Operator: Ladies and gentlemen thank you for standing by. Welcome to the Second Quarter Earnings conference call. During the presentation all participants will be in a listen-only mode. Afterwards we will 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, August 12, 2016. I would like to now turn the conference over to Mr. Scott Stewart. Please go ahead.

Scott Stewart: Thank you very much. Good morning and thank you for joining us for the Second Quarter 2016 Earnings call. Joining me on the call today is our Chief Financial Officer, Stephen Taylor. Prior to commencing the call I will ask Stephen to read the following disclaimer about forward-looking statements. Stephen?

Stephen Taylor: Thank you Scott. I’m half 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 may be based upon estimates, forecasts, guidance and statements as the 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 the 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 Canadian Securities Regulatory authorities. Undue reliance should not be placed on these 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 the 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. Yesterday afternoon management announced that it is forecasting approximately $350 million in total revenue for the year ending December 31, 2016. The decrease in the forecast of $5 million is a result of movements in the UK currency following the Brexit vote. Management is monitoring the UK markets.

The company currently has $471 million of work committed and under contract until 2018. And we are concentrating on growing that number. We continue to see an increase in committed work to be delivered in 2016 with the backlog of approximately nine months. Our adjusted EBITDA margins
compare favorably to historical industry averages of our peer group. Over the quarter the company repaid its vendor notes of $4.1 million upon maturity on June 30, 2016. Interest expense decreased to $4.1 million compared to $5.7 million for the same period in 2015 due to lower interest rates under the new credit facility. Revenue increased 11.7% compared to the same period in 2015.

Management is pleased with the sustained and consistent strength we are seeing in our business. In particular we are seeing constant strength in various aspects of our urban development or city building area of focus for the firm. In Canada which accounts for approximately 55% of our revenue we have continuing work in our traditional areas including infrastructure and particularly public transit infrastructure across the country. Urban high rise mixed use developments and design work in that area continues especially in the major urban centers.

Our urban planning and approvals process practice continues as well. We are seeing renewed activity in the industrial and automotive sector in Ontario and it is noteworthy that there are a number of new infrastructure projects currently underway or under consideration across the country. A particular note for IBI is the fact that with every major new transportation infrastructure project there is also major urban redevelopment.

The US market which accounts for approximately 30% of our revenue is stable with strength in the education sector across the US, continuing transportation projects in Ohio and the West Coast of the United States and our industrial development practice centered largely out of Michigan is showing strength especially in the automotive sector and supporting activities related to distribution and data centers. In addition we have various systems, projects across the United States.
Our UK practice accounts for approximately 10% of our total revenue. In the UK we provide a full array of services including architecture, infrastructure and close intelligence to large government clients. The practice is stable and has not been materially impacted or affected by Brexit.

Our international practice is modest in size accounting for approximately 5% of total revenue. But we have a variety of projects underway ranging from tolling projects in India and Mexico, major planning and infrastructure projects in the Middle East and what is particularly noteworthy is the fact that we have won two major smart city projects in India. It is especially noteworthy in that we are exporting American skills or North American skills into India. I'll now turn it over to Stephen to discuss the operational highlights.

Stephen Taylor: Thank you Scott. Adjusted EBITDA for the three months ended June 30, 2016 increased to $12.3 million from $10.1 million for the same period in 2015. The increase of $2.2 million is a result of stronger operating performance from a decrease in operating expenses and an increase in revenue generated from all geographic regions. Adjusted EBITDA for the six month ended June 30, 2016 was $21.5 million compared to $16.7 million for the same period in 2015 an increase of 28.7%.

Revenue for the three months ended June 30, 2016 increased $9.5 million or 11.7% compared to the same period in 2015. The increase in revenue is due to growth across all geographic regions including continuing work on significant transit projects. Revenue for the six months ended June 30, 2016 was $179.1 million compared to $158.4 million for the same period last year. The impact of foreign exchange on revenues for the six months ended June 30, 2016 was an additional $2.2 million of revenue compared to the same period in 2015.
For the three months ended June 30, 2016 the company had net income of $4.5 million compared to $1.6 million for the same period in 2015. Net income for the three months ended June 30, 2016 is inclusive of a foreign exchange loss of $1.7 million compared to point three million which was included in the net income for the same period in 2015.

For the six months ended June 30, 2016 the company had net income of point six million compared to $4.1 million for the same period in 2015. Net income for the six months ended June 30, 2016 is inclusive of a foreign exchange loss of $9 million compared to a gain of $3 million which was included in the net income for the same period in 2015.

The company recorded a foreign exchange gain of $8.7 million and $2.1 million during the years ended December 31, 2015 and December 31, 2014 respectively as the Canadian dollar weakened against the US dollar and the British pound. The foreign exchange loss during the three and six months ended June 30, 2016 reflects the reversal of previous trends in world markets.

Basic and diluted earnings per share was 14 cents per share for the three months ended June 30, 2016 compared to earnings per share of 7 cents for the same period in 2015. Basic and diluted earnings per share was 2 cents per share for the six month ended June 30, 2016 compared with 18 cents for the same period in 2015.

Cash flows used in operating activities for the three months ended June 30, 2016 were $6.1 million compared to cash flows provided by operating activities of $.5 million for the same period last year. The decrease in operating cash flows is primarily the result of a decrease in non-cash operating
working capital of $10.7 million offset by an increase in adjusted EBITDA of $2.2 million and a decrease in taxes paid of $1.4 million.

Cash flows used in operating activities for the six months ended June 30, 2016 were $.3 million compared to cash flows provided by operating activities of $5 million for the same period last year. The decrease in operating cash flows is primarily due to a decrease in non-cash operating working capital of $13.2 million offset by an increase in adjusted EBITDA of $4.9 million, a decrease in interest paid of $2.4 million and a decrease in taxes paid of $.6 million.

Day’s sales outstanding as of June 30, 2016 had decreased by 13 days compared to June 30, 2015. We are now sitting at day’s sales outstanding of approximately 82 days. The company continues to carry out regular comprehensive reviews of its WIP and accounts receivable and has achieved significant improvements in the results of the billings and collections process. Improving day’s sales outstanding, and WIP and accounts receivable is a significant area of focus for the company. There are ongoing programs and initiatives to accelerate billings and to reduce day’s sales outstanding. And now I’d like to turn the call back to Scott.

Scott Stewart: Thanks Stephen. Operator we’re now ready to take questions and will respond as appropriate. Thank you.

Operator: Ladies and gentlemen if you would like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three-toned 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, one moment please for the first question.
from the line of Mona Nazir with Laurentian in Montréal, Québec. Please go ahead.

Mona Nazir: Good morning and thank you for taking my question.

Scott Stewart: Hi Mona.

Mona Nazir: Hi. So I just wanted to touch on the guidance firstly. You stated that it’s declining by about $5 million on the back of, you know, FX translation. Part of your growth plan as outlined I think it was in your AIF was to talk about growth of the private buildings practice in the UK. And just with Brexit I know you’re a lot of public work there right now. Has that plan kind of changed or is there a pause in the plan? And is there any other places that you could make up for that?

Scott Stewart: I would say that at the moment there’s a pause in the plan as we wait to see what settles out in the UK on the private sector side. The - that being said we had not - it was more of a strategic initiative that we were taking in terms of private sector initiatives in the UK. And we hadn’t really reflected anything in the way of revenue growth due to private sector activities in any of the forecasts that we did.

Mona Nazir: And then just moving on a little bit more into your intelligence vertical which you think is about 15% of your total revenue. Can you speak a little bit about the projects that you mentioned in India and Mexico so you can speak about how growth is shaping up and the building up of this division given it’s a fairly unique offering versus your peers? Do you see this being a major contributor of growth and seeing strong demand for it?
Scott Stewart: We see it is a very strategic area of the practice no question. Traditionally it has been an area where we have focused on transportation and have had significant success both in delivering large scale traffic management systems and we have some 20 plus projects across North America and in Europe, tolling systems around the world including India, Greece, and Mexico and a system here in Canada. The as we see in the transportation area as we see government agencies run up against infrastructure deficits and the need to finance improvements in major maintenance and upgrades in infrastructure we see being able to provide systems capabilities to both monitor that infrastructure as well as pay for it through toll systems. We see significant opportunities for the firm.

But more strategically we see that the systems area provides a platform for us to extend our services in nontraditional areas of business for us that are extensions of say our building architecture practice and other infrastructure design areas such as highways and the like where we can establish long term relationships with our clients that extend over the life of that asset. And moving into and also expanding on our asset management practice which is significant in the UK where we monitor some 6000 kilometers of motor way through some proprietary technology of IBI but extending that capability into other business services such as asset management for hospitals or health care generally, education and also including office space. So those are some of the new initiatives that we’re taking in terms of technology all part of the extending our services into the whole lifecycle of assets that we design.

Mona Nazir: Okay perfect. And just lastly looking at the EBITDA margin on an adjusted basis it’s over 150 basis points above the high end of your targeted range you’ve given a kind of 8% to 12% range. Do you think that margin is sustainable in and above that 13% level or should we be kind of forecasting the, you know, higher end is 12%?
Scott Stewart: I would say that our guidance is still correct. It’ll be 8% to 12%.

Stephen Taylor: The - Mona second quarter if you go back and look margins always increase for us in the second quarter of every year just based on the fewer number of holidays and more number of working days. So I think what Scott’s saying and we still stick by the 8% to 12% as the range that we feel we’ll be delivering within.

Mona Nazir: Okay, thank you.

Operator: The next question comes from the line of Yuri Lynk with Canaccord Genuity from Montréal, Québec. Please go ahead.

Yuri Lynk: Hey good morning guys, nice quarter.

Scott Stewart: Good morning Yuri.

Yuri Lynk: Good morning. Scott, can you talk a little bit about where your utilization rate is right now versus last year? Just trying to get a feel for how much leverage might be left in the workforce you’ve got now?

Scott Stewart: The – I would - our - your utilization is up from about and this is across the board up from the mid-70s to the very low 80% range. I would suggest that we wouldn’t be able to get much higher than where we’re at in terms of the utilization of resources. You know, we have some really large scale projects and some people are very, very busy on those. And we have to ensure that when you have sufficient capacity to deal with non-billable work such as pursuing new opportunities. And so we need that - a reserve on capacity to be able to pursue that new work and market the business of IBI.
Yuri Lynk: Okay. And does this current if you’re able to maintain that kind of 80% to 85% range over a 12 month period does that correspond to that 70% ratio of compensation costs to revenue that you’ve outlined in the MD&A or would that imply something lower than that?

Scott Stewart: I think it would still be in that same range of 70%.

Yuri Lynk: Okay. In the - in your other operating expenses can you just break out how much of that is fixed versus variable approximately?

Stephen Taylor: So Yuri you’re asking the question about the $10.6 million?

Yuri Lynk: Correct yes.

Stephen Taylor: Okay. So the one item that’s not variable is the rent, the line above that. I mean they can be varied over time but - and we will continue to be exploring opportunities there. In terms of other operating expenses the major items within that are legal, our insurance, our accounting and finance our computer systems costs. So in answer to your question some of them are in fact variable. So once again we have an initiative as a firm to be looking at those costs and looking at ways to be bringing them down over the balance of this year and into next year.

Yuri Lynk: Would it be like 8026 variable just any…

Stephen Taylor: I would describe most of those costs as step fixed as opposed to fixed. I mean they can be brought down but brought down over a period of time.
Yuri Lynk: Okay. Okay that’s helpful. And just looking ahead to well not too far ahead the third quarter generally you’ll see a seasonal dip in margin due to vacations and whatnot. But you’ve got a large backlog a lot of long term projects underway. Is that going to offset or mitigate at least some of that usual sequential dip in EBITDA that we would see in the third quarter vis-à-vis the second?

Stephen Taylor: I think you should be looking at previous year’s track record as an indication of what the third quarter is going to look like. We’re not giving guidance on the third quarter but I think if you went to past track record that would be your best indicator.

Yuri Lynk: Okay. Okay I’ll - I’ve asked enough questions. I’ll turn it over and maybe get back in the queue. Thanks.

Scott Stewart: Thanks Yuri.

Operator: The next question comes from the line of Mark Neville with Scotia Bank from Montréal, Québec. Please go ahead.

Max Schwartz: Good morning guys. It’s Max Schwartz calling in.

Stephen Taylor: Hi. How are you doing?

Max Schwartz: Okay thanks. So a couple of questions just on the growth here you commented that you’re seeing growth really in all markets. Can you maybe highlight some of the stronger ones? And then if you’re seeing anything from the Fast Track or expect anything from Canadian public infrastructure spending?
Scott Stewart: We’re we anticipate growth and infrastructure certainly in Canada? The – there are a lot of opportunities and especially in the transit field across the country from Vancouver through to extension of work in Ottawa and Montréal has a major project underway or in the planning stages and a major program in Ontario.

So we’re anticipating that we will be part of at least a reasonable share of that work as it unfolds. The - especially with the federal government support of infrastructure. But the federal government it has been although they’re very supportive of infrastructure what we have seen is it hasn’t been moving forward as quickly as we would have anticipated. And I would also note that again as I had mentioned earlier that every one of those public transit initiatives then offers great opportunity for us in the urban redevelopment field such as mixed use high rise development and the like.

In the United States we haven’t seen anything yet from FastTrack and the major announcement there. We are obviously pursuing it, monitoring it closely and organizing ourselves. We’re also - we have been monitoring and will continue to monitor the P3 opportunities in the United States. And there are significant opportunities and we feel that we are uniquely placed given our extensive experience in Canada it just it has been very slow to unfold in the United States but we are still pursuing it and monitoring it closely.

Max Schwartz: Okay thanks.

Scott Stewart: No problem.

Max Schwartz: And a bit longer term do you guys have any targets for topline growth anything like that where you want to see it go?
Scott Stewart: Well we’re - our target is really tied to urban development it’s all around city growth. The – we usually see that the engineering and architectural sector that we play in and operate in grows somewhat faster than GDP and it is a bit more concentrated in urban areas which in fact are growing faster than GDP. So we use GDP as the guide when we do our forecasting with…

Max Schwartz: Okay thanks.

Scott Stewart: …the growth factor right on top of that.

Max Schwartz: Okay. And one more here just on maybe the sinking fund how long is it supposed to remain in place?

Stephen Taylor: Sinking fund will be in place until the conclusion of the current bank deal at June 30, 2018.

Max Schwartz: Okay. And any targets on leverage longer term?

Stephen Taylor: Well I mean we will be growing back into our balance sheet and expect that, you know, our ultimate target would be to be in the sort of between two and three times EBITDA leverage ratio. And we think that that’s definitely achievable.

Max Schwartz: Okay, sounds good. Good quarter guys. Thanks.

Scott Stewart: Thank you.

Stephen Taylor: Thank you.
Operator: The next question comes from the line of Maxim Sytchev with National Bank from Toronto, Ontario. Please go ahead.

Maxim Sytchev: Hi, good morning.

Scott Stewart: Hey Maxim.

Stephen Taylor: Hi Maxim.

Maxim Sytchev: Gentlemen I was just wondering if you can maybe comment in terms of what’s happening on the residential front for you in Canada if you’re seeing any slowdown or a kind of steady as she goes maybe if you don’t mind going by markets, you know, kind of Montréal, Toronto Vancouver.

Scott Stewart: Well were not that active in Montréal. We do have a significant amount of work on a relative scale in Halifax. And that we continue to work in that market. In Vancouver which is probably the most notable one we are extremely busy not only with the major projects in Vancouver in fact we’re having the challenge is the capacity to get the work out the door.

Out of Vancouver we are supporting the West Coast of the United States in pursuing opportunities all along the West Coast in terms of urban redevelopment and mixed use high rise residential development. Vancouver itself is - we haven’t seen any immediate impact of the - on us in terms of the provincial tax related to residential sales. We’re obviously monitoring it very closely. It is a concern anytime there is an intervention in the market it always causes some disruption. So we are monitoring it very closely.

We haven’t seen any change whatsoever in Toronto in terms of the high rise condo developments. It is continuing pace. But again as we’ve said before
many times it is an area that is of concern to us especially as we see the costs of housing rising so rapidly and what the – how the market might in turn respond to that price increase.

Maxim Sytchev: Right. And what percentage right now residential represents again I mean I’ve been asking this question just like I think it kind of ebbs and flows with the amount of work you have?

Scott Stewart: The - yes I would suggest that residential probably accounts for somewhere in the 10% to 12% range of our total revenue.

Maxim Sytchev: Okay. That’s helpful. And then the comment that you made in relation to transit projects obviously creating, you know, mixed use development opportunities and so forth is there, you know, a rule of thumb which we can think of I don’t know for like every dollar of transit spending there is maybe 10 cents of incremental development opportunity for, you know, buildings and so forth - is that the right way to think about it or is it a dramatically lower number?

Scott Stewart: Oh yes I’ve never looked at it that way. A lot of it has to do with the amount of an underlying pressure for growth. And one of the big things that we have in Canada is the immigration that’s in the order of 250,000 people a year. And that creates a demand for about 100,000 residential units. Most of those end up - that pressure tends to then show up in the larger urban centers -- Toronto, Vancouver, you know, in Alberta and Calgary and to a certain extent in Montréal.

Where those units then to - so that drives a lot of the base need and then it tends to locate around where there is good mobility and good transportation. So that would be around subway stations, LRT stations and the like. So I don’t
attach any percent relationship to the amount invested in infrastructure but it’s more the underlying growth in demand in residential units and redevelopment.

Maxim Sytchev: Right. And then maybe last question perhaps for Stephen in terms of the ERP implementation any potential update on that front please? Thanks.

Stephen Taylor: Absolutely. May 1 we went live with 55% of the business went on to the ERP system. May 1 so far it’s gone quite well. You will notice in our numbers that we had higher WIP and lower accounts receivable at the end of June. That is symptomatic of us getting used to the new billing system that the ERP system the billing component of it.

We also I think had mentioned before that 15% of the business or certain of our US operations went live last year in - at the beginning of September 2015. So far the implementation is going very well. And our objective is to try to and by the time we get to the end of the second quarter next year to have everybody online with the new system.

Maxim Sytchev: Okay. And so far no pushback from the employee’s sort of there’s a wholesale buy in is that a fair way to put it?

Stephen Taylor: Yes. I think a fair way to point it is that whenever you started talking about new technologies there’s always a steep learning curve that people have to get up. And we’re essentially dealing with the learning curve at the moment much more so than peoples - what the majority of the people that we’ve converted over so far are finding is that the new tools that they’ve been provided makes it an awful lot easier for them to do their job well. And they’re looking at it in that spirit.
Maxim Sytchev: Right. And I guess how should we think about this on a going forward basis kind of collections tightening up of cost? Is that where we’re going to see the benefit and maybe can you expand if there could be some potential positive spillover effect on to the margin down the line?

Scott Stewart: So the real benefit to this system is that we have much - we have virtually real-time visibility on numbers what’s happening within projects a vastly improved capability for people who are managing projects to see and understand the financial implications of activity every day. And so that if there’s a margin benefit you’re really going to get it get the margin benefit from that, improvement in project management skills by virtue of the fact that we’ve provided them with new state of the art tool to be able to manage their business effectively.

Maxim Sytchev: Okay. That’s very helpful. Thank you very much (unintelligible).

Operator: We have a follow-up question from the line of Mona Nazir from Laurentian in Montréal, Québec. Please go ahead.

Mona Nazir: Okay thanks. I’m just wondering it’s more of a broad question but you’ve made significant strides with your turnaround plan. Your multiple remains at a significant discount to peers. Is there anything that you think that the market is not understanding or effectively communicated perhaps?

Stephen Taylor: I don’t really think so Mona. I mean our objective all along has been to, you know, we said back in 2013, 2014 the objective was to grow into our balance sheet, to improve the profitability and earnings of the business, to generate cash flow to pay down debt. So far we like to think that we have been we’ve been delivering more than we’ve been promising. And I think that is going to
be the objectives of management going forward into the next couple of years, you know, focus on execution of what we do and doing it a lot better.

And, you know, so I don’t I think as - and I think Scott would share this view that as we continue to execute on that plan we continue to pay down debt that the market will look at us, you know, when we get to the point where the balance sheet is no longer a concern the market will look at us in a way that they should in accordance with what our peers are doing.

Mona Nazir: Thank you.

Operator: It appears we have no further questions.

Scott Stewart: Well thank you. Thank you everybody for joining us today. Thank you for your questions. And I want to wish everybody a good day and a pleasant weekend.

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 line.

END