

**IBI GROUP**

**Moderator: Scott Stewart**  
**May 11, 2017**  
**7:30 am CT**

Operator: Ladies and gentlemen, thank you for standing by and welcome to the first 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, you may press the star followed by the 0.

As a reminder, this conference is being recorded today, Thursday May 11, 2017. I would now like to turn the conference over to Scott Stewart, Chief Executive Officer for IBI Group. Please go ahead sir.

Scott Stewart: Thank you. Good morning everyone and thank you for joining us for the first quarter 2017 earnings call. Our Q1 earnings were released yesterday afternoon and have been posted in the Investors section of IBI's Web site for your reference. Today's call is being recorded and will be made available on our Web site within 24 hours.

Joining me on the call today is our Chief Financial Officer, Stephen Taylor. Prior to starting the call I will ask Stephen to read the following disclaimer about forward-looking information. Stephen?

Stephen Taylor: Thank you, Scott. On behalf of IBI Group, I am required to note that some of our statements made on today's call might contain forward-looking information. We caution listeners not to place undue reliance on forward-looking statements made since a number of factors could cause the actual future results to differ materially from the targets and expectations expressed.

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 laws. For further information on risk factors, please view the company's annual information form filed with the Canadian Securities Regulatory Authorities.

I'll now turn the call back to Scott.

Scott Stewart: Thanks Stephen. Yesterday afternoon management announced that it is forecasting approximately \$363 million in total revenue for the year ended December 31, 2017. We continue to see an increase in committed work to be delivered in 2017 with a backlog of approximately nine months. (Unintelligible) sales outstanding remained unchanged this quarter to have 80 days, the same as December 31, 2016.

Revenue for the quarter increased to \$91.4 million compared to \$88.6 million for the same period in 2016 an increase of 3.2%. The increase in revenue is due to steady growth in Canada and the United States including continuing work on significant projects.

In Canada work continues on the three major transit projects including the Eglinton Corridor LRT, vivaNext and the Edmonton LRT. We have also been selected for transit facility project in (unintelligible) maintenance facility and have been selected for an extended transit planning and design project in Edmonton.

Work is also continuing on the planning and design of a number of mixed used high rise projects across Canada especially in Toronto and Vancouver and it is also noteworthy that we are in the pursuit phase of virtually all of the new transit infrastructure projects in Canada, in Montreal, Hamilton, Ontario, (Bench West) and projects in the lower mainland of British Columbia.

In the United States works continues on major school projects in Texas and Oregon and interior design projects in Washington, D.C. We have a number of transit technology projects at San Francisco, Denver, Boston and elsewhere across the U.S. And for reference, we are providing traveler informational services to approximately one in four American's. We've also been awarded a transit maintenance facility in Raleigh, North Carolina drawing on our significant experience in Canada.

Internationally, work continues on a number of major projects. In India we are heavily involved in smart city projects in (Srinagar) and Bhubaneswar including their (knowledge) city and integrated operation centers. This is in addition to our work implementing intelligent transport and tolling systems at various locations in India. In Mexico we have just completed two new toll systems in the last two months and have another project that will be turned over in the next few weeks.

In Dubai our work continues on a very large scale, iconic mix use condo high rise project in Palm Island. And on Monday the company announced that we

have joined the Smart Cities council as a North American lead partner. The Smart Cities council is committed to helping cities understand how transformative the power of technology can be in solving their infrastructure challenges.

As a lead partner, IBI will influence the direction of the emerging Smart Cities sector and help to shape Smart City decisions; policies and public opinion. Joining the Smart Cities council was an important step for IBI to contribute to and gain benefit and insight into the intelligence systems, sustainable buildings and efficient infrastructure to the movement across North America. We are looking forward to working with the council on this important initiative. I will now turn it over to Stephen to discuss the operational highlights.

Stephen Taylor: Thank you Scott. Adjusted EBITDA increased this quarter to \$10.2 million compared to \$9.2 million for the same period in 2016. The increase of \$1 million is a result of stronger operating performance primarily in Canada and across the U.S. That income for the quarter was \$3.9 million compared to a loss of \$3.8 million for the same period in 2016 and is inclusive of foreign exchange gain of \$0.1 million compared to a foreign exchange loss of \$7.2 million which was included in the net loss for the same period in 2016.

The foreign exchange gain during the quarter reflects the negative trend in the Canadian dollar as the Canadian dollar weakened against the U.S. dollar and British pound compared to the same period in 2016. Basic and diluted earnings per share were \$0.10 per share this quarter compared to basic and diluted loss per share of \$0.12 for the same period in 2016.

This quarter cash flow from operating activities decreased \$2.2 million compared to \$5.8 million in 2016 a decreased of 62%. The decrease in

operating cash flows is mainly attributable to a decrease in the foreign exchange game, a decrease in the change in non-cash working capital of \$6.5 million offset by an increase in net income of \$7.7 million. Interest expense decreased by \$1.4 million over the quarter primarily due to a decrease in interest on convertible debentures and consent C notes and a decrease in accretion of convertible debentures.

Over the quarter the company also made the required deposit toward the sinking fund. The sinking fund balance is now \$3.6 million. Operational efficiencies resulted in a \$3.4 million decrease in accounts receivable along with a decrease in WIP of \$2.4 million and a decrease in deferred revenue of \$5.9 million since December 31, 2016.

Overall day sales outstanding remains stable during the quarter and it is an ongoing initiative of management to improve the timeliness of billing so that outstanding invoices can be collected sooner. Progress continued in implementing the enterprise resource planning system, the final 10% of the ERP system will go live at the beginning of July so it is expected that the implementation will be completed by the summer of this year.

I'll now turn things back to Scott.

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

Operator: Thank you. Ladies and gentlemen, if you'd like to register a question you may press the 1 followed by the 4 on your telephone keypad. You'll hear a three-toned prompt to acknowledge your request. If your question has been answered by another and you would like to withdraw your registration you may press the 1 followed by the 3. If using a speakerphone, please lift your

handset before entering your request. Once again, to register a question, is the 1 followed by the 4 on your telephone keypad.

Our first question comes from the line of Mona Nazir with Laurentian Bank in Montreal, Quebec. Please proceed.

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

Scott Stewart: Hi Mona.

Stephen Taylor: Hi Mona.

Mona Nazir: Hi, firstly I just wanted to touch on commentary from one of your peers on their call yesterday. They said that they are starting to see some Canadian stimulus spending trickle through although at a kind of slower rate. Are you seeing any of this as of yet and do you envision that this could help with the organic growth this year?

Scott Stewart: The trickle is probably the right term. We're still for the most part, as mentioned earlier, in the (bid save) for much of the work and many other projects. The process is so drawn out that I don't anticipate that we would see anything that is material until next year. The qualifier would be the projects that I did mention that we had one which is the next save, the Edmonton LRG which is more of a traditional planning and design project for the city directly and a major transit facility, maintenance facility in Kitchener Waterloo. So that might be the trickle but I don't see the major work until 2018.

Mona Nazir: And then secondly, last call you gave some greater detail on your intelligence offering and you just touched on your Smart City involvement. How do you see, you know, kind of the Smart City ramp in North America. Do you feel

that there's increasing attention and spend in this sector and then I'll have a follow-up to that.

Scott Stewart: The - first on the global level most of what we'll see in what I would call Smart City projects will be of a strategic planning nature, not unlike what we're doing in India at the moment where we're setting out the plans, looking at the benefits, looking at the opportunities and then setting in place a program of execution that would then extend over a number of years.

And there is some of that that is starting to take hold more in North America but I would say it's still in the formative stage. What we are experiencing though is more of an interest in what I would call the component parts of Smart Cities; smart infrastructure, smart transportation, smart buildings, smart healthcare and the like where there is more a near-term and more (work) and an opportunity for us and that as we complete that kind of work, or proceed with that kind of work, we'll see then a greater evolution into the actual integration of all of these disparate intelligent systems to then form a Smart City.

So it's a program that will extend over a number of years.

Mona Nazir: Perfect. And then just following onto that, you know, we've discussed that one of the industry competitors divested one of their technology divisions. Is there any internal discussions or did that spawn any internal chatter on whether intelligence offering best serves you to keep on hand or is there greater benefit potentially of looking to divest and then using the, you know, cash flow to purchase something else or to reduce the leverage?

Scott Stewart: Our view is that, and IBI is making (unintelligible) in this regard, is that we will become and are becoming a technology driven design firm where

technology will be an embedded and key part of everything we do from the planning of new buildings and new services then right into then the delivery of those services. So we certainly don't see divesting of anything, our technology fund but just the opposite. Our real objective is to become smarter and not bigger.

Mona Nazir: Okay, that's very helpful. And just an update on the U.K. and how that's shaping up this quarter. I know there was some discussion on that on the last call but I (can see too much commentary in the MD&A)?

Stephen Taylor: Yes, Mona, I think we're encouraged by the progress that's been made in the U.K. over the course of the last quarter. Revenues still are not as strong as we would hope, largely because the spending in the areas that we've discussed before in healthcare and in education by the government has been reduced over prior year levels. We see some glimmers of hope that some of that will be coming back but in the meantime our management team there has done a good job of realigning the cost base and so they're basically so far this year tracking to plan in terms of bottom line results. So we're quite encouraged by what's happened.

Mona Nazir: Thanks, I'll hop back in queue.

Operator: Thank you. Our next question comes from the line of Frederic Bastien with Raymond James in Vancouver British Columbia, please proceed.

Frederic Bastien: Good morning.

Stephen Taylor: Good morning Frederic.

Scott Stewart: Good morning.

Frederic Bastien: Scott, just wondering broadly favorable outlook that you provided for your business, (one) they conclude that your biggest challenge in the coming months and quarters might be your ability to staff your projects. Just wondering how easy is it for you right now to hire, you know, either competitors or new grads into IBI?

Scott Stewart: There's certainly a competitive market at the senior level so that everybody is looking for similar resources and we all have to, and certainly IBI is looking internationally to draw on key people to place into senior positions. We are making progress in that front and I don't - nothing that I've seen thus far is going to be a limitation in terms of us being able to execute.

I must say though that we also have a major program underway to bring people into the firm at lower levels and develop the future leadership and also get them involved at projects at the moment and build up their (resume) and capabilities.

The other key thing though that we are doing is drawing on the resources from across the firm where we have excess capacity and as an example we're drawing on the capabilities in our Southern California operation to assist us in Ontario with all of the bid work that's underway as well as the various projects. Service - benefit us not only in the delivery on the services needed in Ontario but also as the credentials and capabilities of those individuals as we then look back into California and some of the opportunities there and not least of which is the major funding initiative in LA.

So, we are growing people from across the firm (facility) and we have efficiencies in staff and it makes us more efficient because we're then making full use of full capacity of the firm.

Frederic Bastien: Thanks and is it possible for me to ask what's your level of appetite right now for potential M&A down the road?

Stephen Taylor: I think we've - as we've said before, we still have some aligning of our debt levels to get to a level that we're comfortable with, we said we wanted to be all in debt to EBITDA between 2 and 2.5. We have a little bit more running to do before we get there and we anticipate probably within 15 months' time as we get into the middle of 2018 that we'll then be looking at all of the options for capital allocation which would include selective strategic M&A deals as and when we thought they were going to really add value to the firm.

Scott Stewart: What we are doing in the meantime though to ensure that we continue to grow is looking for strategic hires and also strategic investments in various resources and capabilities. So, that is happening and it's helping us with more leadership especially in areas that we've targeted such as the United States.

Frederic Bastien: Thank you both for the color on that, that's all I have, thank you.

Stephen Taylor: Thanks Frederic.

Operator: Thank you, our next question comes from the line of (David Poff) with (David L. Poff) & Associates in Lake Mary, Florida.

(David Poff): Yes, good morning. Looking back in early April there was a huge surge in volume trading in IBI and I was wondering, the first question, is what - is there anything you could attribute to that significant increase in volume and also given the large percentage of the shares that are owned by partners, what percentage of the volume came from the partners?

Scott Stewart: Well I can answer the latter part of that and that is none of the volume came from the partners. The partners still have approximately 37% of the ownership of the firm either through the common shares or the (unintelligible) and the partnership has not disposed of any of those. As for the other major...

Stephen Taylor: There was no news that we were sitting on. ...market activities and people looking. I mean, we have been out and talked to a lot of institutional investors over the course of the last year and we're starting to get reacquainted with a number of institutional investors that used to invest in IBI and have been looking to accumulate physicians. So at various points in time they come back into the marketplace and buy and because we've been a relatively thinly traded stock, it tends to influence the numbers quite a bit.

(David Poff): Great, thank you very much.

Stephen Taylor: Thanks (David).

Operator: Thank you, and as a reminder - ladies and... Our next question comes from the line of Maxim Sytchev with National Bank Financial in Toronto Ontario, please proceed.

Maxim Sytchev: Hi, good morning.

Scott Stewart: Good morning Max.

Maxim Sytchev: Gentlemen, I obviously appreciate the fact that you disclosed how much you're spending on your organic initiatives but was wondering how should we think about the payback on what you're doing right now in terms of extra revenue generation or something like that down the line, just trying to think about deferral rates on those investments, thanks.

Scott Stewart: And you're saying investments in technology and...

Maxim Sytchev: Yes, the \$700,000 that you disclosed in your other operating costs.

Scott Stewart: Those are related to new initiatives where we are focused on either creating new solutions, new products, or other strategic initiatives. In certain cases where there's strategic hire, I would anticipate that we will see the - which may be about a third of that. We would start to see the benefits of that maybe third quarter, fourth quarter of this year as we're able to get better leverage on existing staff and/or get more work. The other initiatives when it comes to developing and adapting and repurposing some of our existing software and going to market in new areas with that.

I would expect that we won't see a return on that of any significance for at least a year because we - well we are looking at in those kinds of setups Max is that long-term revenue streams that come from the sales, the revenue of any particular sale might be small in any given year but we're looking to then build up a sales volume so that recurring revenue from the software (unintelligible) would then start to be realized in the second and third and years after that. So it will take a while to see the full value of that investment.

Maxim Sytchev: Okay, no, that makes sense. And I guess should we expect a similar run rate on a quarterly basis.

Scott Stewart: Going forward this year?

Maxim Sytchev: Yes.

Stephen Taylor: In terms of the investment you're asking about Max?

Maxim Sytchev: That's correct, yes.

Stephen Taylor: Yes, I think it will be slightly smaller than the \$700,000 in the second quarter but we will have, for argument sake, in the vicinity of a half a million dollars in each quarter for the balance of this year.

Maxim Sytchev: Okay, that's very helpful. Thank you. Another question that I had was in relation to the competitive landscape especially in the transit side because you have such a great run of wins over the last couple of years and I'm just wondering if there's anything emerging on the horizon that would make you win less than hopefully your unfair market share in transit? Thanks.

Scott Stewart: Well, we're hoping to keep it unfair, Max. We don't like to lose and we have had a very good success rate and I also just announced our success in Kitchener Waterloo in the new maintenance facility and then the additional work in Edmonton. The - it's inevitable that we can't continue to win in our view 100% of what we bid, that has been our track record. I would expect that, and what we plan on is something more in the order of 35% win rate just because, again, we sort of do these things in a conservative way.

Maxim Sytchev: Okay, but again in terms of the competitive landscape, you haven't seen any new players emerging right now on the projects that you're bidding on. I mean, obviously like these are large consortia typically bidding on those things right?

Scott Stewart: No, we haven't seen any significant new players enter. And typically though we do align ourselves with, on one, of the major consortia and typically in the final bid phase there are typically three firms or three consortia that would then be bidding and we are typically then with one of those and thus far the

consortia that we've been on we've had a very good success rate and we like to think that we contribute to that significantly.

So we will continue to be, we expect, on one of the three final bidding firms and all of the (P3) bids that are coming up.

Maxim Sytchev: Okay, that's very helpful. And maybe the last question I've been asking this for the past little while but any update on the residential market and your visibility in that segment in Canada? Thank you.

Scott Stewart: It's - we track the news very closely, it's clearly something that's of importance to us. We are into much more analysis on it and when we look to the Vancouver and Toronto markets the first point is that we continue to have a very strong backlog. We have a number of major, major strategic projects that are just not buildings, but major redevelopment of large scale urban areas or semi-urban areas.

So that's very encouraging and we see that growth taking place for, or that demand taking place (unintelligible) for a long period of time. The other - what's maybe more important is that when you look at the cost of housing and you break out the private homes, detached homes versus the condo market and the growth in the condo market, the demand in the condo market and the price points in the condo market, it's vastly different than the private sector homes from a cost standpoint and we're very sensitive to the cost side because we see that that's one of the determinants of continuing activity.

The other underpinning force though is immigration and Canada has had a tremendous amount of immigration and continues, we're looking at about 350,000 people coming in and maybe growing with maybe more coming from

the United States into Canada and that's creating a demand for something in the order of 130,000 households every year.

More than that, there's a backlog in Toronto if you look at the historic population growth in Toronto relative to the number of housing units that has been created, even if there was a tremendous slowdown in immigration in Toronto. There's still a pent-up backlog of demand for housing that would extend out in the order of three or four or five years. So, we're still - we watch it very closely, we're very sensitive to it, we're also careful about taking on added resources but on the other hand we're not seeing any turn or downturn in that market.

Maxim Sytchev: Okay, that's very helpful, thank you very much.

Operator: Thank you. Our next question is a follow-up from the line of Frederic Bastien with Raymond James in Vancouver British Columbia, please proceed.

Frederic Bastien: Sorry about that. Stephen, I was wondering if you benefited from extra billing days in the quarter relative to a year ago or was that pretty flat?

Stephen Taylor: No, I don't think it had a significant impact. I realize that we had one extra day but offsetting that, I don't think that at the very beginning of the quarter the way that the holiday's fell at the end of December really helped us that much to get off to a fast start in January. So, although there was one more day the impact in the quarter was pretty minimal.

Frederic Bastien: Okay good and how do you anticipate the next quarters to shape up relative to a year ago, it should be fairly - on a like for like basis, should it be pretty comparable?

Stephen Taylor: Yes, I would anticipate that the coming quarters will follow historic trends in terms of revenue ups and downs. And we have, as Scott pointed out, we've got the nine months of backlog is holding pretty steady which is, should be, sufficient to feed the revenues towards the 363 total for the year.

Frederic Bastien: All right, thank you.

Operator: Thank you. I'm showing now further questions at this time.

Scott Stewart: Okay, well I want to thank everybody for your participation today and wish everybody a very good day. Thank you.

Operator: Thank you 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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