. Have a good day.

Operator: Ladies and gentlemen that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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