

IBI GROUP

**Moderator: Stephen Taylor
November 11, 2016
7:30 am CT**

Operator: ...link to master for Rev 21817099 be entered at 8:09, IBI Group. Ladies and gentlemen thank you for standing by and welcome to the Third 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 today, Friday, November 11, 2016.

I would now like to turn the conference over to Mr. Scott Stewart, Chief Executive Officer. Please go ahead sir.

Scott Stewart: Thank you. Good morning everyone and thank you for joining us on this Third Quarter 2016 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: Thank you Scott. 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 may be 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 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 reconfirmed its total revenue forecast of approximately \$350 million for the year ended December 31, 2016.

The company currently has a backlog of 8.8 months, and this is down from recent reporting but is in line with our historical experience where the backlog normally runs between 8 and 9 months.

We remain focused in growing that number and we continue to see an increase in committed work to be delivered through 2018. Our EBITDA margins compare favorably to our peer groups and with historical industry averages.

Management is pleased with the sustained and consistent strength we are seeing in our business. In particular in the UK, which accounts for approximately 10% of our fees business has been steady with no material effects of the Brexit vote.

The vast majority of our work is in the public sector in urban planning, healthcare and intelligence, the latter area emphasizing - and with an emphasis on transportation systems.

In Canada, which accounts for approximately 55% of our fee revenue the key points are our infrastructure practice remains strong with a solid backlog in various transit projects including the Eglinton LRT, vivaNext, the Ottawa LRT and the Edmonton LRT.

There are also a number of new opportunities in public transit across Canada in British Columbia, in Montreal with the LRT project that's under

consideration now as well as other opportunities that are emerging in Ontario such as Finch West in interior Ontario.

Of particular note we are encouraged by the recent economic statement of the federal government, which demonstrates their long-term commitment to infrastructure including public transit, water, wastewater, green infrastructure, housing, strengthened social infrastructure as well as Smart Cities.

With respect to our buildings practice in Canada we have seen strength in our industrial practice in Ontario in particular related to the investment by the auto sector.

Also our condo or mixed-use high-rise practice continues with major work in Vancouver and Toronto as well as internationally. Of note this market is underpinned by immigration, which is expected to increase over the coming years.

In Alberta there has been a softening of the market but we are managing it closely. But given our focus on urban environments in major centers like Edmonton and Calgary, we have not experienced the urban - the direct impact of the downturn in oil and gas.

Our intelligence practice in Canada continues supporting projects both in Canada and as well as internationally, exploiting both services and products around the world.

The U.S. market accounts for approximately 30% of our revenue and has experienced steady growth and stable performance. Our buildings practice has been very strong with significant work in education, especially along the West Coast and Texas.

The infrastructure work has been strong also along the West Coast in areas of transportation planning and in the Northeast in infrastructure design. Our intelligence practice has also been very strong with major projects across the U.S., including ongoing delivery of traveler information services in New York State, Florida as well as along the West Coast.

We know with the newly elected government in the U.S. there are - there's a major emphasis on infrastructure, support for the Keystone Pipeline and job creation in the traditional industrial areas in the North.

We will be monitoring the direction of the new government very carefully and taking appropriate action. What is more significant with the election is the number of bond issues that have been approved that have a direct and near-term impact on our business.

For example in education there is over \$11 billion in bonds funding in California, Oregon and Texas, areas where our education practice is very strong.

There have also been significant measures passed in transportation in California as well as in the Mid-Atlantic supporting new transportation initiatives.

All of these new funding arrangements are very supportive of our business in these geographical areas as well as in our areas of infrastructure, as well as buildings and will underpin the business for the next three to four years.

Our international practice only accounts for 5% of total revenue but we are in some very notable markets and some - doing some very notable projects. In

India we are delivering systems for highways between toll systems as well as traffic management systems, and we are also the winner of the first major Smart City project in India, the first of some 50 Smart City projects that bodes well for the future.

In the Mideast in Dubai and Saudi Arabia we are involved in various transportation projects and related infrastructure initiatives. Over the quarter we took some steps to enhance the company's capital structure by redeeming some of our outstanding debentures.

This was funded by both issuing new debentures with a lower interest rate and the issuance of common shares. The company issued 5.5% convertible unsecured subordinated debentures with a maturity date of December 31, 2021.

The net proceeds of the issuance were used to fund the partial redemption of the 6% convertible debenture due June 30, 2018. On October 31 the company completed the redemption of \$31.2 million of the 7% convertible debentures, which mature on June 30, 2019 by issuing common shares.

This quarter the company also made a required deposit towards the Sinking Fund for \$3.25 million. Total balance available for future debt payment is now at \$11.75 million.

I'll now turn it over to Stephen to discuss the operational highlights. Stephen?

Stephen Taylor: Thank you Scott. Adjusted EBITDA for the quarter increased to \$10.2 million from \$9.4 million for the same period in 2015. The increase of 8.5% is a result of stronger operating performance and a decrease in operating expenses, an increase in revenue generating from all geographic segments.

Adjusted EBITDA for the nine months ended September 30, 2016 was \$31.8 million compared to \$26.1 million for the same period in 2015, an increase of 21.8%.

Revenue for the quarter increased \$4.4 million or 5.2% compared to the same period in 2015. The increase in revenue was due to growth in the United States and the international geographical segments including continuing work on significant transit projects.

This was offset by reduced revenue from the UK caused by the decrease in the value of the British pound. Revenue for the nine months ended September 30, 2016 was \$267.3 million compared to \$242.2 million for the same period in 2015.

The impact of foreign exchange on revenue for the nine months ended September 30, 2016 was to add an additional \$1.9 million of revenue compared to the same period in 2015.

Over the quarter the company had a net loss of \$4.7 million compared to net income of \$4.8 million for the same period in 2015. The net loss in the third quarter was negatively impacted by accelerated accretion of \$11.7 million resulting from the announced redemption of the 2018 and 2019 convertible debentures.

Net loss for the nine months ended September 30, 2016 was \$4.1 million compared to net income of \$8.9 million for the same period in 2015. Basic and diluted loss per share was 15 per - cents per share for the quarter compared to earnings per share of 21 cents for the same period in 2015.

The increased accretion expense on convertible debentures resulted in a reduction of earnings of approximately 33 cents in the quarter. Basic and diluted loss per share was 13 cents per share for the nine months ended September 30, 2016 compared to earnings per share of 39 cents for the same period in 2015.

Cash flows generated by operating activities in the quarter were \$13.9 million compared to cash flows provided by operating activities of \$11.6 million for the same period last year.

The increase in operating cash flows was primarily the result of an increase in adjusted EBITDA of \$0.8 million, a reduction in interest paid of \$1.3 million and an increase in taxes paid of \$0.3 million.

Cash flows generated by operating activities for the nine months ended September 30, 2016 were \$13.6 million compared to cash flows provided by operating activities of \$16.6 million for the same period last year.

The decrease in operating cash flows is primarily due to an increase in non-cash operating working capital of \$13.2 million offset by an increase in adjusted EBITDA of \$5.7 million, a decrease in interest paid of \$3.7 million and a decrease in taxes paid of \$0.3 million.

Day sales outstanding as of September 30, 2016 has decreased by 12 days compared to the period ended September 30, 2015. The company continues to carry out regular comprehensive reviews of its WIP and accounts receivable, and has achieved significant improvements in the results of its billings and collections.

Improving the days outstanding in WIP and accounts receivable continues to be a significant area of focus for the company. There are ongoing programs and initiatives to accelerate billings further and to further reduce the day sales outstanding. I'd now like to turn the call back to Scott.

Scott Stewart: Thanks Stephen. Operator we're now ready to take questions. We'll respond as appropriate.

Operator: Thank you sir. 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 tone 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 are using a speakerphone please lift your handset before entering your request.

One moment please for the first question. All right, our first question comes from the line of David Poff of David - oh let me just verify the company - David L. Poff & Associates in Lake Mary, Florida. Please go ahead.

David Poff: Hi. Good morning. And the question I have is with regard to the maturity of the debentures. Is that assumed to be a one-time event? It looks like there's a \$9 million impact - expense impact there.

Stephen Taylor: The answer to that is yes. The total impact of the debentures - the two series of debentures was just over - it was about \$10.2 million and then we have normal accretion on the other series of debentures as well.

The - that increase of \$10 million is strictly the result of us choosing to redeem those debentures right now, and it largely is the reversal of when we

did the amend and extend of the 2019 debentures back in 2014 there was a \$22 million gain recorded.

This accretion expense in this quarter is largely a reversal of that gain that was recorded at that time. We would've - it - it's just accelerated accretion. It would've been - if we had of carried the debentures to maturity it would've unfolded quarter-by-quarter but it all flowed through in one quarter because we decided to do the redemption.

David Poff: Okay. Well no, thank you for that. Also I was - I appreciated the convertible rate on that - went to 835 which was - is confident building. Yes another question I have is, is there an estimate of the ownership of the stock by employees, directors or any other that might be termed as insiders?

Scott Stewart: The partnership of IBI Group - well it's IBI Group GMP has approximately 40% of the public shares and the - and a combination of the public shares and the B units.

We don't have full information on other employees that may have shareholdings but they are...

David Poff: Okay.

Scott Stewart: The partnership is the biggest shareholder.

David Poff: Okay thank you.

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

(Jed Phan): Good morning. This is (Jed Phan) on behalf of Mona Nazir. Thanks for taking my questions. So looking at the \$11 million plus accretion expense in the quarter, what would be the normalized expense - EPS, sorry?

Also I'm just wondering what are your thoughts on the U.S. President-Elect's infrastructure plan with 30% U.S. exposure and how well positioned are you to capture some of that?

When would you think funds could start flowing through that? Has there been any positive impact from the increased infrastructure spend in Canada or results as of yet?

Just lastly, with the new foreign homebuyers' tax in BC do you see any negative impact on buildings practice? Do you think you could see any retraction in this market? Thank you.

Scott Stewart: I'll answer...

((Crosstalk))

Scott Stewart: ...the first question. The first question is disclosed in the MD&A and as I alluded to in the notes this morning it was a 33-cent impact to the accelerated accretion.

So with the loss of 15 cents the accretion normalized. Normalizing the EPS to take the accretion out would be about 18 cents earnings per share for this quarter.

Stephen Taylor: So any follow up on that?

(Jed Phan): No.

Stephen Taylor: Okay.

(Jed Phan): Just go to the second question about the U.S.

Stephen Taylor: And so your next question was with respect to the infrastructure announcement or commitment if you will in the United States.

(Jed Phan): Yes exactly.

Stephen Taylor: I would say that it is very early in the process. I would say that we are encouraged by the initiative and it would assist us significantly in virtually all the markets that we're in.

The - but I wouldn't anticipate that we will see much in the way of new initiatives announced for many months. It will take time for the new government to put in place the right kind of infrastructure process, and given that it is government spending there would be a natural bidding process that - and typically on large scale projects the bidding process to secure new work can be many, many months once you even know what you are then going to proceed with.

So I wouldn't anticipate that we'll see anything until - any new initiatives till sometime in maybe early 2018 - second quarter 2018, but nonetheless it's still encouraging and we will follow the initiatives more locally with the local governments and state governments.

As for the infrastructure spend in Canada the recent economic announcement was important because it gave further an important clarity not only in the total

amount of expected contributions from \$81 million - billion I should say, but it also gave a profile of the incremental amount over what has been committed already and the duration.

And we're looking at - with that a long-term commitment especially with the setting up of the infrastructure bank, which again will serve us very, very well.

Now we anticipate that this will come much sooner given how far the government has progressed in Canada, but it still is subject to the standard kind of public procurement process.

And given the nature of the expenditures all of these - all of this money would really be undertaken typically in partnership with provinces and/or cities.

So I would be hopeful that we would see something emerge maybe second quarter of 2017. The - then you had asked about - the last question was about the tax...

(Jed Phan): The homebuyers' tax. Yes.

Stephen Taylor: ...impact in British Columbia. The - what's really important to distinguish in the housing market is the single-family homes versus the condo markets and we watch that very closely.

And the single-family home market in Toronto and in Vancouver in particular has really caused very - or has resulted in very significant increases in the overall base price because of the weight in the amount of money or the cost of those homes.

The condo market has not had the same upside as that, and where we have seen the biggest drop has been - as a result of that tax in British Columbia has been in the private sector markets.

We're not seeing anything specific that would cause us concern in our mixed-use high-rise or living plus seniors market yet and we track it closely. We see that the interest rates in that - interest rates are low and that's important.

We see the immigration, which underpins that market as being important and the expectation that it will grow in Canada from 250,000 to 300,000, maybe 350,000 people.

And most of the immigration that comes into Canada goes to Toronto and Vancouver so we're still - we feel strong that it's a good market and we're just - we continue to watch it very closely.

(Jed Phan): All right, thank you. I have no further questions.

Operator: Ladies and gentlemen as a reminder if you'd like to queue up for a question, please press the 14. We do have another question sir - comes from the line of Yuri Lynk, Canaccord Genuity in Montreal, Quebec. Please go ahead.

Yuri Lynk: Hey Scott.

Scott Stewart: Hi Yuri.

Yuri Lynk: Good quarter. I was wondering if you could take a stab at given there was a lot of currency movements in the quarter what your organic growth was, or asked another way what the currency impact might've been on the quarter.

And as a follow-up to that how should we think about organic growth for '17 given kind of a - flattish backlog trends and, you know, the prospect of some of this infrastructure spending might not be hitting at least in the first half of the year?

Scott Stewart: I'll leave it to Stephen to respond to the first part of the...

Stephen Taylor: Yes I guess Yuri all of our growth is organic in the sense that we haven't had any - certainly any acquisitions. The impact of foreign exchange for - so far this year has only been \$1.9 million.

So the - while we are seeing a decline in the - obviously the U.S. revenue as it gets translated into Canadian dollars the - there has been at various points in time offsetting impacts from the strengthening of the U.S. Dollar, and this is why we're seeing a relatively small amount, \$1.9 million, for the whole of the nine-month period.

Yuri Lynk: Okay.

Stephen Taylor: So any follow-up on that Yuri?

Yuri Lynk: Yes I understand there's no M&A. Just, you know, it's helpful for us to get a - kind of a currency neutral organic growth figure helps with modeling but yes.

And then maybe Scott just your thoughts on, you know, organic growth expectations for next year and what kind of drag the weaker pound vis-à-vis the C dollar might be, given that that's a pretty good chunk of your business.

Scott Stewart: The - well first on the pound I - we're - we see that the pace in the UK will continue enough work. Generally we're very modest in our growth

expectations and have been and will continue to be and in the very low single digits as the organic growth typically, and I think we've provided guidance in the past that it's in the order of 3%, 3-1/2% and we put our business plans together around that.

We have a strong backlog in our infrastructure work going into 2017, and certainly projects like vivaNext and Ottawa and Eglinton will continue and Edmonton will continue.

We don't see any - as I mentioned earlier any change in our - at this point in the condo markets, the REITs market and so we are reasonably comfortable with taking a very modest approach as we have in terms of revenue growth.

The - and it would all be organic. The, you know, rightly I don't anticipate that we'll see anything that will drive our organic growth higher because of infrastructure, at least not until we see some further announcements.

We do have a few initiatives underway in Ontario and we're hopeful of a success there, and there are others such as in Vancouver and in Montreal that are further off and I don't anticipate we'll see major new infrastructure spend take place in the U.S. for at least as I had mentioned earlier until sometime in early 2018.

That being said there is current programs underway and once the U.S. government budget that was announced for transportation or a bill that was passed on transportation and that - that's leading to opportunities for us.

And there are also the bonds that I had mentioned earlier in the - both in California as well as in the Mid-Atlantic that may create some opportunities sooner, maybe of mid-2017/late 2017.

Stephen Taylor: Yuri on your question about the impact of Brexit it's - about 1-1/2% of our total revenue is - has been impacted so far this year by Brexit. You'll recall earlier in the year we had been giving guidance of 355 and we reduced that down to 350, so that is approximately the scale of what impact Brexit has had both on the - on our revenue but obviously it's had the impact of reducing our costs and by similar amounts, and the only amount we've really been exposed on is the margin coming out of the UK business.

Yuri Lynk: Right. And so, I mean, the economics aren't impacted by the weaker pound because you're billing in pounds and your costs are in pounds. It's just on the translation of that EBITDA into C dollars is where the impact comes in, right, basically?

Stephen Taylor: That's correct.

Scott Stewart: That's right.

Yuri Lynk: Yes. That's very good. Scott on the margins you're kind of - on a trailing basis you're kind of right up against the 8% to 12% range that you call out in the outlook.

Can you just talk a little bit about where your utilization rates are right now, your ability to maybe continue to eke out small EBITDA margin gains next year if you have such an ability, or are you - to handle the growth are you going to have to hire some more people?

Scott Stewart: The - our utilization is high. We're typically up against the 80% range for the key production staff so we're getting good utilization. The - in terms of an improving market I would not anticipate that we will be improving margin.

Our real objective going forward is to grow organically through strategic hires and that may - as we make those strategic hires and take those strategic steps in terms of new initiatives that may in the short-term pull us back from the upper end of the range.

But we'll clearly be looking to stay with - comfortably within that range of 8% to 12%.

Yuri Lynk: Okay. Okay last one for me. Just want to make sure my math is right. On your pro forma share count given the redemption of the 7% debentures, going forward like 37-1/2 million shares - is that including the B units?

Scott Stewart: That's correct.

Yuri Lynk: Okay. Thanks guys.

Scott Stewart: Thank you.

Stephen Taylor: Thanks Yuri.

Operator: The next question comes from the line of Mark Neville with Scotiabank in Montreal, Quebec. Please go ahead.

(Max): Hey good morning guys. It's (Max) calling in. Just on the book business you guys have about \$415 million for the next three years. It's down about \$50 million, \$60 million quarter-over-quarter.

I know it fluctuates a bit. I'm just wondering if there's anything behind that.
Yes.

Stephen Taylor: Yes I think the issue is one of timing. As Scott had mentioned before our backlog is about 8.8 months, which is where we normally feel comfortable operating.

If it gets stretched out too much more than that then we end up disappointing clients. Our backlog in prior months has been higher in number of months and our committed work has been higher.

The - that was skewed somewhat by some of the larger transit projects that we signed up on those contracts in - last year. We have not yet added anything to replace those but as - I think as Scott alluded to before that there are a number and in his notes he mentioned a number of different initiatives that are under discussion at the moment.

And so we see while there - it may take a few months yet to get some additional committed work from some of those larger projects that are ongoing, we anticipate that that will be coming.

So we're not overly concerned about the movement in committed work from one quarter to the next...

(Max): Okay. Thank you.

Stephen Taylor: ...because it is a timing thing.

(Max): Got it. Okay, thank you.

Stephen Taylor: Thanks (Max).

Operator: There are no further questions on the phone line sir. I'll turn the call back to you.

Scott Stewart: Thank you operator. I want to thank everybody on the line for your questions and joining us this morning, and I wish everyone a very good day and a very good 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.

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