Corrected Transcript

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Stantec, Inc. (STN)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Alison Tucker

Vice President-Sector Marketing & Client Development, Stantec, Inc.

We're ready to begin our presentations. Please take your seat if you haven't already. And just a quick note to please turn your cell phones onto silent, and we've provided the Wi-Fi password there on the board for any of your reference throughout the morning.

Good morning, everyone, and welcome. My name is Alison Tucker and I'm the Vice President of our Client Development and Marketing Teams here at Stantec. I've been with the company for 14 years and reside here in Edmonton. Today, it's my pleasure to be serving as emcee throughout the course of our morning of our 2019 Stantec Investor Day. As most of you have noticed, our surroundings are quite different this year. We're excited to be hosting you in our new Stantec Tower. It's a testament to our local company heritage and the 65 years' continuous history of profitability and growth.

Before we dive into our formal agenda, I do have a couple of quick safety items to take care of. In the unlikely event of an emergency, you will hear over our intercom systems a notice to either await further notice or to evacuate. If we do need to evacuate, we'll make our way through the lobby over to the elevator doors where we'll take our exit down the stairway to your immediate left. Our muster point is east of Stantec Tower adjacent to the Bell Tower across 102 Street.

I'd like to remind you that our presentations today contain non-IFRS measures and forward-looking statements including a discussion of our business targets, expectations, and outlook. We caution readers not to place any undue reliance on our forward-looking statements. I'll add that today's presentations will be webcast and archived via stantec.com in our Investors section.

And with that, our agenda today begins with presentations from President and Chief Executive Officer, Gord Johnston; Executive Vice President and CFO, Theresa Jang; and the executive leaders of each of our five business units and the executive leaders of our global operations. We will have two separate Q&A sessions as well as a few breaks throughout the morning. For those joining via webcast and wishing to send in some questions, we'll get to as many of those questions as we can in the allotted time.

Following our lunch today, we will be offering group tours of the Tower and encourage you to go out and experience some of the design features of our building that it's creating an opportunity for innovation amongst our staff.

At Stantec, we began every business meeting with a Safety Moment. It is our goal every day that we make sure we ourselves and our guests get home safely.

So, with that, our Safety Moment will be presented by Scott Argent, our Vice President of our Edmonton Capital region.

Scott Argent

Vice President, Regional Leader, Canada (Edmonton Capital), Stantec, Inc.

Good morning and welcome. For our Safety Moment this morning, I'm going to talk to you a little bit about our safety culture and specifically safer together, which is a shift in looking at safety and really driving a culture towards interdependency where we're all working together keeping each other safe. And how do we do this? Well, it's not one thing, it's a number of things that are all working in unison and parallel to each other.

First and foremost, it's an opportunity for us to connect to and reinforce our company values. We put people first, we do what is right, we are better together and we are driven to achieve. It's also another opportunity for us to increase trust and confidence within our groups to be able to talk openly about safety engagement and safety discussion and support at all levels of the organization. Equally important is being able to provide consistency across all of our business lines with a common use and common understanding of our [ph] HSSE (00:03:58) language and platform.

You can't have trust without transparency and so being able to review and discuss openly about our proactive prevention in safety but also being able to look at lessons learned from our safety performance, and all of this is wrapped around a mindset of 24/7 safety, understanding the importance of safety not only at work but at home as well and within your communities.

So we try to anchor this around and help guide and reinforce our teams around four pillars, and I'm going to walk you quickly through it. First and foremost, around relationships. We know that when you're able to connect a name to a face and a personal connection to that individual whether it's your peer, your client or your neighbor, you're more invested and more willing and likely to be concerned about their well-being and then into you as well.

I talked earlier about 24/7. We want people to be understanding of the importance of safety at work, be able to come to work, enjoy what they do, go home and enjoy that same time with their family but be safe there as well to be able to return to work as well. And like most things in life, communication is important and that's certainly true with safety as well, trying to empower our teams to feel socially acceptable and socially – have social-free license to be able to talk openly about safety and be able to communicate unsafe acts regardless of who you are in the organization. Equally important is being receptive when that feedback is coming to you.

And last but certainly not least, every person here at Stantec has the tools, the training and the education to understand what is expected of us. But at the end of the day, it's up to each and every one of us to put it into practice, to lead by example. When we do all of that, we influence attitudes that change behaviors that create a culture where we are safer together.

Alison Tucker

Vice President-Sector Marketing & Client Development, Stantec, Inc.

Thanks, Scott. Now, we'll hear from two of our chief officers, Gord Johnston and Theresa Jang. Gord will be reviewing the critical pillars and key ingredients of our strategic plan. And Theresa will provide perspective on the company's financial performance.

Gord is the fifth leader to assume the role of CEO at Stantec and brings to the company more than 20 years of experience. Theresa joined Stantec in 2018 before assuming the role of CFO at the beginning of this year, with more than 25 years of experience in finance, corporate governance and organizational leadership. Gord and Theresa will be followed with presentations from our Executive Vice Presidents, Bob Seager and Kirk Morrison who lead our Environmental Services and Energy & Resources businesses, respectively. Both of these leaders bring 30 to 40 years of experience in their roles and tremendous insight into the ever increasing and evolving needs of clients in that marketplace.

Over to you, Gord.

Gordon Allan Johnston

President, Chief Executive Officer & Director, Stantec, Inc.

Well, thanks, Ali. And I'd like to welcome everyone to Stantec's 2019 Investor Day and to our new offices here in Edmonton. And thanks as well to those who of you who were able to join us last night. We had some good discussions there and I heard from a number of people that what they really enjoyed about it was you get to meet with Theresa and I periodically through the year, but it was a chance to meet with our other executive leadership that really made the difference and was beneficial to everyone last night.

Before I get started, I'd like to introduce our experienced executive team. In our C-suite, we have Theresa Jang who is our CFO based here in Calgary and most of you have met; Scott Murray from Lexington, Kentucky is our Chief Operating Officer. Scott's over here. We'll just get him to give you a little wave. Tino DiManno from Calgary is our Chief Business Officer and Steve Fleck from Vancouver is our Chief Practice and Project Officer down at the end. Representing our business operating units, we have Kirk Morrison, who leads Energy & Resources up on the stage here; Len Castro from Phoenix who leads Buildings and Len's group is also the group that's responsible for the architecture and the design of this building. So, if you have any question, we were chatting last night with some folks about office space. Len's group and the interior designers are all the group that put that together, so Len is your person to contact.

Marshall Davert from Denver leads our Water team; Bob Seager from Calgary leads Environmental Services and is up also up on the stage with us here; and Stu Lerner from New York City way at the end there who leads Infrastructure. Our geographies are led by Russ Wlad who leads Canada; Mike Kennedy in the United States down here; and Cath Schefer who leads our Global Geography and is based in Warrington in the UK. [indiscernible] (00:08:48) and talk to us a little bit later.

Because we have limited time today, not all of our leadership team is going to be presenting. What we did is we thought over the past year or two years as we've been chatting with the investment community, the things – the questions that we get mostly – whose phone – oh, my goodness, that's my phone. I apologize for that. I'm thinking who's – Siri must have thought I was asking her question and I'm the one this morning who said make sure everybody turns their phones off and make sure everybody. I apologize for that.

So because we have limited time today, we've thought about the questions that we get from people over the last couple of years and it's really about what are our business operating units working on, how are they positioning themselves for the future. And then we get a lot of questions as well about global. So, those are the folks in addition to Theresa and I who are going to chat with you today.

So, each of the leaders when they come up is going to give an overview of their business, emerging market trends and their positioning to be at the forefront of these trends that continue to grow and evolve our business.

But before we get into each of the businesses in more detail, I want to provide you with a bit of an overview of who we are, what we stand for, how we've evolved, and most importantly, where we're going.

So, most of you have seen this figure before. We're traded on both the TSX and the New York Stock Exchange and we have roughly 22,000 employees working out of 400 offices around the globe. And with that strong network of offices, we continue to remain connected to our clients and the communities that we serve and we believe that's a differentiator for us. We've always been very efficient operators and have been profitable in each of the years since we were founded.

At our core, we're a people company, with safety and ethics underpinning everything that we do and which provide the anchor for our four values. Our first value is we put people first. We have a stable employee base with industry-leading low voluntary turnover rates for a company of our size, and this stable base provides consistency to clients and in project delivery. Our inclusion and diversity culture is very strong, and our organization and our I&D leader were recently awarded with a number of industry accolades, including the 2018 Practitioner of the Year from the Canadian Centre for Diversity and Inclusion.

At Stantec, inclusion and diversity starts with our board where four of our nine directors are women with a wide range of experience from serving as a Canadian ambassador, to serving as the Assistant Secretary for the Navy in the United States. And of note, two of our women board members have been invested into the Order of Canada.

Our second value is we are better together, and this speaks to the value that we continue to provide to our clients by offering integrated design, architecture and scientific services. And in fact, in well over 50% of the projects that we deliver, we have people from more than one of our business lines involved and we believe that that key integrated service offering continues to be a differentiator for us. And with our Pune, India delivery center, we have the ability to work across multiple time zones and provide even more responsive timeline delivery to our global client base.

Ethics and safety, as we mentioned, underpin everything that we do and form the basis for a third value of we do what is right. We have a strong safety culture and in that culture, any employee is able to issue a stop work order if they see an event or a situation that they find is unsafe. And with regards to ethics, our tone from the top from the entire leadership team that you see here today, continues to drive that culture forward and our mandatory ethics training for all staff reinforces that commitment.

And our final value is we are driven to achieve. And this represents our commitment to continue to grow profitably and to grow shareholder value and our 65 years of continuous profitability speaks for our success in this area.

Sustainability is core to our business model and we know what's important to our staff, our clients and to our shareholders. We have a Health, Safety, Security, Environment and Sustainability Committee of our board and we structured an executive ESG Committee chaired by our COO, Scott Murray, that continues to look for ways to improve our ESG performance.

And of note, with regards to sustainability, I believe I'm the only CEO in our peer group who is an Envision Sustainability Professional as certified by the Institute for Sustainable Infrastructure. And just last week, the Corporate Knights List of Top 50 Best Corporate Citizens in Canada was released and I'm proud to report that Stantec was ranked number 12 out of 240 Canadian companies that were evaluated and I believe that we are the only engineering firm that made the list. Our sustainability programs are governed by an ISO-14001 certified environmental management system. And our goals include a 40% reduction of Scope 1 and Scope 2 emissions. And those are essentially the office-based emissions and a 20% reduction of Scope 3 and those are based on business travel by 2028 and we're on track to meet those goals.

Stantec is signatory to the United Nations' Global Compact and we actively support the UN sustainable development goals. In fact, in 2018, we were awarded SDG Leadership Award for our continued effort towards supporting sustainable development around the globe.

And our community engagement program has four founding and funding priorities; arts, education, environment, and health and wellness. And in 2018, we donated just a little over CAD 3.6 million to organizations around the globe. Annually, we hold a company-sponsored volunteer event that we called Stantec in the Community Week and in 2018 we saw over 5,600 employees volunteering to support a little over 320 community organizations in 17 countries across 6 continents.

The execution of our strategy is underpinned by our core values. So now as I provide you with an overview of our strategy, these are the five key points I'd like you to take away and you'll hear these themes recur in each of the business presentations that will follow.

Over the past few years, we've worked to rebalance and diversify our business mix. We've divested our construction and rebalanced our business lines to increase our exposure to the non-cyclic areas of our services portfolio. We are strategically pursuing organic and acquisition growth. We've invested in our ability to continue to generate backlog and have had considerable success. And in fact at the end of Q1, our backlog stood at an all-time record high and represented roughly 12 months of work. And our disciplined approach to acquisition continues to fuel our growth, expand our geographic positioning and strengthen our service capabilities.

And thirdly, people remain our biggest asset and it's through our inspired culture that we continue to attract and retain the best and brightest in our industry.

We remain very disciplined from a financial perspective and following my presentation Theresa will come up and talk a little bit more about her thoughts on our financial perspectives.

And finally, our creativity and innovation programs continue to engage the brightest minds of our employee base, provides us with industry-leading and commercially viable innovative solutions to continue to differentiate us from our competition.

This is an interesting slide and illustrates our intentional growth strategy over the years and our evolution from our roots as an emerging Western Canadian company to a global firm that's diversified by both business lines and geography.

So starting as a single sector water firm in the mid-1950s in water based in Edmonton, we grew and diversified throughout Western Canada before turning our sights to continue geographic expansion into Eastern Canada as we've built a foundation for our company. In the 1990s, we expanded into the United States and continue to grow and diversify our portfolio throughout North America. And during this North American growth phase, we developed our Oracle Enterprise Platform and moved into a single brand identity.

In 2015, we had grown to become roughly the 15th largest firm in our space from a global perspective, but we still remain primarily focused in North America. So as part of our strategic planning process that year, we set the goal to continue to diversify our geographic reach by acquiring a firm with a significant global presence.

So when MWH joined us in 2016, that was part of that strategic move to build our global platform. Certainly, construction was a distraction to that process, but during that period we strengthened the combined Stantec and matured our program management and global perspectives through the experiences that MWH brought to the table. And we developed the globalization of our global Oracle ERP that's going to continue to underpin our future growth.

So our intentional North American diversification and then global platform development sets us up for the next stage in our evolution which is to continue to grow and diversify our global reach using our successful approach of acquiring strong, midsized firms in attractive geographies and business lines.

We often get asked about our exposure to Western Canada. So I wanted to show how that's changed over the last 10 years. So this shows how our exposure to Western Canada has decreased over the past decade from roughly 36% back in 2008 to stabilizing in the 16% range over the last couple of years. This is due to two factors, both the retraction in the Western Canadian marketplace but also reflects our combined focus on growth in the U.S. and around the globe.

Our overall geographic revenue split has changed significantly over the last decade as well. In 2009, roughly 60% of our revenue was generated in Canada with very little, only about 0.3% – so it doesn't even show on the chart – generated outside of North America.

Fast forward to last year to 2018 and Global now makes up roughly 15% of our revenue, and the U.S. has become our largest revenue generating region by far. This same shift can be seen in our end markets as we've significantly grown the percentage of our non-cyclic business from just over half of our portfolio a decade ago to roughly 70% last year. And we remain comfortable with this business mix and believe it allows us to provide the investment community with stable growth while allowing us to capitalize on the more cyclic resource trends when they become available.

And you can see the magnitude of the growth on this slide over the past decade in terms of a number of our key operating metrics, which clearly shows the success of our evolving growth model. We've identified four major trends that we believe are going to shape our world and our industry going forward and these include digital transformation, urbanization, climate change and infrastructure renewal. And in response to these trends, we've developed a number of strategic growth initiatives that will continue to focus our efforts on driving organic growth forward.

Urban Places is an example of a program we developed several years ago and it's led primarily by our Community Development and Buildings groups to reinvigorate brownfields and to redevelop the urban fabric of underutilized properties. And we've been very, very successful with this initiative and have secured significant assignments in Colorado, New York, North Carolina and California to name just a few and Len is going to mention a project during his speech or his presentation.

Infrastructure resilience and in particular coastal resilience is a focal area for us. We've been involved in studying and designing more resilient infrastructure for hospitals, rail lines, power substations, water and wastewater plants and coastlines and Marshall is going to talk to you about a project related to coastline restoration during his presentation.

And finally, we see opportunity in participating a significant shift that we see happening in energy production and consumption methods towards a lower carbon future and cleaner operations.

Our strategy for organic growth takes a multi-pronged approach. Firstly, it's based on our strong relationships with existing and prospective clients and those are essential to our future growth and we continue to focus on these through our account management programs.

Our growth strategy is centered on effective positioning with local clients. This local presence is a key ingredient to our success and we believe it's a competitive advantage for us. The smaller assignments that we receive from these clients, they create the sticky connections that we need for when the larger capital projects come along. And our strategic pursuits and corporate campaigns are aimed at strengthening our positioning so that we know all of the projects that are coming up. We take the time to position for them well in advance of the procurement cycle.

And our strategic pursuit program has been very successful, with 218 awards logged over the past year alone. These strategic pursuits range in value from CAD 10 million to well over CAD 100 million in net revenue, and we have an industry-leading win/loss rate of 53%. We only qualify major corporate campaigns if they're significant to the overall growth and evolution of our firm. And when we qualify a corporate campaign, our C-suite and our EVPs are involved in each of those campaigns, every step of the process. And over the past year, we've won seven of our large corporate campaigns and we have an additional eight in play to win.

Of course, the other element to our growth strategy is our acquisition program. With over 140 acquisitions under our belt since we went public in 1994, the firms that have joined us are integral to our overall identity and a key ingredient to driving our business forward. Not only do these acquisitions fuel our growth, but they expand our geographic positioning, strengthen our service capabilities and add inspired leaders to the organization. And with the industry as fragmented as it is, we continue to see tremendous opportunity for further consolidation and we continue to be an acquirer of choice.

So, we intend to keep using our expertise to acquire and integrate firms and to achieve and maintain that top tier, balanced and diversified portfolio in our chosen markets. Specifically, we aim to continue to in-fill our presence here in Canada. While we're pretty mature in Canada, there's still business lines and certain geographies where we have continued opportunities to expand such as the GTA, Québec and with the federal government. In the United States, we still have considerable opportunity to continue to grow there. And in particular, we're looking at transportation and water firms on both coasts and in the Gulf area and at environmental firms throughout the U.S.

And internationally, we continue to aim to achieve critical mass in the UK and in Australia and New Zealand and when Cath comes up to talk about our global philosophy, she'll chat a little bit about the impact that [ph] Peter Brett & Associates (00:24:33) is having in the UK and Wood & Grieve Engineers in particular is having an Australia.

As I mentioned earlier, we're a known and sought after acquirer. Meaning, that virtually every day we get in-bound expressions of interest from firms that want us to consider acquiring them. But our market presence is augmented by our local office presence throughout the globe because the folks who are on the ground know the right firms and they're the best and excellent source of outbound exploration. So when you layer on top of that all the relationships we built over the last couple of decades with industry contacts and agents and brokers and it adds up to our Edmonton-based M&A team being aware of or involved in virtually all transactions of significance in our space. But regardless of how they're sourced, Theresa and I are involved in the acquisition process at the milestone and gates all along the process and we have to approve any acquisition that moves forward.

Our internal team conducts our due diligence which is a differentiator for us and we augment our internal experience with external advisors as necessary. And as you know, we take a very disciplined approach to valuation and although we don't disclose multiples paid for any individual acquisition, the average EBITDA multiple that we've paid on aggregate for the acquisitions made over the past 10 years is several turns lower than our average turning multiple of 10.2 times over the last decade. So, it gives you a bit of a sense for the implied value created from these acquisitions.

So, how do we measure the success? We look at it both from a qualitative and a quantitative perspective. From a qualitative perspective, we always ask ourselves, are we winning projects that neither of the firms would have been able to achieve on their own? And have we been able to penetrate a specific sector or a specific geography that we couldn't of absent the firm that joined us? And also very importantly for us, has the acquired firm successfully integrated into Stantec?

From a quantitative perspective, because all of our acquisitions are fully integrated into the broader company, we look to our consolidated financial metrics: adjusted EBITDA, net income, to see if they're growing on a per share basis and certainly we look at ROE and ROIC as key metrics.

We've taken a unique approach in the way that we integrate our firms in order to increase the likelihood of success. And that is that we've assigned the responsibility for the integration and the operation for the first one to two years to our M&A team. So not only is our team involved in sourcing and negotiating the acquisition, but they're also vested in its long-term success because they're accountable for it. In this morning, you're going to hear from each of our business leaders about several project wins and successes that they wouldn't have been able to acquire on their own without our acquisition program.

And as I said earlier, our people remain our greatest asset and we have several programs underway to continue to drive forward with our inspired culture.

From an employee engagement perspective, we have a number of employee reserves groups throughout our company. These employee resource groups or ERGs are started to manage from a grassroots' perspective. So these are people who identify with a certain group that will go and start an employee support or an employee resource group. They're not led or governed by senior leadership. We'll provide support when asked, but otherwise these are self-driven groups and there're examples like Women@Stantec, and Pride@Stantec, developing professionals and Latinos@Stantec just as a couple of examples.

We also have a number of programs that we use to empower and engage our staff throughout the organization such as the Career Empowerment Program or our SponsorHer@Stantec program that are illustrated here. I won't go into the details of those programs, but certainly myself or any of our leadership would be glad to chat with you about them at the break.

But the proof of the success of these programs is shown by the data. Our overall voluntary turnover rates are below industry average and this translates into a more stable employee base, more efficient project delivery and ultimately, contributes to our financial success. And while we know that there's always more that we can do, our overall gender and minority diversity values are above industry average and while we're proud of these accomplishments, we know we can do better and our journey continues.

We believe that our inspired workforce supported with the right internal infrastructure will deliver exceptional project execution for our clients. Stantec has literally tens of thousands of projects underway at any one time and delivering them efficiently for our clients is a main focal point for us. We want to ensure that our people are fully equipped both from a technical delivery and project management perspective.

And with that in mind, we've developed our Project Management Ecosystem. So from our perspective, project management is fundamentally about project leadership. And this year, we're going to continue our efforts to build out our PM Ecosystem, processes and tools that support project management, but our primary focus will be on embedding the project management career path. We win projects in a competitive environment, and so the way that we deliver them is extremely important. We continue to execute them well and control our corporate costs, and you can see the success of that in our EBITDA margins, which remain very strong.

We're finding ways to support employees and project managers through increased recognition and a formal program that guides, promotes and rewards innovative thinking and actions. Stantec's creativity and innovation program has been designed to nurture the efforts of our people to explore new or enhanced services for our clients and particularly those that enhance our reputation, our competitive position and ultimately our financial performance.

And to support the increased opportunity for digital services we're providing our clients, we have to continue to focus and invest in our digital solutions. And to structure our approach to advancing digital, we've developed a digital strategy framework, and this framework provides for three distinct areas of focus. The first are technology innovations that add value to our clients. We offer many client-facing services including our work on digitizing water utilities through big data, [ph] big data and analytics (00:31:07), mobile data collection, augmented reality, virtual reality and our work developing geospatial solutions.

The second area of focus for us is creating efficiency and value for our delivery teams to continue to increase their competitive positioning. By employing the most current digital applications, we're able to drive greater profitability by materially reducing the number of hours and people that we need to complete certain design tasks.

And the third area of focus for us is our back office where we have an excellent enterprise technology platform that we build on to create opportunities to drive efficiency, grow project gross margins, and deliver higher quality project outcomes.

So, with that broad overview of strategy, I'll hand it over to Theresa.

Theresa B. Y. Jang

Chief Financial Officer & Executive Vice President, Stantec, Inc.

Hey, thanks, Gord. Good morning, everyone, and thanks so much for joining us here in Edmonton today. Again, my name is Theresa Jang. I think most of you know I'm pretty new to the organization here. There's been an incredible amount for me to learn about this company, about the industry, particularly coming from the outside.

And since taking the CFO role, I'm asked pretty regularly about my early impressions for the company, and I thought I'll spend a bit of time sharing with you those impressions and what I've learned so far.

So, being about nine months into my tenure here at Stantec, I can tell you that joining Stantec has proven to be a pretty great decision on my part. I can see firsthand how this organization really lived those values that you heard Gord review earlier in his presentation and the people that I meet, those that I'm building work relationships with, it's so evident the embodiment of these values. And I think from your perspective, I understand that you would appreciate the importance of having that tone at the top and these values driven from the top of the organization down, and I share all of those values.

From a financial perspective, what I've seen is that Stantec has demonstrated some pretty remarkable resilience after the downturn in 2014 and how the organization has taken a very intentional step toward diversifying and de-risking its overall portfolio. Its use of capital has been sound. Its use of leverage has been disciplined. But as in all businesses, I've seen opportunities and we continue to explore areas where we can make optimizations and continual improvement. But underpinning all of the decisions that I've seen where Stantec has been concerned has been a focus on being committed to creating shareholder value and to maintaining its financial strength.

When you look at our net revenue slide for the last number of years, it demonstrates that resiliency that I referred to, and you can see that after the downturn in 2014, those lower boxes for Energy & Resources and Environmental Services retracted for a couple of years. But if you look at the top of the line, you can see the evidence of the success of our growth strategy where year-after-year we've seen material growth in our net revenue.

The good news is that starting in about 2018, we started to see Energy & Resources and Environmental Services come back and rebound, and we believe that they are on a good growth trajectory as does the rest of our business. And each of our business leaders will go into more detail around their net revenue components.

Our adjusted EBITDA has also grown over the years from under CAD 300 million in 2014 to almost CAD 400 million in Q1 on a trailing 12-month basis. Now, margins have come down. We're asked regularly about our margin profile and will we ever get back to that 14-plus-percent that we garnered back at the height of the oil and gas and community development cycles in 2014? And I don't know that we'll ever see that again barring a pretty big rebound in the commodity sector. But I think what's really important is that not only has adjusted EBITDA as a whole continue to grow, but that as those margins have come down, it's because of an intentional move into the U.S. where the quality of that EBITDA is really high and where we recognize that margins will be a little lower mainly because of the higher cost of employee benefits in the United States. But regardless of that at 11.7% EBITDA margin in 2018 and a projected range of 11% to 13% for 2019, this is still a best-in-class EBITDA margin.

We also look at adjusted EBITDA on a per share basis. And you know, if I took this chart back to [ph] proceed (00:36:13) 2014, you'll have seen a continual increase year-after-year in our per share adjusted EBITDA. There was of course the dip in 2016 due to the funding of MWH through an equity offering. But going back to my comment about resilience, after that equity offering, we saw a slight increase in 2017 but then a really strong rebound in 2018. And again, we expect that to continue to grow in 2019 and beyond.

And the theme of resilience and growth is also showing up in our backlogs, which Gord referred to earlier, growing from CAD 2.3 billion in 2014 to CAD 4.4 billion in the current year at the end of Q1. On a per FTE basis, you can see how it's grown from CAD 147,000 in 2014 to CAD 172,000 per FTE. So we lead the industry with the equivalent of 12 months of backlog for our business. And again, each business leader will give you more insights as to what is in their particular backlogs.

So in addition to being asked about my impressions for the company, I'm asked pretty regularly about my philosophy for capital allocation and how that may or may not differ from Stantec's historical approach. And the good news is that I don't really have a very radical approach to capital allocation, it's pretty – you might call it generic but there's really only so many ways to think about capital allocation. And for me, it's really about a general principle that says, our job is to create for our investors a better return than they might expect to generate elsewhere given some general boundaries of risk profile.

And so for me, that means first and foremost, maintaining a strong balance sheet and liquidity and investing in your internal systems to support your global operations and that's what we've done. Our IT systems, our ERP system is best in class, and as we continue to build it out and to integrate our worldwide operations, it will drive the efficiency in how we do business going forward.

And then as you look at the next couple of bubbles, you could argue that it's really the third bubble you go to next, which is taking your free cash flow and placing it in hurdle clearing investments or acquisitions to create shareholder value. And I believe that this is fundamentally – the biggest part of our jobs is finding those opportunities to invest on behalf of our shareholders and create that incremental return. But we all know that dividends are sticky, we've chosen a number of years ago to introduce a dividend and we've done so on a sustainable basis. And our aim is to continue to grow that in a way that matches our earnings per share and that's an important part of our overall capital allocation as well.

And then I believe that it's really important to have available in your toolkit the ability to buy your shares back. To me, share repurchase is what you do when you have excess cash flow and you return that to your investors. Fundamentally, I believe that given the vast opportunities that we have to invest in acquisitions that we should be able to create greater value for our shareholders by making those acquisitions and building and growing our company, rather than simply returning it to our shareholders.

But having said that, again, it's an important tool because from time to time, as we saw at the end of 2018 and into early 2019, there can be dislocation in your share price. And I think it's important to be able to have that ability to buy your shares back in those circumstances and that that is an important use of your capital in those circumstances. And again, you – all of these things here though need to be done in a way that doesn't compromise your balance sheet.

And so historically, as I look at Stantec over the last 10 years, it's really followed these general principles around capital allocation. Over the last 10 years, about 66% of cumulative capital has been deployed to make M&A transactions and to continue to grow the business. About 10% has been returned to shareholders in the form of a sustainable dividend.

And again, from my perspective, maintaining a payout ratio in that 20% to 25% range is appropriate for a firm like ours and that's what we will try to stick to and again, to grow the dividend as our earnings per share grows. And as I mentioned, we were more active in the last while in repurchasing our shares and that is a tool that we'll continue to use when appropriate.

And as I keep stressing though, the capital allocation approach needs to be tied to a disciplined use of leverage. And again, I think Stantec has historically done a very good job at managing this. Pre-2016, there was never really an issue and perhaps not even a need to designate an internal range for what your net debt to EBITDA should be. But we have gone in the last number of years and set this 1.5 to 2.5 times leverage ratio. This is before the adoption of IFRS 16, and we'll just for today pretend that IFRS 16 didn't happen. It's a range that we've tried to manage to.

And as you look at 2016, you'll see that, again, with the MWH acquisition, we were above that boundary. And we have said and we believe that it's appropriate to – that we're willing to flex above that 2.5 times leverage in the event that there are acquisition opportunities that we believe create value.

It's important for me to point out as well that when we look at and we calculate our net debt to adjusted EBITDA metric that we use in the denominator our actual EBITDA. So we don't do a pro forma and apply a 12-month normalization of the acquisitions we've made. And so naturally, that leverage is going to creep up when we're being acquisitive.

But I think what's more important is for you to look out then what happens after that acquisition and that is that for five consecutive quarters after the MWH acquisition, we brought our leverage back down into that target range and that's really fundamental to the way I think about how we used leverage and what our philosophy continues to be.

And so, as we've moved into the early part of this year, again, the leverage has crept up and it's just peaked up over the top of that range. We made seven acquisitions in 2018. We closed the WGE acquisition at the beginning of this year, and again, we've used our capital to repurchase shares. And we're very confident that that if we extend this out at the end of the year, that we'll be back within the range of 1.5 to 2.5 times very comfortably.

And it's important for me to note as well that where our leverage is today, there's nothing that impedes our ability to make acquisitions today. So we continue to look for and to evaluate acquisitions. We have good access to capital and solid cash flow projections. And so there isn't a pause on acquisitions because of where our leverage is and this is again something that we're going to continue to manage.

And so while we are very confident about the path that we're on, we also know that there are opportunities for us to optimize and to make improvements. And so certainly, DSO is one of those areas. I will tell you that a year ago, I didn't know what DSO was, and now, it's maybe an acronym I use almost every day. So this is really, really important and we understand that this is an important measure of how we use our working capital. And it has crept up over the last 8 to 12 months and it's something that we're very focused on getting after. And so how are we doing that?

First and foremost, it shows up on Gord's scorecard, so it's pretty important to him. The board asks regularly about what this metric sits at. But it doesn't just sort of sit at the C-suite, these are conversations that we've had down to the project level to understand is there a system issue or is there some impediment to getting the invoicing out. And perhaps you can appreciate as we've grown as we have and continue to build out our systems and the complexity of the way that we create and contract our business that there are sometimes some nuances that we're not aware of that's causing a delay in getting our invoices out. So it's kind of surfacing those issues and making sure that we get after them.

It's also been about then identifying which are the projects, which are the clients, who's having the conversation to get after this metric. And so we're committed to bringing this down to 98 days by the end of the year. And I don't think there's anyone at the leadership level or beyond that you would talk to that isn't aware that this is a target.

In terms of our debt structure, I also see opportunities there to improve and optimize our overall debt structure. Currently, it's all in the form of bank debt and again, that's really helpful to have a revolver that we can flex as our cash flows go up and down and manage our leverage that way. But there is also a piece of our leverage that I believe can be termed out to give us a little bit of a different maturity profile to give us a variation in our lender profile and to shift more of our debt toward having a fixed rate exposure and so that's something that we're working on over the next six months.

And as well from a cost efficiency standpoint, this is something that we look at continually. Gord talked about it a lot last year as one of the four key areas of focus to look at how we could reduce our cost, and we were pretty successful last year in bringing our admin and marketing costs down to the lower end of our target range and so we're continuing to do that. But this year, we've taken another look in terms of trying to identify the specific areas that we should focus on where we can make meaningful and sustainable reductions in our cost structure, and so this effort is underway and we do expect to be successful on this.

I can't today give you any more details on what that is, but I would expect by the time we release our earnings for Q2 we'll be able to give you more clarity on what those efforts are and estimate of what we're expecting from a cost reduction perspective. I'll just really quickly reiterate our 2019 targets. They have not changed, but for the way we revised them at Q1 to account for IFRS 16, we're on track here and we're very comfortable with the ranges that we've set out here.

And so in closing, I guess I just want to reiterate that it is really important to us that we maintain our balance sheet and we keep it healthy. This gives us the financial stability we need, it gives us the access of capital that we need. And so this is not something that we're willing to compromise on. We're going to continue to look for efficiencies whether it'd be in our cost structure or in the way we manage our working capital and we're going to continue to look to prudently deploy our capital in a way that creates sustaining shareholder value.

And so now we're going to turn to our business presentations. And before I get these guys to come up and speak, I'll make one last comment. There are a number of metrics that our business leaders have incorporated into their presentations. These are metrics that we don't typically provide. But we felt it was important today to give you a little more granularity and give you the insight into the business around the context that each of them can bring. And so I share that because when we go back to kind of our regular quarterly disclosures, those metrics will not be incorporated. I just want to accept that expectation now, so that I don't get a bunch of calls asking at Q2 where those metrics are.

So thank you very much. I'm going to turn it over to Bob, who leads our Environmental Services Group.

Robert H. Seager

Executive Vice President, Environmental Services, Stantec, Inc.

Well, good morning, everybody. Pleasure to be here this morning to introduce Stantec's Environmental Services. Slides are not advancing, there we go. Yeah. It was good to be able to speak to a number of you last night. Most of the discussion appeared to be around the Raptors, and I'm not providing any guidance on the outcome of that series.

Environmental Services or ES as I will refer to it, is a global business. We have a large diverse team of about 3,500 operating in many geographies around the globe, as you can see. We have over 350 subject matter experts providing technical leadership on over 15,000 active projects.

Acquisitions pay off. I spoke to quite a few last night about me coming from Jacques Whitford, 2009. It really transformed Stantec into probably the dominant environmental service provider in Canada. And we've continued with more recent acquisitions, True Grit in Northwestern Ontario, brought needed presence in that geography and additional four indigenous partnerships.

In the U.S., we follow a similar pattern building strength in key areas with acquisitions like North State Resources in Northern California and JBR that added key permitting expertise in the central U.S. Globally, in addition to key acquisitions in the UK, we drive growth by applying and leveraging our centers of excellence which are primarily in Canada and the U.S. and projecting them to different projects or business development opportunities around the globe.

Here's how we stack up at least from an engineering news record perspective. And I find these results pretty gratifying because this is really a U.S.-based ranking and it underscores our growth in that geography. The U.S. is growing very rapidly from a net revenue standpoint. It's now the dominant geography for ES, and we anticipate continued growth. We're well diversified in U.S. and we show particular growth in the renewable space, particularly offshore wind. Canada has stabilized after a number of years of declining net revenue for the reasons that Gord outlined, and global is contributing at a significant and growing level for ES.

Oil and gas remains very significant for ES especially in Canada where stabilized oil prices and new interest in new projects, start-ups on the LNG front is driving solid revenue. A growing market share led by new long-term contracts with Enbridge and TC Energy in the U.S. is helping with revenue in that area as well.

Power is particularly strong in the U.S. led by an increasing market share in renewables particularly wind power. Projects associated with water whether we're restoring natural systems or permitting new facilities generate significant revenue for ES, particularly in the U.S. Ecosystem restoration is showing strong growth, and we're winning important work. I'll show in a moment the Klamath dam removal in the U.S. which is a particularly interesting project.

This chart shows the impact of declining oil prices on the revenues in Canada as Gord mentioned earlier, although overall, the picture is pretty strong and you see a nice upward trend. Back in 2014, we're very heavily weighted in the midstream sector in particular, so we did a lot of permitting and assessment work for those projects and as that revenue declined, you can see the net revenue share for Canada went down as well.

However, in 2018, net revenues stabilized and are now climbing in Canada. U.S. is showing solid and sustained net revenue growth driven by a diversified service offering, good geographic presence, and a robust economy for our primary sectors. Global opportunities have increased since MWH joined us and the application of our deep knowledge and experience in Canada and the U.S. is accelerating ES opportunities around the globe.

Backlog in all geographies has been increasing at a strong pace over the last couple of years. Our sector-based business development process is working well and we're meeting and exceeding targets in most sectors in Canada and the U.S. Backlog in the U.S. is at historic highs and is trending very well in Canada indicating a good positive outlook overall. The global contribution is growing with key acquisitions in the UK in particular, and key backlog for us here in Canada includes work for LNG Canada and its supply pipe Coastal Gas Link.

Strong organic revenue growth is not an accident or just an artifact of economic conditions. We have dedicated sector-based business development teams that really understand our clients' needs where they're going to need help in the future and we're able to position ourselves to win projects in that manner. We also are – since environmental services often first in on projects, we're often able to leverage ES opportunities into other work for the business lines. I noted earlier that ES has more than 15,000 active projects and you can see that our project size is diversified, we work on projects of every size.

Gross margin has maintained at a pretty good level. U.S. has been stable for quite a few years. Canada declined with the commodity price reduction, but we've stabilized at a pretty good rate. The key point to note is the significance of small projects on our business. Many of these projects are awarded to us because we have a presence in the community. ES people are located in more than 200 offices. This is a big differentiator for us and drives revenue that many of our large competitors can no longer access as they've consolidated to a few large offices no longer have presence in those smaller communities.

Understanding and applying new legislation relating to environmental work is essential for us and a key differentiator. Stantec was one of only two companies asked to testify at the recent Canadian Bill C-69 hearings related to proposed changes to the environmental assessment requirements. Human impacts and the emerging recognition of those impacts is driving tremendous opportunities. I mentioned ecosystem restoration earlier is estimated to be a $9.5 billion industry annually in the U.S. alone. And we strive to be at the leading edge of restoration, design and implementation. We're seeing really strong growth in this area.

Climate change effects, whether they manifest in extreme weather events or more generalized changes front of mind, for most government agencies, [ph] resiliate (00:56:44) design is the key to managing effects on infrastructure, natural systems and people. Our design and permitting teams design sustainable systems adaptable to these changes. The application of emerging technology and data management and the services for our clients is a critical differentiator for us and I'll describe a couple of examples a little later.

The world still runs on oil, but we understand and expect that change to occur over time. We're leaders in environmental assessment and permitting for really for any type of development. So whether it's renewable projects or conventional oil and gas, we're in a strong position to [ph] win that work (00:57:25).

Diversified services across many geographies assures us that we'll be in a position to take advantage of business opportunities as they emerge. Our business development process is designed to understand where the future opportunities will be, and create and maintain the key client relationships to enable us to win the projects. Along those lines, our account management program is working and growing very well. It's extremely effective in optimizing win rates and in reducing our cost to win projects.

Our overarching consideration is safety. A key part of our culture in considering where we go and what we do in environmental services performance in this area is not optional. We demand it, as do our clients. Positive long-term relationships with our clients is a fundamental of successful consulting and we strive to be recognized for expertise in providing environmental advice and solutions. Our presence in all those communities I've discussed is important as we drive considerable business through those local connections.

Our vast technical network of 350 subject-matter experts allows us to always put the right team in front of the client at the right time. Innovation is fundamental to our success, and we strive to be leaders in turning good ideas into new services that meet our clients' needs and I'll show you a few examples at the end of the presentation.

The indigenous partnership companies we've helped to establish across Northern Canada strengthen our relationships with indigenous peoples enrich these communities and drive business opportunities. We have 10 partnership companies across Northern Canada, the oldest of which I set up in Inuvik almost 20 years ago to take advantage of the Mackenzie Valley gas opportunity. They've proven to be very effective in building key relationships in remote areas, helping indigenous communities in many ways and helping our clients achieve their goals.

Here are a few examples of how we've taken good ideas based on emerging technology and enhanced data analytics and developing services. So, environmental DNA. I don't know if I have – I have to get much of a primer on DNA. It's present in all living cells. It provides a unique genetic code that can be detected and used to determine what type of plants or animals are present in a particular location. Fish, for example, will shed skin particles and excrete waste into a stream or river. This provides enough DNA sometimes up for two or three weeks after they've been present in that water for our very sensitive instruments to detect and determine the presence or absence of key species.

Now, [indiscernible] (01:00:29) numerous projects in Canada and the U.S., this technology is changing how we do things for the better. We've been involved really from the development of this technology, working with various academic institutions to create field tools that are really effective. We can now, without mobilizing large field crews to remote areas and having potentially negative interactions with wildlife, determine the presence or absence of species concerned in real time. This used to take weeks or even months to get results for DNA analysis.

New applications for eDNA technology are endless. And through a number of key partnerships, we work with the latest advances in science and equipment to bring new approaches to our clients. This is a good example of being able to commercialize a new technology to the benefit of our clients which helps to [indiscernible] (01:01:21) relationships and opens doors for other opportunities. We often hold meetings for our clients where we showcase this sort of new technology and it's often a great way to drive business in more conventional areas as well.

About 50 kilometers off the northwest coast of Australia is Barrow Island. It's Australia's largest onshore oil production site. For over 15 years, our field teams have been there conducting soil and ecological investigations for Chevron. In recent years, we've been investigating new opportunities for environmental assessment. So we've been using remote sensing techniques, particularly using object-based image analysis where we can segment data into objects with similar spectral reflectance, so you can sort of see that change across the slide there. The result is we can remotely achieve with one analyst what it took a team of people to do.

We can avoid the risk of travel and working in a remote and harsh environment. In addition, we are exploring the potential to use the technology to detect potential environmental impacts through changes in vegetation. This technology is in use currently around the globe for our clients monitoring for oil spills, assessing salmon habitat, looking at climate change impacts in Northern Canada and determining the effects of military training activities in Virginia just to name a few examples.

I mentioned the Klamath dam removal, this is the largest dam removal in U.S. history. There's a significant ecosystem restoration component to the project. We expect total fees to be around CAD 15 million. It's set to begin in 2020 with dam removal to begin in 2021. So, we have a large multidisciplinary team working on the ecosystem restoration component intended to restore the Klamath river to what it was 100 years ago. So, this will be an extremely interesting project to watch as it unfolds.

This is Refugio Beach in California, the site of an oil spill. It's generated more than $12 million in fees, and we typically monitor these sites for at least five years post event, making a spill response a long-term project. We invest significant funds to keep about 350 staff trained and ready to respond to emergency events in Canada and the U.S.

And typically, these events involve release of a polluting substance and our teams participating containment recovery, remediation planning and monitoring. We have many established master services agreements with companies include large operators like Plains Midstream, Enbridge and TC Energy. We've designed custom digital tools to facilitate rapid information gathering and reporting back to our client.

The INNESTO project just awarded to our ES team in Milan, Italy. It's an iconic housing project working to be the first zero-carbon project in Italy, intended to be a showroom for Milan sustainability policies. Our team will use innovative in-situ bioremediation techniques to treat soils on site and reduce the impacts of removing very large quantities of material. Remediated soils would be at the heart of the development providing green space and agricultural features such as gardens and living roofs.

In conclusion, the outlook for ES in 2019 is strong. We've got a great backlog, particularly in the U.S., and a strong roster of clients.

Thank you. I'll turn it over to Kirk.

Kirk Morrison

Executive Vice President, Energy & Resources, Stantec, Inc.

Thanks a lot, Bob, and good morning. For those of you that I haven't met before, my name is Kirk Morrison. I'm the Executive Vice President of Energy & Resources, civil engineer based out of Calgary, came to join Stantec in 2012 as part of an acquisition, and I've been in this role, my Energy & Resources role now, since the beginning of 2016.

So Energy & Resources. Energy & Resources, we are 2,700 located in six continents, annual revenues of about CAD 0.5 billion. There's four businesses in Energy & Resources. There is our oil and gas business, mining, power and waterpower and dams. Our oil and gas business is largely in Canada where we're very mature in the upstream, midstream, and integrity markets, and developing a decent presence in the downstream market.

Our mining business is a mixture of Canadian, U.S., and global operations. We design underground mines, we design surface mines and we design water management and tailing management facilities at mine sites. Our power business is about 60% in Canada with 40% in the U.S. Our waterpower and dams business is about two-thirds in the U.S. and one-third globally.

Important point to note is when you look at our power and our waterpower and Dams businesses together is we can design generation, just about any type of generation with the exception of nuclear. So we do wind, we do solar, we do gas, we do hydro, we do transmission and distribution, energy storage both pump storage and battery storage, and then micro-grids and distributed generation. So we cover – with the exception of the nuclear business, we cover the entire sector.

Similar to Bob, here's a list of where we rank in the ENR Top 500, and very proud of our position in the industry. As far as what the business looks like revenue-wise, geographical basis, we're about 30% of the businesses in the United States. About half of it is here in Canada and the remaining 20% is globally. As far as a mix of the different sectors, about a third of the business is oil and gas. But a quarter's mining and – between 40% and 45% is power.

Here's a slide showing how our revenues have changed over the years. And I guess I'd make three comments on – or a few comments on the last three slides. You can see 2014, when we were long in Canada, long in oil and gas, and then we were hit hard during the downturn, we stayed profitable and we were well-positioned for the recovery which you can see happened in 2017, 2018. But now as we sit here today, like we are much more diverse both geographically and by sector. And in my opinion, it puts us in just a much stronger position in the industry.

And the reasons for that is we're less susceptible to fluctuations in the Canadian resource market. We're better positioned for consistent organic growth because we've got more power more in the U.S. and more globally. And overall, we're just a better reflection of the industry right now, like we're longer in power, longer in U.S. and longer globally.

Our backlog. Our backlog, we've added a lot of staff over 2017 and 2018. So you can see that our backlog per staff for full time equivalent has declined over the past year or so. So our number one issue and priority right now is replenishing back – replenishing and building the backlog and so we've got the [indiscernible] (01:10:19) perhaps on sales right now.

Revenue by project mix, you can see it's a good mix of small-, medium-, and large-sized projects. Gross margins, just north of 50% and that is a very healthy margin for our business and we're confident that we can deliver good bottom line with that margin.

A few comments on what we're seeing in the industry, I'd say there's four main trends. The first one is we're seeing a demand for project delivery services and those are services outside of our traditional design services. So the things like safety, things like project controls, document controls, scheduling, estimating, procurement, construction management.

Second major trend is what both Gordon and Bob talked about the energy remix and this is just a shift in our energy consumption and production to respond to climate change. So there's three elements, I think I talked to a few of you there last night about them. The first element to it is replacing hydrocarbons with electricity as the primary energy source. So, instead of the – second trend is restoring hydrocarbons to the raw material. So instead of burning hydrocarbons to make energy going forward, we'll make products [indiscernible] (01:11:43) like this thing I'm holding here. And the third trend is increasing the supply of electricity across the globe. The third trend we're seeing is reinvigorating infrastructure and this is resiliency against climate change. It's replacing aging infrastructure and it's sustaining capital projects.

And the fourth and final trend is just a whole renaissance in the industrial sector. We're designing hydrocarbon processing facilities to make products where the ag business is busy and the forestry industry is busy right now too. So how we're responding those things? So basically two ways. On the energy remix, reinvigorating infrastructure and industrial renaissance is we're following our clients. On the energy remix like [ph] we are design (01:12:31) and with the exception of nuclear, we're designing every form of power generation. We're doing all sorts of wind, all sorts of solar, all sorts of hydro, gas. We're doing energy storage. On reinvigorating infrastructure, the transmission and distribution business is busy right now. Our designs are fireproofing the West Coast and hurricane proofing the East Coast.

On the mining side, management of tailings is we're very active in that right now. And on the industrial side, in addition to hydrocarbon processing, are probably our two biggest design projects last year were an ag project which I'll talk about it here down in Lethbridge and then a tissue plant down by Atlanta in the U.S.

And then, so our second response to this is in the area of the project delivery services where we're leading our clients. Our clients are looking for solutions to execute their projects more effectively. And so we're leading them in developing solutions for services beyond design. So in addition [ph] to providing (01:13:40) people, we've developed digital solutions to basically support their procurement and construction activities. And these solutions allow us to collect data in the field, compile them and turn them into financial and regulatory reporting.

A couple of tools which I've mentioned up there, mTools is a field digital data collection system which MWH brought with them and we've applied that to construction projects. And then we've developed a system project management complex which really is the – collects a bunch of – all the data, pulls it together and spits out reports on it.

I'd like to highlight a few of the really cool projects we're working on. The first one is a hydro project in Pakistan called Neelum-Jhelum. It's for the Water and Power Development Authority of Pakistan or WAPDA. It's about 1,000 megawatts. We've worked for WAPDA for over 60 years now. And our services [ph] in there were a (01:14:42) full range of geotech design, construction management.

Second project, I'd love to tell you who the client is, I'd love to tell you where he is but I can't. But it's a major mine globally. And in this, we've designed the – this is where we pulled all the resources that Stantec in. We're designing the underground component of it. We're designing the water and tailings management. And the services which have covered the entire stages of the project from exploration, the planning and permitting to ops and maintenance there.

Third project I've mentioned before, this is a potato processing plant for Cavendish Farms down in Lethbridge. And this rendering does not do this project justice when you're down there. It is a huge building in an impressive automated environmentally sustainable facility. It's CAD 360 million capital cost and it basically replaces the company's existing plant down in the Lethbridge area.

The next project or the next I guess program I'd like to mention is really an extension of 20 years of compression work that we've done for TransCanada or TC Energy as Bob noted [indiscernible] (01:16:10). And this is the Saddle West program. It's four brownfield stations on the NGTL system. And we do – we provide design on that procurement construction support. And like I said, this is an extension of the projects we've done for TC over the last 20 years.

So just a few general comments to close on. I guess first of all, the state of the business right now, we came through the downturn very strong. Our core staff and our client relationships are well intact. And our team is tight and our staff are really engaged. We're very well diversified both geographically and by sector, and so we're set up to respond well to the market trends. And so overall, we believe we're really well positioned to respond to a market that we think got a lot of upside.

So anyway, thanks a lot for your time here today and look forward to talking further and answering some questions. Back to you, Gord.

Gordon Allan Johnston

President, Chief Executive Officer & Director, Stantec, Inc.

Thanks, Kirk. You may notice when we're changing people, we're being very cautious. Remember, for those of you who were in Boston, do you remember when Dan fell off the stage in Boston? So we've been talking nobody be Dan. So we're being very cautious the way that we're moving around.

So we'll move into a question-and-answer period now. We have two mobile mics that we can bring to if you're interested in asking a question. And because we're being webcast today, if you could identify yourself and the company that you're with as well just so that those of us not in the room will be able to understand. So, go ahead, Chris.

QUESTION AND ANSWER SECTION

Chris Murray
Analyst, AltaCorp Capital, Inc.

Q

Thanks. Chris Murray with AltaCorp Capital. We talked about some of your guidance and targets, but the one thing that we didn't hear you talk about is sort of your longer-term goal, the 15% sort of growth number. You want to elaborate a little bit now that you're past construction how you think about that evolving? There's a certain skepticism about the law of large numbers about can you keep going at 15% a year?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right.

Chris Murray
Analyst, AltaCorp Capital, Inc.

Q

And especially if you think about, historically, it's always been kind of 5% organic and the rest we'll figure out with acquisitions. But historically, over the last few years, we've seen kind of – now, that's maybe not 5%, it's 2% or 3% as the businesses evolve. So any thoughts you have around how we should think about growth kind of longer term?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right. No – good question. Thanks for that. We're in the midst of our strategic planning process right now. And so, we're – last couple of days, we actually met as an executive leadership team. We're going to take [indiscernible] (01:18:49) information together and meet with our board coming up near the end of August. So this 15% number – as you say the law of large numbers at some point catches up with you.

We've also had a number of people in this room say be careful of a target like that. So as an example, at the end of last year, our five-year CAGR on growth was 12.9%. So let's call it 13% which is pretty good numbers. But what we hear is – but you said 15% and you came in at 13%, so you didn't hit it. So maybe you should tell us 10%. And then when you keep doing what you're doing and come in at 13%, you beat the target. So we're looking at those things.

Chris, we're also thinking about – we've had – you know that we're very disciplined in the way that we value and acquire firms, and we don't want to go outside that value, that layer of our continued discipline. And so we've had some folks say over time too, if you say 15%, we relax your discipline at some point to do something just to hit that target. From our perspective, certainly, the answer to that would be no, but so we are certainly looking at that overall 15% target. We'll go to the board in August. We'll have some discussion with them then. Our strategic plan will be formalized in November. So certainly, sometime after that, we'll be able to come back with those numbers.

Chris Murray
Analyst, AltaCorp Capital, Inc.

Q

Right. Thank you.

Michael Tupholme
Analyst, TD Securities, Inc.

Q

Thanks. Mike Tupholme, TD Securities. Gord, you talked a little bit about acquisitions and how you get a lot of inbounds and then also at the local level, that's one of the main ways you source. But can you elaborate a little bit specifically not so much on the inbounds but how you do source those acquisitions, some of the things that your teams are looking for?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Sure. And just on the inbounds, we probably get one or two, sometimes a day. Now, typically, those are ones that are smaller and aren't of particular interest to us, so those ones are often just discarded. But we know with our teams in particular we've been consistent that we want to grow in the United States. We want to grow in water. We want to grow in transportation. We've talked about those certain geographies. Part of that is driven by either the projects that we currently have or those that we see coming down the pipe. So we're actively looking for firms in those areas, environmental throughout the U.S. and at water and transportation, both coast and in the Gulf area.

But then outside of North America – and we've known the North American market for decades. But what we really got through MWH joining us was that global platform which really has opened up the universe of additional firms that are available for us to consider, so focusing significantly in the UK, focusing in Australia and New Zealand, and now starting to work a little bit more in the Nordics and a little bit of Western Europe. So the things that we look for are first and foremost, a strong firm that's capable.

Early on in our acquisition history back in 1990, remember the time, at that point, our folks were looking for let's buy fixer-uppers, because we can get them cheap and then we'll bring them up to – where we need them to be. But that was a huge management distraction. So now when we're looking for firms, we're looking for firms with good relationships, with good backlog, with good bones that we can bolt on to our already strong groups. We also look a lot for cultural alignment. So we're looking for firms like Stantec that aren't command and control because we want our people through all levels of our organization to be engaged with clients, to be engaged with sourcing work.

Some firms that we talked to have had a strong leader for their entire tenure and everyone basically sits down and we sometimes call it the baby bird syndrome because they sit at their desk just waiting for people to feed them work. Those aren't the types of firms that will succeed within Stantec. So we're looking for people, for firms that have an entrepreneurial bent that are strong in their geographies, and then we'll also look at what are the reasons why the firm is looking to sell. Often, if it's held by one or very closely held by one or two owners and then the majority of the employees below that just are employees, we'll find that if the people at the top when they are just looking to crystallize their investment and cash out and what does that leave us if those people move on, what does that leave us with the employee base particularly if they're not engaged with clients in securing work.

So just a few of the things that we look forward, and then of course there's all the IT due diligence, the project due diligence, the tax due diligence and all those things that are routine that we need to do. But also key – and I mentioned that there briefly is that we do the vast majority of that due diligence internally. So I know other firms outsource that, but we do it internally. And the reason for that is that our teams are really good at looking for the things that are important to us.

Derrick Richard Gut
Analyst, Jarislowsky, Fraser Ltd.

Q

Hi. Derrick Gut from Jarislowsky, Fraser. Maybe for Theresa, what percentage of F 2018 revenues was fixed price versus time and material? And then maybe if you could speak to or if you know the trend of that over time and then what's in the backlog fixed price versus [ph] time and material of the cost (01:23:53)?

Theresa B. Y. Jang
Chief Financial Officer & Executive Vice President, Stantec, Inc.

A

Yeah. I think when we looked at that for 2018, it's roughly evenly split between fixed and time and material. I think as we go forward, we're not really seeing that trend change a lot, but I will confess that that is a piece of information as we gather through our ERP system. There is a bit of work we need to do to really tighten up before we can be very confident in where it is, but it roughly evenly split.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Jacob Bout, CIBC. One slide that caught my attention was a win-loss ratio at 53%. Seems pretty good. How does that compare to the rest of the industry? And is this specific to the areas that you're actually competing in and how does that look historically?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. I think typically what folks would say is if you get a one-third win-loss ratio, then that's sort of what people typically shoot for. So, that 53% win-loss ratio was specifically related to our strategic pursuit platform and our corporate campaigns. So those are the ones that we've identified as being important for us going forward. We've identified them through our account management programs. And so strategic pursuits is a larger number of those and we focus on positioning in advance, we focus on the proposal, the presentation.

We've developed a program that we've called our Position to Win Program, and what that is, is a bit of a sales training program for our technical staff throughout the organization. We started rolling that out in 2018 and we're continuing to roll that out through now. And really what that has to do is to provide those frontline employees who are just beginning to get engaged – and even the more experienced getting engaged in pursuits to understand what does it take to cold call a client, how do you ask for the close, how do you write a good proposal, how do you do a good presentation. Those sorts of things that we're just looking to expand the overall level of professionalism in our sales organization.

But above that, we have our corporate campaigns. And those are – always stay in the range of 10 to 12 of those and those are elevated to our C-suite, so we're engaged at a C-suite level in those major campaigns. I've gone out for several of them and met with a selection team, talk to them about what are – I see what's going to be in your proposal, but what's really important to you. So we try to elevate our game and those corporate campaigns we report to our board on a quarterly basis as well our status of those.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

[indiscernible] (01:26:28-01:26:34)?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. We are winning more. Things have certainly gotten more competitive in general in the marketplace. But I think our overall win-loss rate is above 40%. Is that the number that we use? Yeah. So, overall in the company, we're above 40%. But certainly on those strategic pursuits and corporate campaigns, we're running about 53%. Okay. I think Max had a question too or did you Max?

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

[indiscernible] (01:26:56)

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Oh, I'm sorry.

Mark Neville
Analyst, Scotiabank

Q

Sure. Mark Neville, Scotiabank. You mentioned earlier critical mass in some of your global geographies. Just hoping you can provide some sort of numbers around that, sort of where you're at, what critical mass means in those geographies. And maybe just a follow-on for Theresa. I'm just curious when you talk about the balance sheet, why you don't use pro forma numbers.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Okay. So, I'll start and then Theresa can chime in. So, in terms of critical mass, when we look at Canada, we're 8,000 or 9,000 people in Canada right now. And while we can still infill and we could grow by 1,000 or 2,000 or 3,000 people there, I don't think that we'll ever double our size in Canada. But when we look at the U.S., they were 9,000 or 10,000 people in the United States. Over time, we easily, I believe, have the capacity and we've seen it in – from the competitive set, we could be double that size in the United States.

And then as we look at some of the geographies outside, so we're roughly 2,000 people right now in the United Kingdom. Maturity for us there could be in that 3,000 to 5,000 person range. Now, again, we've talked about taking a bit of a pause in the UK while we assess more on Brexit and Cath's going to talk a little bit more about what she sees there in the UK from a Brexit perspective.

We've talked a lot about Australia and New Zealand as well. So, if you think about New Zealand, we're 750-ish people in that area. Could we double there? Maybe, but the market wouldn't support a lot more than that. But in Australia now with the addition of WGE, we're roughly 1,000 people there. And maturity there for us could easily be in that 3,000 to 5,000 person range as well.

So those are the types of numbers that we're looking at. Those are the types of areas that we're continuing to focus on. And then as you begin to look at the Nordics and some of the Scandinavian countries and so on, we currently have no exposure there. Some of our competitors are there but we really have very limited to no exposure. So we have, I think, opportunities to move into those regions as well.

Mark Neville
Analyst, Scotiabank

Q

Will that happen before [indiscernible] (01:28:58)?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Some of these things, we're always looking to see. Acquisitions are sometimes a bit lumpy as to who comes to market and when they'll come. So while we have our plans, we're still looking opportunistically at what might come along in some of these other regions too. And then, Theresa, as to the pro forma?

Theresa B. Y. Jang
Chief Financial Officer & Executive Vice President, Stantec, Inc.

A

Yeah, it's something that we've given a fair bit of thought. There's a variety of reasons why we've chosen not to apply our pro forma. I think the biggest reason is there's so many assumptions that you're going to bring into that calculation that it's one thing for us to do and to model internally as we assess what our leverage levels will be with and without that acquisition. But to put it out in the public marketplace and to say well, is it based on what the historical earnings have been, is it based on, well, if we combine with Stantec and we're winning additional work, what should we assume there?

So it's just from my perspective, a cleaner approach to it. I can point to how I calculated that. And then you can bring your assumptions as to what you think the rest of the 12 months will look like.

Mark Neville
Analyst, Scotiabank

Q

[ph] But I think (01:30:03) here's my question. Do you consider that looking at leverage and M&A and...

Theresa B. Y. Jang
Chief Financial Officer & Executive Vice President, Stantec, Inc.

A

Yeah, absolutely, yeah.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

[indiscernible] (01:30:11).

Q

[indiscernible] (01:30:12) Can you comment when I look at your balance sheet and I look at the focus on acquisition and I kind of just wonder given where the leverage is today, how are you going to fund like some major acquisition if you do pursue them? And also maybe Theresa can comment in terms of what she's thinking about in terms of the debt and she said maybe there's opportunity there.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

So, maybe both of those, you can take Theresa.

Theresa B. Y. Jang
Chief Financial Officer & Executive Vice President, Stantec, Inc.

A

Sure. So, in terms of our balance sheet and where our leverage is today, it goes back to the point I was trying to make earlier that with the ebbs and flows of our cash from operations, we're very comfortable that our leverage remains in that 1.5 to 2.5 times coverage relative to adjusted EBITDA. And our modeling and forecasting for the rest of this year bears that out. And so, as the acquisitions come along, for me, it's a question of do we have the access to capital, what does our cash flow from operations look like. But as well, when we look at the facilities we have available to us through our bank agreements, we have the availability to do so.

We have an accordion feature for an additional CAD 400 million that we can tap into in tranches. We don't have to take all of it at once and that in addition to having provisions in our covenant package that lets us flex above the ratios that we have to live within in any – at any given time gives us the ability to do that.

So, again, we're going to be very careful as to when and how we move outside that range with a view to how we bring the leverage back into that range over the course of a 12-month period. And all of those combined then give us the confidence that our balance sheet will stay in good shape.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Max?

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Okay. Thank you. Max Sytchev at National Bank Financial. A question in terms of organic growth rate profile in the U.S. I mean I know that it's really hard to compare Stantec to other firms in the States, but I think most of the firms have been growing at like 5%-plus, if not more. And when you talk about Stantec maybe doubling the size in the U.S. in terms of the head count, why not be quintuple or even more than that because, I mean, way more population in the U.S. So is this the question right now of coverage where you have some spots that are missing and that's what's leading to lower growth, or what's driving that discrepancy between your kind of low-single digit growth rates versus when investors are looking at Tetra Tech, Jacobs talking about even double digits?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Thanks.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Good question, Max. So one point, when we look at some of the other competitors, you mentioned Jacobs, you mentioned Tetra Tech. They have significant exposure to the U.S. federal government and we're still emerging from a U.S. government perspective. And so I do see and we talked about that at our strategic planning meetings over the last couple of days that being a significant area of opportunity for us, is to increase our presence with the U.S. federal government.

In terms of could we double or could we triple or quintuple in the U.S., absolutely. Those things could happen, Max. But right now, we're kind of looking at maybe a doubling in the U.S. at this point and then continuing our focus externally as well. Yeah.

Derek Spronck
Analyst, RBC Capital Markets

Q

Hi. Derek Spronck at RBC Capital Markets. Gord, with your backlog of CAD 4.4 billion, is that allowing you to be a little bit more selective on the projects that you are bidding on? And are you seeing any sort of incremental pricing lift in any of the sectors or verticals that you're involved in?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right. So you're right, having a good backlog is great. We also want to chew through that backlog, [ph] be able to (01:34:07) continue to increase our organic growth numbers. But we are being discerning, we certainly aren't chasing low margin work by any means just to increase the backlog because we're already feeling very strong about it.

And actually, it'd be really interesting to chat with either Bob or Kirk could mention how in their business, particularly in oil and gas, we saw significant margin compression in 2014, 2015. And while it hasn't increased – fully expanded back, we're seeing some green shoots about increasing margins and maybe you guys can comment on that.

Robert H. Seager
Executive Vice President, Environmental Services, Stantec, Inc.

A

Yeah, I would say it's certainly fair to say in Canada in particular, we were really squeezed from 2014 to 2017 from a rate point of view but that is starting to ease. And as we see more capital moving into LNG expansion and the supply pipes and hopefully some oil pipelines to Tidewater, rates are getting better, so we're going to see some margin increase there.

Derek Spronck
Analyst, RBC Capital Markets

Q

Just one more follow-on, if I could. With barring a rebound in resources but you have a bunch of cost efficiencies that you're looking to explore and presumably just a better supply demand dynamic in the industry, curious to know why a 14% EBITDA margin isn't possible.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right. Well, I showed that one graph about our decrease in the amount of percentage of our revenue from Western Canada. Back leading up to that 2014, oil and gas was rolling, land development was rolling. At the time, the sort of the discussion in the industry was if somebody could fog a mirror they were hired because the focus at the time from the clients was on getting the work done quickly and getting it done well and cost was less of a focus for them. So margins were good. And again at that point, we're primarily Western Canadian focused back in some of those time periods.

But as you look now as we've expanded into the United States, it's a lower margin business. In the United States, healthcare costs are higher, [ph] French costs (01:36:16) are higher. So, as now back when we were 14%, the majority of our work was in Canada, majority was in Western Canada. And those markets were on fire. Now, we've diversified from that but we paid the price for that in 2014 and 2015 when that market suffered. Now, we've diversified more out of that cyclic type of business, we've got – and we've grown more into the United States and of course, globally.

So I think it would be really difficult and none of those margins, United States are globally are 14% type margins and Western Canada truly isn't any more either. So it's just tough.

Benoit Poirier
Analyst, Desjardins Securities, Inc. Q

Okay. Perfect. Benoit Poirier from Desjardins. And my question is for maybe Gord and Kirk. If we look at the Energy & Resources, obviously, you have a big franchise in the oil and gas in Western Canada. If we look at the split, it's almost a 52% in Canada. Could you talk a little bit about the desire to replicate that strong oil and gas presence in Western Canada in the Southern – in the U.S. basically and would it be done organically through an acquisition and can you try to replicate that business opportunity in the U.S.?

Kirk Morrison
Executive Vice President, Energy & Resources, Stantec, Inc. A

Yeah. Benoit, I think the U.S. is probably 10 times the market of Canada. So clearly we would. I think timing in the U.S. is very important. It's been very hot, I think there's probably some question as to whether the whole Permian play is sustainable long-term. So I think we'll pursue it, but pursue it thoughtfully and make the right choice.

Benoit Poirier
Analyst, Desjardins Securities, Inc. Q

In terms of matrix, obviously whether the margins could expand from the current level if there's an opportunity, what kind of matrix would give you some comfort that you've got to see some – or you could see some margin expansion into the Energy & Resources sector?

Kirk Morrison
Executive Vice President, Energy & Resources, Stantec, Inc. A

When you say matrix...

Benoit Poirier
Analyst, Desjardins Securities, Inc. Q

Metrics.

Kirk Morrison
Executive Vice President, Energy & Resources, Stantec, Inc. A

Metrics, I'm sorry.

Benoit Poirier
Analyst, Desjardins Securities, Inc. Q

Metrics [indiscernible] (01:38:28) WTI or what would make you some comfort that margin would go up?

Kirk Morrison
Executive Vice President, Energy & Resources, Stantec, Inc. A

You know, I've been I've been consulting in this business for probably 30 years now and it's cyclical. And so you, the way you do well in the Energy sector is you ride the waves and then – you ride the waves and then you see when the troughs are coming and you prepare for them. So, I don't know if we'll see, like I said at 50% I'm very comfortable that we can run a profitable business out of there but you have to manage it efficiently. And so we have a higher percentage of contract and term staff and that allows us to be profitable at that margin.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

And the other thing that's different really about Kirk's business is while the margins might – the gross margin might be a bit lower, the utilization rates are considerably highest, the highest of any of our business operating units and so that combination of high utilization and the lower margin still is a good business for us.

Benoit Poirier
Analyst, Desjardins Securities, Inc.

Q

Okay, perfect. Thank you.

Q

Just to follow-up, I noticed today and yesterday that the entire C-suite has split up Calgary, Edmonton, U.S., so Scott, Tina, Theresa and yourself. Does that – it kind of counterintuitive to the fully integrated M&A model and is there any plan of getting the C-suite all in one building, all in one floor, the ability to talk to each other without having to make phone calls or schedule meetings or travel? Just I think your peers and they're all pretty much all on one floor and just curious your thoughts on that in the future.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. We've always had a distributed leadership model. We have people scattered out wherever the clients are and wherever their lines of business are. Cath is in the UK. We have a leader in Australia. As you say, we have them from Kentucky to Calgary to wherever they might be. I don't see a need at this point to bring everyone together. We're in constant communications. We have a fantastic back office system, Skype and things, we're always in contact. And we're often on the road. So I'm very rarely in Edmonton or maybe 30% of my time I'm in Edmonton. The other time I'm out either meeting with our leaders wherever they are or we're together meeting with clients. So at this point, there is no – we're not really thinking at all about bringing everyone together to Edmonton.

Yuri Jonathan Peter Lynk
Analyst, Canaccord Genuity Corp.

Q

Hi. Yuri Lynk at Canaccord. Just looking at the chart that you've got showing your net revenue over the last 10 years and adjusted EBITDA, and obviously, there's been some margin erosion as we've talked about. If we look 10 years out from now in relation to the 14% and this year's guidance, our margins going to be similar to where they are today or are they lower in the markets that you're trying to grow, so you would think that there would be some more margin erosion if we look like way out?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. We're not banking on margin erosion further from where we are. In the pre-IFRS 16, we're still looking at that 11% to 13% and last year, we were 11.7%. So we're comfortable with those ranges. As you move into lower margin areas, you just have to continue to execute well and continue to control your costs well. So I think at this point that guidance at 11% to 13%, we're still comfortable with.

Yuri Jonathan Peter Lynk
Analyst, Canaccord Genuity Corp.

Q

Is there an aspect when we think about global, I mean, you've got a global ERP build out. I think you've got a lot of overhead because of MWH. I mean, does that play a role to in kind of preserving them – that margin and that you can – the infrastructure is there you just need to bolt on to it. How does that play out?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

That's it. That was exactly our philosophy. As we – back and we looked at that 1990 to 2015 period of time was where we developed our ERP really in North America. And that's been really efficient. So as we add firms we just bolt them on to our ERP. MWH gave us the opportunity really to look globally about what we want to do from that perspective. And we built it out in Australia, the UK and New Zealand. So Australia and New Zealand are in place.

We've developed it for the UK. We'll be rolling that out here shortly. And – but I think that's exactly to your point the heavy lifting has been done. We kind of saw that in some of the SG&A through 2016, 2017. Lot of heavy lifting, a lot of that Oracle is that's tough work to get that out and globalize for these different companies – countries. So our expectation now is that you're right, that we've – the backbone is in place, the IT architecture is in place now with Skype and Microsoft Groups and all those things that we're working on. The Oracle ERP is or soon will be all rolled out and that is our plan exactly going forward is to continue to bolt these companies on.

Theresa B. Y. Jang
Chief Financial Officer & Executive Vice President, Stantec, Inc.

A

Yeah. I'll just make one sort of small tweak to the comments Gord made. We did just recently complete our implementation in Australia and New Zealand. It's a huge effort and a major investment but the efficiency that will come from that are going to be very important to us. We're just now in the planning stages for the UK. And so we've got a lot of that work to do over the next 12 months and with the anticipation that a year from now the UK will also be on our global platform.

So still a little bit of work to do to get there but I think the effort of having mapped out and planned how to do it in Australia and New Zealand, again that's kind of a step change taken there that will leverage that knowledge into how we do it in the UK but still some work and some costs associated with that.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Great. [indiscernible] (01:44:19)?

Q

Two questions. On your strategic pursuit initiative, as the market changed so much that that has become a big focus or is it just taking the initiative to do this? And does your client require like to meet C-suite people to –

before they give you the deal? That's one. Then on your transaction notice, in the industry, will that require more capital spend on Stantec's part or not?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

So firstly, with the – our corporate campaigns program and our strategic pursuits, we haven't seen a significant change in the industry. One thing that we've been able to do over the past number of years is that now we can go after even larger projects that perhaps we weren't able to before. And in a lot of those, we're now at the prime rather than having to come in as a sub.

So, as we go after those larger more significant pursuits, you just have to make sure that you position properly that you understand the clients' issues. But no, I've never seen a situation where they've required the C-suite to come and see them before they make an award for us. But on these very large pursuits, if we can have somebody in our C-suite or a very senior executive leader go and meet with the client and meet with the selection team, it just shows that our interest and our commitment to that client.

And in terms of increasing capital spend because of the changes in the market, other than the work that we've done on our IT systems because of now of our globalization perspective, I don't see the need for any additional – for our capital spend to be higher. It was higher last year of course because of our movement into this office space. But I think we'll see our overall capital as a percentage of net revenue come back to those more typical numbers where they've been the last number of years.

Michael Tupholme
Analyst, TD Securities, Inc.

Q

Mike Tupholme from TD Securities. There's a lot of talk about the diversification that's occurred over the last several years at the company. And obviously as you expand globally, that's going to add another element of diversification. But from a practice area perspective, do you like the mix of the business today or would you prefer to see some further changes to that mix?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. We're actually very comfortable with the mix where we are now. We said we've diversified the portfolio so we're less exposed to oil and gas as we were coming into 2014. I think Kirk did a great job of explaining that. But I think in terms of an overall business lines that we're in, we're comfortable with that and we're not looking to add anything new at this point.

Michael Tupholme
Analyst, TD Securities, Inc.

Q

So you're not looking to grow any particular areas or contract, I mean Energy & Resources that you like the percentage of that today versus what it was previously?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. I think we feel like we've de-risked it a bit now and we're now much more reliant on the non-cyclic, the Buildings and the Water and Infrastructure transportation and so on. That's – but we still have enough that when there's a pickup, we'll get the pickup still and be able to sort of make hay when the sun is shining a little bit less.

When that downturn hit in 2014, you've all seen what it did to our business because we were so exposed there, so we don't want to get back to a spot like that.

Alison Tucker
Vice President-Sector Marketing & Client Development, Stantec, Inc.

A

I think we're going to take a pause here.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. We'll do one more question.

Q

Gord, earlier you mentioned having a workforce in India. I'm just curious sort of the size of that team if it's used to support sort of the global operations the opportunity to grow it, how much that could help the cost base?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Yeah. So, Cath Schefer is going to talk a little bit more about this afternoon. Cath was responsible for that Pune delivery center and really getting it set up. So we currently have I think roughly 450 people there. 200, 250 really are doing back office work, AR, AP, HR and so on and the remainder are engaged primarily in our Water business, certainly supporting the Water teams in the UK and Australia and to a lesser extent in the United States but also there as well. But we do see that over the next year so that we are going to expand that Pune delivery center.

And in order to do that we've recently moved, relocated two people who were legacy Stantec people from Canada over. One is an environmental services person that was based out of Vancouver and the other is an oil and gas person that was based out of Calgary. So they've both permanently relocated there with a specific mandate to help us grow it beyond Water and into oil and gas and into supporting transportation or other business lines as well. So certainly that is an area of focus for us.

I'm getting the news that it's time to take a break. We'll have another Q&A section later. So, from a Q&A – from a – okay. Ali is going to come and give us the insight. Yeah.

Alison Tucker
Vice President-Sector Marketing & Client Development, Stantec, Inc.

We're just going to – thanks so much for your questions. We're going to take 15-minute break. And please go to the orange store for some refreshments.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

This way? We can tell like there's a water main break, right?

Alison Tucker
Vice President-Sector Marketing & Client Development, Stantec, Inc.

Yeah. There was. And there was a water main break in our adjacent room here so that's why we're going to your through the orange store for your break and your refreshments.

Gordon Allan Johnston

President, Chief Executive Officer & Director, Stantec, Inc.

So luckily we got breakfast done before that happened, so we'll go this way.

[Break] (01:49:43-01:49:50)

Alison Tucker

Vice President-Sector Marketing & Client Development, Stantec, Inc.

Okay. Welcome back everyone. Just a quick note to those of you that have joined us via the online webcast. We will host another Q&A session following the presenters that we have up here joined with me. So please do send your questions and then we'll go to as many of those that we can in the allotted time.

So now I kick off with Len Castro. He's going to provide us with an overview of our large and prominent Buildings business; followed by Stu Lerner who will provide an overview of our infrastructure business; followed by Dr. Marshall Davert, who will provide an overview of our diverse water practice; and then followed by Cath Schefer, who will provide an overview of our continuing growing global business.

Leonard Castro

Executive Vice President, Buildings, Stantec, Inc.

Thanks, Ali. Hello, everybody. My name is Len Castro. I'm the Executive Vice President for Buildings and I'm excited today to share a few of our strategic objectives and celebrate some of our accomplishments. Now this is an exciting time to be part of Buildings. We're now 4,200 staff with close to a thousand staff outside North America in a total of 110 locations.

Now something I'm quite proud of is our market impact. Buildings has made a significant impact to the industry in 2018. We have gained significant recognition by winning many iconic projects that I'll show you. We also been recognized by National Publications Worldwide and received a number of industry awards.

Our top three rankings includes, we're number one Architecture/Engineering, joint firm with building, design and construction; number two in Green Buildings, which I'm going to elaborate on later which I'm one to be proud to share some elements there. And number two in Reconstruction; Modern Healthcare just moved us up to number two; and Engineering News-Record has us ranked as number two in Education and number three in Multi Family. Particular interest is our brand awareness, particularly, the U.S. has been significantly heightened. Five years ago, we were unrecognizable and we're now synonymous there.

Now Buildings has got a healthy balance by discipline. You could see that approximately 50% is architecture interior design, some urban design and about 50% building engineering with related specialty services. And by geography you could see that it's 56% United States, 33% Canada. The 11% global is going to be closer to 20% by the end of this year, which is a point of note with the recent acquisitions.

Our distribution by sector, basically, we cover all the industry-wide sectors in our genre. 31% commercial includes 10% for corporate workplace which we're quite proud of and a leader in the industry; 17% in healthcare, education 15% includes both higher ed and K-12. And then a new sector that we introduced about four years ago, civic, which is a whole broad range of government buildings, cultural buildings, sports et cetera. And industrial 10% and airports at 9% and science and tech at 4%.

The Buildings revenue has doubled in the past five years, anticipated to be close to $900 million in net revenue for this year and $1.2 billion in gross revenue when we include the recent acquisitions. Now we're quite proud of – by marrying our distributed sales strategy combined with our account management program which is now seeing organic growth particularly strong in the U.S.

Now backlog has grown over the past five years with larger, more complex projects, a combination of developing our sector expertise and our collaboration model across BCs, as well as across our business lines. We also have built significant backlog so that we could be much more selective and focus on the higher margin projects which I'll discuss next.

Our margins at the end of last year was 53.5%, but so far we've seen an increase of our margins this year. And we have a healthy distribution of small, the medium and larger projects. The smaller projects tend to have the lower margins in our business, but we've executed some improvement plans already resulting in an increase that we've seen so far this year.

Speaking of [indiscernible] (01:54:31) projects to share a little bit of it with you, project execution, which was a particular focus for us this past year. What we did is we reviewed all of our project types, not only by scale, but by sector. To target on the higher quality projects and that's demonstrated approximately a 2% increase in gross margin from this time last year. We've also reviewed all of our project managers by that project mix and studied our pricing models, particularly around APD projects putting in place not only improved terms and conditions, but built in contingency within our fee for anticipating the eventual scope variations.

Now let's talk about some key market insights in our space namely as significant demographic shifts not only on aging, but mass migration into the urban centers as well as climate change which has impacted our marketplace. So we're going to be responding through repurposing and adaptive use design trends which I'll speak to in our projects. Gord already spoke to Smart Cities and how we're responding to that with urban places as well as micro communities. Infrastructure resiliency and sustainability is increasingly important. Our competitive advantage is not only by binding our services together, but particularly with Infrastructure and Stu's group, but also developing market expertise in core locations and being the recognized leaders in both sustainability and technology.

So in sustainability, which is a key differentiator, Gord already mentioned the United Nations Leadership Award. But specifically within Buildings, we have over 750 LEED-accredited professionals and over 900 LEED-certified projects. But where we lead the entire industry is, particularly on the highest rankings, gold and platinum, and we have more net zero building, design projects than anyone in the globe right now.

Digital opportunities, there's nine here that is part of our initiatives. But I'm going to focus on the top three; virtual reality, which engages our clients on decision making. I'll show you an example of that; computational model modeling or generative design that effectively designs the best – looks at the best possible design solutions; and business intelligence which is data analytics to advise our clients and their business decisions.

So moving forward on some projects. Now this is that George Lucas Museum. Now it's basically spans six city blocks long, including the underground services and the site works that we're effectively doing. It's right by – you could see it's right beside the LA Memorial Coliseum, so you can see the scale. It's fully funded by the Lucas family and as a gift to the City of Los Angeles.

And what's extraordinary about this is Stantec is the architect of record. We used advanced technology and computational design to effectively make those organic forms work. And it's also – we also provided that digital model to the contractor in order to effectively, so they could effectively build the complex shapes and fabricate the complex shapes and make them work for a one-of-a-kind building.

It's also designated to be one of the most advanced earthquake resistance buildings in the globe. This project actually resulted from the VOA acquisition. They originally got it in Chicago, and then the client moved the project to San Francisco because we have an office in San Francisco, VOA didn't. The project moved with us. And then subsequently moved to Los Angeles and moved with us as well.

Now, this project in Denver is called McGregor Square, and it's basically part of our Urban Places initiative. The Colorado Rockies effectively had the land adjacent to the stadium and want to develop in a mixed-use development. So, Stantec was awarded this project which includes residential space, office space, hotels, museums, and a central plaza for communal use in the entire neighborhood.

So, we incorporated Adaptive Use and Smart Cities design trends that can adjust to future use. This project has just recently been awarded a National Design Award basically for revitalizing an urban community. Now, this project resulted from the RNL acquisition in Denver. In fact, we had to submit this proposal about a month before we could announce the acquisition. So, we submitted it as a Stantec Prime RNL sub-relationship. And, of course – and then it's a project that neither one of us would have won independently. That's for certain.

Now, this next project is called The BEAT or dubbed The BEAT. It's in Boston. It's the repurposing of the former Boston Globe's headquarters. We basically transformed 700,000 square feet into a creative hub, a modern hub for office, lab, and retail.

The BEAT stands for The Boston Exchange for accelerated technology. It provides adaptive used spaces to stimulate growth in research, high tech robotics, life sciences and high tech manufacturing. And this project resulted from the ADD Inc. acquisition centered out of Boston.

Speaking of sustainability, this is the first ever zero – evolv1, the first ever Zero Carbon Design Certified Commercial Building in Canada. It just opened its doors last fall and we're quite proud of this project because it was used every single discipline that Stantec effectively have to offer.

Just recently, Stantec was awarded the Lead Consultant for the BMO Center in Calgary providing architecture and a range of building, engineering services to design this kind of a – it's 700 square foot expansion and renovation, repurposing the existing space, totaling 1 million square foot world-class venue. This project is without question going to be a catalyst to spark further commercial development in the Rivers District in Calgary.

This project is another example of urban places, Stantec architecture engineering, as well as infrastructure in Gord's group, designed a CAD 400 million cultural district. It's basically the entire site development to house three world-class museums: Islamic Museum, the National Museum and the Art Mill Museum which is also a project awarded to Stantec a few years back.

Now, the acquisitions in particular I'm going to focus on Australia and Wood & Grieve. The building engineering expertise that they have includes museums but not certainly limited. They're in every sector that we're in and the entire range of building engineering services and here they effectively repurpose an existing heritage building in Western Australia into an incredible museum.

And another extraordinary milestone project for Wood & Grieve is the Optus Stadium. It's over CAD 1.3 billion. It's a world-class multipurpose venue capable of hosting an entire range of sporting and entertainment and business events from AFL, cricket, rugby, soccer, concerts, conferences, functions, meetings, and it's dubbed future-proofed from a technology perspective to include [indiscernible] (02:02:33) Wi-Fi developments including 5G and beyond. And there's over 1,000 TV screens strategically located throughout the stadium.

So both Wood & Grieve and Peter Brett acquisition now enables us to move forward with fully integrated teams on our larger, more complex global projects. So in closing I'm truly proud and excited about the future of the Buildings business and we feel like we're really well-positioned for the future. Thank you.

Stuart Lerner

Executive Vice President, Infrastructure, Stantec, Inc.

Thanks, Len. Hi, I'm Stu Lerner and I am the leader of the Infrastructure practice at Stantec. And Infrastructure at Stantec means it's community development and transportation.

I joined Stantec in 2007. And if you haven't figured out by now I'm out of the New York City office and my work in the New York City office back then was largely with a lot of transportation agencies throughout North America and a lot of New York City real estate developers and hence why the infrastructure practice is a natural fit.

The Infrastructure practice spans across the globe at Stantec. It's almost 5,500 people, heavily concentrated in the East Coast of North America. But quite frankly Coast of North America. But quite frankly, that presents a great opportunity for us on the West Coast specifically in the Pacific Northwest but also in California.

Our rankings with respect to Infrastructure, as you can see, it's mostly top 10 in most categories, but the couple categories that are not were clearly rising up through the ranks quickly. The mass transit in rail ranking of number 13 in ENR, I expect that to grow this year with the recent project wins in such places as Chicago.

Our net revenue, by geography, you can see that's heavily concentrated in the U.S. but quite frankly, it's disproportionate with respect to the population. And we'd expect that the orange circle there not circle but semicircle will grow even greater as we expand into the West Coast.

With respect to sectors, you can see that it's fairly diverse there although there is a little bit weakness in the ports of marines. Weakness is probably the wrong choice of word. We haven't concentrated there. We are going to be putting a little extra effort going forward. The same with bridges. This is in dramatic contrast to when I joined Stantec. It was probably 75% roadways back in the day. It's really nicely balanced out, really protects us for whatever macroeconomic trends come our way in the future.

With respect to our revenues, you can see a nice steady progression of growth there. And as I said, I certainly think that with the focus on infrastructures certainly in the U.S. as an example and in Canada, we certainly foresee that this trend will continue to grow.

With respect to backlog, our backlog has been particularly strong. It's actually at record levels at this point in time with some large projects that we've added to our portfolio. The only blip you see on the screen in 2017 was just kind of a one-off situation in Texas which has been rectified and we are really leveraging that going forward.

With respect to our net revenue mix, similar to what Bob described earlier, we have a wide variety of sizes of projects; 54.1% is certainly in the upper echelon of what our peers are doing. But the differentiator on this is the 9,984 projects that are less than CAD 100,000. That really allows us to serve in the local communities. That's really [indiscernible] (02:06:09) from a lot of the acquisitions we've done. But it's a differentiator compared to our competitors. It really helps us to serve them well.

What's going on in the industry? We have urbanization going on. We have lots of people moving into cities. Over the last 40 years about 30% more people have moved into the cities. That trend we expect to continue certainly in the foreseeable future. Mobility that's also changed, the 16 and 17 year olds, the day that you turn that age they don't [indiscernible] (02:06:41) their license. They start calling Uber to get a ride from one place to another. That's what's going on.

Climate change, that's obviously happening and certainly presents opportunities for Stantec to address those and make us more resilient both on the coastal and also even in the urban centers as well. Private sector investment, you've seen more and more of that as well into the Infrastructure business. We have transit-oriented developments going on, I'll focus on – I'll show an example of that later on. And you also have the toll road business which is growing substantially and we have a specific niche there that we're taking advantage of.

Alternative project delivery, public private partnerships, design/build, that's obviously becoming more prominent, especially in the U.S. It was fairly prominent in Canada for the last 10, 15 years. The U.S. got wind of it, that was a great idea and it's been more and more utilized as we go forward. We have gained a large position in that space and I'll talk about some of those projects during the project examples.

And then of course system efficiencies, ever since they invented the wheel, they've been trying to make transportation more and more efficient that continues through this day. We certainly are active, participates in that in many different ways.

What's our response to all these trends? With respect to urbanization, Len talked about adaptive reuse for some of the – for example, The BEAT. Other things that are getting read repurpose are things like parking garages, with parking demand going down because people are taking Uber or Lyft or whatever, we have to figure out a way to reutilize the parking garage, that's part of what we're doing.

Smart mobility, I spoke about the 16- and 7-year-old calling Uber and Lyft, mobility is changing. No matter where you go, people are taking scooters, people are taking bicycles, certainly connected automated vehicles. We have a prominent role in that space and we're trying to expand that every day. Smart Cities, I've worked with Len extensively on a variety of smart city things. We are participating in the hackathon that's happening with The Globe and Mail in Toronto in the near future and certainly have a prominent role in that space.

Leaders in toll and revenue business and transit oriented development, that's certainly something that we have done for years now. Transit oriented development has been going out for years. It's only become more prominent in the world today but quite frankly, Stantec has been doing it for 30-plus years.

As far as teaming with other partners, I spoke with the P3s and the design/build, basically what's going on there is we are teaming with contractors all over the globe. However, what has changed is the fact that the contractors are now seeking us. We are the desired partner. We no longer have to solicit them, they're coming to us. That diversity in partnerships with whom we team certainly also positions us well for whatever happens going forward.

Investment in design and technology, not only are we delivering a more efficient, more technologically advanced final product but the way in which we are delivering that is changing as well and I'll touch upon that in a little bit.

So what are our differentiators? Our differentiators are that we get involved in projects early. We take on projects regardless of what size they are. We are heavily involved in the smart mobility space, connected automated vehicles and all of those types of things that will really change and transform society.

We are making heavy investments into technology with respect to how we deliver our product. We're not only doing the two dimensional drawings that we used to do in the past. We have taken into three dimensions and four dimensions and beyond.

But going back to our roots, our roots are community first. We certainly, as I described in the earlier sequence, the fact that we're willing to take on projects regardless of size, regardless of – whatever sector they're in, whatever location, we can take all of these on and that allows us to really differentiate ourselves with respect to our competitors.

And then last, I'm collaborating with all these folks across the – all business operating units, whether it's in the Water business or in the Buildings or with Bob and with Kirk on the Energy side and on the Environmental side. All of that allows us to deliver products as a full mode of services.

So we see a variety of digital technical awards that we're taking on in the infrastructure space, but the one I want to focus is on the lower right, it's called parametric design. Basically, it's the parameters by which we design. So we establish the parameters for design and we utilize the various technology that we've acquired to more robotically, I'll say, automatically design facility, so that we can start one step ahead of the game, so that we can deliver the final product more efficiently.

Now I'm going to talk about a couple of projects that are examples of what I've just been speaking about. We have the State Highway 288 project down in Texas which was delivered via the P3, public-private partnership model. It provided a whole variety of services, also teamed with some international contractors. And really allowed us to generate some organic growth down in our Texas markets which we have leverage going forward to today.

This is a large project, it's a CAD 2 billion project in Long Island, New York, which is just east of Manhattan. More than 0.5 million people in the future will be utilizing the Long Island railroad to get into New York, City. We are again teamed with a variety of contractors from all over the world to deliver this project. And it also has sparked a fair amount of organic growth and also allows us to tap into all of our resources throughout north of North America.

Honolulu Area Rapid Transit, this is another way that we differentiate ourselves and also diversify our services. This is a program management, construction management type of project where we are the advisor to the client, Honolulu Area Rapid Transit. And we are basically on this project which is valued in the CAD 5 billion-plus range, helping them get to their final product over a series of years with very low risk on our side.

The Sacramento Railyards, this is a overbuild of the railyards in Sacramento. This is the type of work that we do throughout North America. But basically this is to utilize all the various services at Stantec and our community development has really been able to tap into all of that expertise to provide our client exactly what they need. And the capital expenditure on this is viewed at roughly CAD 8 billion.

And then the last project I want to talk about is the transit oriented development. Grand Central Station was built in 1913 in New York by Cornelius Vanderbilt. He did transit oriented development back in 1913. It's been going on for a long time. It's only a hot buzzword now. But Stantec is involved with a new development there. This is a 1,500 foot tall tower, 1 foot shorter than the Empire State Building. And the private developer has funded CAD

200 million worth of transit improvement to provide for additional connectivity between the Metro-North train station and the subway station. Stantec has been integral with that. The primary point here is that private money is being invested into infrastructure more so than ever before.

So in closing, I really want to talk about a couple of points. One is we're very diversified not only geographically, sizes of projects, sectors of work that we do, we are diversified in our clients as well. This is really going to position us well for the future. This diversity has also helped us grow organically as far as some of the alternative project delivery such as in Chicago or in Texas. And of course, our use of technology is really allowing us to produce projects more efficiently.

With that, I'm turning over to Marshall.

Marshall Davert

Executive Vice President-Water, Stantec, Inc.

Good morning. I'm Marshall Davert. I'm the business operating unit leader for Water. And I'm very pleased to be here today to speak to you about our geographies, our sectors and our service offerings. By way of background, I have about 32 years of experience. I've been with Stantec for the last three years. I came through the MWH acquisition. I grew up doing water resources in California, moved my way through the ranks at MWH by being the Regional Manager in California, became the Director of Strategy for the Americas from MWH. Then moved to Sydney, Australia for about 3.5 years to be the Operating Group President of MWH and so I head the Middle East, India, China, Taiwan and down to Fiji, Australia, New Zealand. Came back to North America and then ran the municipal business for MWH and of course joined Stantec three years ago. Cath and I served on the board of directors of MWH together.

The Water business has now a little over 3,800 people and we have a very good global platform on which to build. About half of our resources are in North America, about half are split globally. It gives us a nice platform for growth. And the key takeaway is we have critical mass for sustainable businesses in North America, the UK, Middle East, Taiwan and Australia and New Zealand.

We aspire to be the number one Water business in the world. And our mantra is that we want to be able to pursue, win and execute any project of any size in any sector and geography in which we choose to operate. That decision or that mantra helps inform our sales platform and our project execution platform.

Our revenue more or less models our head count. You can see about two-thirds of the revenue is in North America, a third is global but I think the interesting takeaway here is about 34% of our revenue is on the global stage outside of North America. That shows you the global reach of our business.

From a sector standpoint, we're organized around four principal sectors that model the water cycle. So water treatment, wastewater treatment, conveyance which is all types of conveyance, although we break out stormwater and wet weather here because it's a different client set but this is pipes and pumps and moving water; and then water resources which is big, heavy [ph] subtle (02:17:24) works.

We also have a fifth sector, if you will, which is more of a service offering approach that pulls out the adjacencies and project life cycle. Our core business of engineering, planning and design is on the four principal sectors but there is opportunities on the adjacencies and the service offerings. Our biggest opportunity for growth here in net revenue is in the water resources sector, especially a move in to the federal space.

I want to look at these next two slides together in some sense. This is our revenue growth since 2014. The big jump from 2015 to 2016 is of course the acquisition of MWH. We continue significant growth into 2017 and we flattened out a little bit in 2018. I want to talk about what happened there in combination with this next slide which is backlog. We at the moment have record backlog both in quantum and in revenue per employee. You can see that both backlog and revenue in Canada kind of flattened out after 2016 that's when the resources sector came off the boil in Western Canada and that kind of slowed down our growth in Canada.

We do have opportunities specifically in the east, especially in Greater Toronto. In the United States, even though we have the record backlog, our challenge has been, and this is how do we reconcile this with the revenue is how do we convert that backlog to net revenue. And we've been a little bit slow in that conversion and that's really driven by an industry wide challenge which is hiring the people to do the work in North America. It's a very competitive market. So our strategies now are how do we package that work and send it to Pune as part of our integrated global working, but we're working to work off this record backlog.

A key takeaway here is we have about CAD 280,000 per employee of backlog in North America. So there's significant backlog here to work off in the U.S. The backlog globally is CAD 100,000. It's a little bit misleading in the sense that it's a product of the framework contracts we have globally which are more task order-based and also just the purchasing power of the U.S. dollar vis-à-vis the other currencies. So actually, our backlog in global is much stronger than this graphic might show.

This is a very instructive slide. This is the size of our projects. And if you draw a line right down the middle you'll see that about 90% of the count of our projects are CAD 1 million and less, 10% of our projects are CAD 1 million dollars and greater by count. From a revenue standpoint however, the smaller projects are about 45% of our revenue, the larger projects are 55%. This is really an indicator of where we're taking the Water business. That left hand side is our consultative practice. This is the local project delivery of Stantec, our legacy. But as a global business we need to become more of a project delivery firm, big delivery firms. So those two models of consultative practice and project delivery, the sales platform, the execution platforms are little bit different and that informs our strategy. We have a very nice balance of both right now.

Gross margins on the smaller projects are 55% to 58%, that's very good. The gross margins on the larger projects have a little bit more variability but it's not unlikely that we approach 60% and greater in some of the large projects. That allows us to do large lump sum designs. Overall margin is about 56%, 57% in North America, 54% in other parts of the globe.

The major drivers in our business very similar to my colleagues, those are two graphics, that's the aging and deficient serviceability and capacity of infrastructure, of water, wastewater pipelines, the advancement of technologies, especially in wastewater treatment plants and how they are becoming part of the circular economy for nutrient recovery, energy recovery, water recovery. And the lastly, in the lower left, that's our driver on climate change, extreme weather events and sea level rise. That's where our opportunity is in the water resources sector.

The last two informs largely our service offerings and how we're bundling what we do. There's a whole of life TOTEX or total project expenditure or total asset expenditure [indiscernible] (02:22:06) that our clients are taking on how do we help them with their asset base and that's driving alternative project delivery and the services we actually provide.

So this graphic is not as confusing as it seems. If you look at the horizontal access, our clients plan assets, they create assets, they operate assets and they use that asset base to achieve some level of service to their customers. They're asking us more and more how can you help me across the entire project lifecycle?

And so there's two big curves there you see. The blue that's our ability to really influence decision making and we want to get as far to the left and upstream as possible. The grey curve that's where the money is spent. How do we position ourselves to achieve as much revenue as possible? So, all along the project lifecycle we have service offerings that allow us to enter into the client's project lifecycle and provide them a service.

In the middle, engineering, design, construction management, alternative project delivery, working with contractors, it's 80%, 85% of our business. But those adjacencies I spoke to O&M consulting, how do they optimize their systems; financial planning, strategic planning up on the right, how do they do their capital planning; and then programmatically across, how do we help them run their entire asset base.

I was specifically asked what impact on the Water business did the sale of Constructors have? And it's probably a two-part answer. In North America, really, none. I'm going to let Cath talk a little bit about the UKs, a little bit more nuanced answer. But the way the market has gone, it's less an imperative to have a construction company. We do a significant part of our work, about 35% in alternative project delivery, working for other contractors. As a designer, we were always agnostic what contractor we work for. So the sale of Constructors really didn't affect our Water business at all.

So I did give you a couple examples of each of our sector projects and then some of the service offerings as well. This is in North Hollywood Groundwater Treatment Plant. This is a state-of-the-art treatment plant in Southern California. If you listen to Mayor Garcetti, he wants Los Angeles to be 50% self-reliant in water by the year 2035. This is just one of those projects.

This is the pump water out of a former Superfund site in Los Angeles. This will provide water for up to 800,000 people in Southern California and it's one of probably five projects we're working on in SoCal right now – for Southern California to achieve water supply sustainability on their own without reliance on outside influence. We are in a progressive design build with Kiewit on that project.

Going to the other coast, this is the Central Wastewater Treatment Plant for Miami Water and Sewer Department. They're under consent decree preprogram to improve their three wastewater plants to protect Biscayne Bay and the underlying Biscayne Aquifer. We're doing all the work at the central plant. We have an CAD 80 million contract for design of different improvements to this facility and those ranges from just simple fixes to the plant, but also state-of-the-art energy recovery, nutrient recovery and water reuse projects.

Back to Vancouver, this is the Coquitlam Lake project. It's a diversion out of Coquitlam Lake, a tunnel/pipeline, treatment plant and then delivery into the city of Vancouver. This will serve the next increment of water supply for the City of Vancouver to the year 2200. So this is a very long term project.

From a water resources standpoint and this is our play on that climate change. This is on the Mississippi River, the Mid-Breton sediment diversion. We're diverting water but more importantly sediment from the Mississippi River out into the estuary into the coastal plain there to build up the estuary to protect against sea level rise, to protect against extreme weather events. This is the first project of literally tens of projects on the coast of Gulf of Mexico. There is close to CAD 100 billion being spent funded by the Deep Horizon Fund but also federal funds coming through the Army Corps of Engineers.

So I said a big play for us is in federal in coastal restoration but also these big water resources projects. We beat everyone in the market, everyone showed up to compete on this and we won. So it's CAD 800 million CapEx is a very large project.

That was water, waste water, conveyance, water sources, this is a service offering. Now more of that program management of assets across the whole lifecycle. This is Willamette Water Supply project up in Portland, Oregon where we are the program managers doing permitting, pre-design, procurement of designers and construction management for a $1.3 billion facility. It's a diversion off the Willamette River. Treatment plant, pipelines, pump stations and tanks, but helping this client deliver that for the future water supply. I think of note here, we helped the client get a $600 million grant from the WIFIA Fund, which is going to save the residents tens of millions of dollars in interest over the next 5 to 10 years.

So, that was our core engineering business in our sectors. But I want to give two examples on those two sides, the financial services upstream and the O&M consulting. This is also our digital play. In financial planning, we've created a tool called FAMS, Financial Analysis and Management Systems, which developed early on as an [ph] XL-based (02:28:04) model. But now, it's been – we're developing it to be up-streamed to be a web-based, portal-based tool that we can leave behind with clients, so they can do some of their own capital programming.

It helps keep us sticky, as they do their rate analysis and their capital planning for future decades. And we just won the rate study for the New York Department of Environmental Protection, NY DEP, and they told us one of the big reasons that we won was because of the efficacy of this tool. It really does have a secret sauce in it that none of the other competitors have in this space. It was also funded by the Venture Fund that Gord spoke to earlier. So, it's a real success story and innovation at Stantec.

On the other end of the lifecycle, our clients don't just want to build new things, they want to sweat their existing assets, how do they get the most out of them. So, these are two major efforts we're putting in on that overall asset management piece. With ICON, we are in a progressive design-build with Emerson, the technology provider. What we're doing is we're putting sensors and controllers throughout one-quarter of the San Francisco stormwater wet weather system to help them better manage stormwater events and sewers events, so they don't have overflows, but also to allow them to minimize investment at the treatment plant.

On the other side also, in the UK, we're developing a tool that's not just the operation of the assets, but also look at the whole of life of the system, so they can do better planning, asset management and operations across the entire collection system for Southern Water in the UK, and that platform is called Stantec Analytics, another project that was funded by the Venture Fund and another success story for innovation.

So, in summary, we're very comfortable in Water that we have a geographic platform globally that allows us to access every market and take some of the cyclicity out. We have a sector-based business that allows us to work with any part of the project or the – of the water cycle. And then, our service offerings, we have a nice blend of service offerings that we try to bundle across the asset lifecycle with all of our clients.

Thanks. And I'll turn it over to my colleague, Cath.

Catherine Margaret Schefer

Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

Good morning, everybody. My name's Cath Schefer, and I'm the Executive Vice President for our Global Operations. So, my role is really to work with the business line leads to expand our global operations and to deliver the projects that we've won. I'm delighted to be here today to tell you about our priorities going forward.

So, my presentation is effectively in three parts. Here we go. I'm going to give you an overview of the global geographic region and a little bit about our historical financial performance. Then, I'm going to tell you about our six priorities in the global region, and then I'm going to talk about our backlog and a couple of the projects that we're delivering. And then, in particular, I want to talk about Europe and the UK, and Australia and New Zealand, and the recent acquisitions that we've completed.

So, within Stantec, our global operations refers to the work we do in regions outside of North America, and you can see them here. So, the acquisition of MWH in 2016 [ph] got (02:32:01) Stantec a global platform for growth with a substantial presence in multiple countries across the five operating regions that you can see here, Latin America, UK, Europe, Middle East and then Asia Pacific, which really encompasses Australia, New Zealand, Taiwan and China.

So, over the last 12 months, as you're aware, we've acquired four further firms, increasing our presence in the UK, Australia and New Zealand, and most importantly, broadening our service offerings. We now have over 5,000 people in 70 offices across five operating regions, and we have a Global Shared Service Center in Pune, as Gord talked about earlier. So, I came into Stantec through the legacy MWH business, and I've worked with our Pune operation for over 10 years.

And as Gord said, we've just located two Canadians, one from Vancouver, one from Edmonton, over to Pune, and I'm working with them in really providing that connectivity, so that we can really harness the advantages of integrated global working. So, in 2018, global contributed to 15% of the net revenue in Stantec, with a footprint that is both geographically diverse and balanced across multiple sectors. So, our plan now is to thoughtfully and carefully grow our global operations and increase the contribution to Stantec's net revenue over the next five years.

So, let's have a look at our historical financial performance. So, our Q1 net revenue results by region and business line are shown here. Our Q1 net revenue was CAD 154 million, and you can see there on the right-hand side that our revenue – 40% of our revenue has come from the Water business, and that's predominantly from our frameworks in Australia, New Zealand, the Middle East and the United Kingdom. 60% of our revenue now comes from work in other sectors, and you can see Buildings, Energy & Resources, Environmental Services and Infrastructure.

So, our Infrastructure business consists of the community development and transportation projects that we do, mainly in the UK and New Zealand through the acquisitions of Peter Brett and Transport (sic) [Traffic] (02:34:21) Design Group. We have strong Buildings teams, as Len talked about, in both Australia, UK and the Middle East with many flagship projects making up about 15% of our global net revenue. Our Latin American business in Chile and Peru focuses on the work that we do for our mining clients, and we also have strong hydropower teams in both Argentina and Peru.

Our European operations mainly operate from the Netherlands and Italy and provide environmental services to both local and multinational clients. And finally, we have teams based in Brussels, Turkey and Washington, D.C. focused on international development work for international funded institutions, and I'm going to talk about that later. So, as you can see, we have attractive opportunities for growth, now building on the expertise of recent acquisitions, particularly in the UK, Australia and New Zealand, which are our largest global regions.

You can see here, our net revenue and organic growth over the last three years increasing year-on-year, partially due in the last seven months to the acquisition of both Peter Brett and Wood & Grieve. But you can also see that our organic growth is strong. In 2016, it grew by 8.6%; in 2017 to 2018, 5.4%. So, our growth in 2016 was driven by large wins in water, power and dams. And Kirk talked about the Neelum-Jhelum Project in Pakistan, which was a big contributor to that. Also, our Latin American business grew substantially following the rise in copper prices in that time period and the increase in environmental works for our mining clients.

Our growth in 2018 was mainly driven by successes in Australia with wins on some of those water frameworks that I'll talk about later. And here, you can see our backlog in orange, again, trending upwards, partially due to our recent acquisitions. The black line shows our backlog per staff member showing a healthy growth from CAD 100,000 per staff member to about 135,000 over the last three years, showing a healthy increase over time.

In terms of revenue by project size, this slide takes our average trailing net revenue of CAD 533 million in the last 12 months and splits it up into project size. The black columns show the revenue by project size, and projects in the CAD 1 million range tend to have a higher gross margin, whilst those at the higher end, greater than CAD 5 million, tend to have slightly lower gross margins at an individual project level.

However, projects greater than CAD 5 million tend to be those multiyear frameworks. I'm going to talk about some of those later, which have a high direct time for a number of years, sometimes 5 or 10 years for large volumes of staff. This results in higher operating income. However, the projects' gross margin might be lower. And I'll be talking about some of those major programs in a moment.

So, let's talk about growing our business then. As Gord said, our strategy is very clear. Following firstly the acquisition of MWH, Stantec is now a global company. And our aim is to carefully and thoughtfully grow our global operations with the aim of being a top tier provider in multiple sectors. So, while work on future markets and trends together with our analysis of the competitive landscape confirms the need to clearly articulate our geographic strategy, we have many years of experience in operating across multiple geographies and we've been very careful to learn the lessons and success factors that we've learnt over many years.

This might sound simple, but we really only want to work with trustworthy partners and clients, who value the work that we do, who will respect and treat our employees well, who will operate ethically, and as Theresa said earlier, will pay us on time. So, setting clear boundaries around which sectors and geographies we will work in, and most importantly, which we won't and what risks we will and won't accept is critical. And in addition to that, we have a very strong governance process and real clear rigor around keeping our teams within those boundaries. And this is very – very critical to our success as we grow our future operations.

So, I wanted to talk to you about six key priorities that we have here, and these are our near-term priorities for 2019/2020. Firstly, we're going to target growth and diversification through both organic growth and acquisition in the following countries, and these are the ones that we've talked about, Australia, New Zealand, and the UK and Europe. Essentially, we want to make sure that the acquisitions that we've done are integrated really well and that we really harness the advantages of bringing these companies together.

Secondly, we want to continue to support and target focused niche top tier services in our other existing permanent operations. So, what that means really is the geographies that we have outside of Australia, New Zealand, UK and Europe, we need to be really clear on our strategy, which services are we going to offer in those geographies and we need to concentrate on exceptional project delivery. We need to make sure that we have the right leadership in place. We need to make sure our DSO is as low as possible, and we need to make sure that we're harnessing the advantages of integrated global working. And that's what we're doing in our geographies outside of the first ones that you see there.

Next, we're going to aggressively pursue major brand-building iconic projects and projects that create communities. I think it was Kirk that talked about really cool projects. In order to be able to attract people to

Stantec, we really do need to be delivering these really cool projects, and we have many of them, projects like the Panama Canal, where we designed the third set of blocks; Neelum-Jhelum that Kirk talked about; some of the fantastic dams and hydropower projects that we deliver; and the Cultural Museum in Qatar that Len spoke about earlier. So, continuing to really pursue these major brand-building projects, and projects that create communities, wherever they are in the globe, is important to us as well.

We're also going to follow global industrial multinational clients. These are clients like GE and Anglo American, where we have global agreements to work anywhere in the world. Okay, so those clients are very important for us. And then, the second to bottom one you can see there is we want to create focus and global coordination of international development work. So, in many parts of the world, international financial institutions play a major role in the social and economic development programs of nations with developing economies, and Stantec works with many of these IFI organizations across the global – global organization, tackling global challenges of our times, things like poverty, disease, migration, conflict.

And we work with IFIs like the European Bank of (sic) [for] (02:41:59) Reconstruction and Development, the Asian Development Bank, the European Union, the Millennium Challenge Corporation in Washington, and we assist these IFI clients with project implementation on things like sanitation, infrastructure and climate change. And we really want to coordinate the work that we do in our global operations in a better way and become more focused with the goal to build a safer, healthier and more prosperous world for people in developing countries.

And then finally, we want to remain focused in commodity-driven market countries. And what this really means is countries like Latin America, where we're very, very focused on commodity-driven products. If the price of copper or gold drops, we need to flex accordingly and make sure we right-size our business in a very timely manner, and that's our focus in these commodity-driven markets. So, in the interest of time, I've really had to just pick a few areas of the business to talk about. And so, this is our backlog, CAD 675 million. And so, I wanted to talk about three areas of the business.

Firstly, I want to talk about our Ashghal program in Qatar. That's the largest single project that we have for a single client, and I think that's a good one for me to explain to you. I want to spend a little bit of time as well talking about the UK programs. We have a substantial program of work with 5 and 10-year frameworks in a changing political landscape. So, I wanted to give you my perspective on that. And then, I wanted to talk about MCC-Nepal, which is both an iconic project and a project that really helps communities in Nepal for an IFI-funded project. So, let's move on.

So, Qatar, our Ashghal program in Doha, this is our largest project in backlog, and Qatar is very focused on ensuring the infrastructure in Qatar is ready for the World Cup in 2022. So, we have a 11-year contract. It runs from 2012 to 2023 with about $15 million of revenue per year. So, we work for the Qatar Public Works Authority, Ashghal, and we work for their Drainage and Roads Department. So, this is essentially an advisory services contract to provide asset management and operational services related to the maintenance of drainage and roads network.

When we started this contract, it was purely a drainage contract. Five years later, it was extended to roads. It's a classic management consulting contract. So, the contract is based on percent fee plus incentivization against KPIs, and that's important for us. We've got a good track record of delivering these KPIs. In fact, last week, we achieved our seventh successful year of great KPI performance.

Ashghal is actually a great client for us, and not all clients in the Middle East are easy to work with. But at any time, we have 50 people working on this program. We have very interesting and varied work for our people in the run up to the World Cup. Ashghal pay us on time and value what we do as a company. And since 2012, we have – had about 150 people circled through the Middle East on this program of work from over 20 countries.

So, moving forward and talking about the UK water industry, I thought it was important to talk about this, because this does provide strong revenue, about CAD 115 million to CAD 120 million per year consistently over the last 10 years. And I believe this is set to continue in the future. In the UK, Stantec are the number one consultants in Water, working for most of the major water utilities, providing services to the regulated water industry.

We have multiple frameworks spanning five years or more, helping our clients deliver their regulatory obligations and tackling challenges of the future. So, we're now in the investment period between asset management cycles, and that's what AMP stands for. So, we're in the period between AMP6 and AMP7. And so, in the UK, the water companies have submitted their draft investment plans to the regulator, Ofwat, and their final determination will take place in December 2019.

So, in England and Wales, the draft business plans that cover investment in this period show a proposed spending of [ph] £50 billion (02:46:23) across the next five years. That's actually about a 13% increase from the current AMP6 period. So, that's good news for Stantec. The water sector also shows strong continuous investment in Scotland and Northern Ireland. So, we've already secured five-year AMP7 programs with a number of key clients, and what you can see there on that slide is the contracts in orange are the contracts where we've secured work going forward into AMP7.

So, South West Water on the bottom left there is a new contract, where we have secured a contract to be a single strategic consultant for AMP7. This is important for us, because we didn't have this contract in AMP6. So, that's an exciting opportunity for us with a new client. We've extended our contract with Yorkshire Water, and in 2018, we're awarded to be their strategic consultant going forward into AMP7. And with Severn Trent Water, we have several contracts, but we've just been successful as part of a delivery framework to provide engineering design.

So, we've already secured a significant proportion of AMP7 contracts going into the future, and those – a lot of that secured revenue isn't shown in our backlog because it's not yet been issued, but those contracts are secured. So, we're currently renegotiating and extending our AMP6 frameworks with two of our major clients, and those are the two that you can see in blue there, with Thames Water and with Southern Water. And those that are shown in black are active bids that we're currently pursuing.

So, our strategy in the UK is to continue to organically grow and really to deliver the frameworks and to deliver well for those clients. But what we have now is two recently acquired companies, both Peter Brett and a small company called ESI which really strengthens our service offering in the UK. Peter Brett are a company that deliver urban design, development of brownfield sites, infrastructure design, transport modeling. They do planning consents, environmental services. And ESI really strengthens our hydrogeology services substantially. So, what this means is that we can provide better services to those existing water utility clients as we move forward.

Our second objective, as well as delivering on these frameworks, is to work with our clients to tackle their longer term challenges, and these UK utilities have significant challenges related to asset management, resilience and strategic water movement. The UK is predicted to have a significant regional supply deficit in the next 5 to 10 years. London will have a supply deficit by 2030, which is a pretty scary thought. So, the economic regulator, Ofwat, is very focused on leakage reduction and reducing the per capita consumption of people in the UK. And then the environmental regulator, the Environment Agency, has proposed many actions on water utilities associated with resilience, flood risk and the quality of rivers.

So, let's just talk then about Brexit, because the uncertainty of Brexit, particularly in this market, is a significant business issue. But to-date, it's not had a significant impact on our business. In fact, in the last 12 months, we've exceeded our goals and we've met our goals for quarter one of 2019. So, obviously, we've got different businesses across the UK now with Peter Brett and ESI and the legacy MWH business. And we have seen some effect in the Infrastructure and Buildings business, where some of the developers have been delaying things like environmental surveys or flood studies. But it's had relatively low impact on our business, and as I've said, we've met our Q1 targets.

In Water, Brexit in itself is probably too much of a threat, but not too much of a threat to our position. There is a lot of political pressure on water companies, and I'm sure many of you are aware of this, to deliver the quality of water to customers, to improve the resilience of the assets, to reduce leakage, and importantly, to keep customer bills below current levels. Water companies have been fined significantly for not achieving these objectives.

So, there is significant spend going forward, and we believe that we are very well-placed to help the water utilities in the future. The work still needs to be done. We're in a very strong position. We already work for both private and public water companies going forward. And I do believe that in the UK, our relationships – our client relationships are unrivaled. Most of our employees have worked with these utilities for many, many years and have a real good understanding of their asset base. So, I feel that the future is bright despite the Brexit negotiations.

So, moving to the Nepal project that I wanted to talk about, this project is the type of brand-building work that we like to do. And this is for the Millennial (sic) [Millennium] (02:51:26) Challenge Corporation in Washington, D.C., who are the main funders of this project. It's, as I said, a good example of a major project for an IFI client, and we are technical consultants for a new 300 kilometer 400 kV power transmission line, which includes three substations. And we're improving the electricity supply for millions of customers across Nepal.

So, this is a good example of international development work. It's managed by our international team in Washington, D.C., who are located right next door to our client. And we're working in cooperation with Kirk's team based out of Vancouver, their Power Group, and we have a project office that we've put together in Kathmandu. And it supports a [ph] $500 million (02:52:13) contract between the USA and Nepal to provide sustainable economic growth. And it's a brilliant example of cross-company working, where you have a team located next to the client winning the work and reaching across our global organization to find the right resources and to mobilize in a certain location to deliver that project.

So, just two more slides now. I want to talk a little bit about Australia and New Zealand and then the UK and Europe. We have three very different acquisitions in Australia and New Zealand. We have a Water business from the legacy MWH business. We have a transport business recently acquired from Transport (sic) [Traffic] (02:52:59) Design Group in New Zealand, and we have a Buildings business now from the recent acquisition of Wood & Grieve in Australia. And our plan in this geography is very much to grow in all the three sectors in which we operate today.

So, in Water, the Australian business has been organically growing for many years. The Australian water consulting industry is expected to grow from [ph] CAD 970 million per year in 2019 to CAD 1,200 million (02:53:24) in 2021. And a key trend within the Australian water sector is the increasing bundling of engineering design services with a delivery framework and a contractor. So, we've been successful with many of the key water utilities. East Gippsland Water in Melbourne, we've won a 10- year tunnel contract with Melbourne Water, which is D&C contract. With Hunter Water, we've won a seven-year tunnel contract, and we've recently won the Gold Coast Water, which started in May 2019.

We're also shortlisted for Sydney Water Corporation [ph] and planning for a success framework on the Queensland Urban Networks tunnel (02:54:04). So, in New Zealand, there are numerous water providers, not dissimilar to the UK before it was privatized. And actually a pollution incident in New Zealand in a place called Havelock North has contributed to the government's decision to review how water companies are set up and operated in New Zealand. We expect more details in the coming months. But it's likely that in the future, the government will introduce a water regulator, not dissimilar from Ofwat in the UK, and possibly consolidate the number of providers, particularly we think in potable water.

So, our strategy in New Zealand in the last year has been to win as many tunnel contracts as we possibly can in the major cities and really thinking forward to set ourselves up for future success, should the market consolidate. So, we've successfully won tunnels in New Zealand in Auckland, in Wellington, in Christchurch, in Dunedin and in Queenstown. And so, our strategy is to deliver well on these tunnels, and there is much interest in both Australia and New Zealand on, as you can imagine, what's going on in the UK, and so we're very well-placed to help in this industry. So, this business has grown. That was partly responsible for the organic growth in 2018, and we will continue to drive growth. And Marshall and I are very focused on this as a goal.

So, looking at Buildings now, quite a fantastic firm, very entrepreneurial in Wood & Grieve, and we now have an excellent Buildings business in Australia concentrating on the non-residential buildings market. In New Zealand, there is going to be continued investment in social infrastructure, houses, schools, courts, prisons and hospitals. And whilst we do plan to take market share to organically grow Wood & Grieve in Australia, you can see there from our real estate coverage in New Zealand, the real opportunity is to utilize our strong presence in New Zealand and to organically grow the building service capabilities in New Zealand leveraging on that acquisition of Wood & Grieve.

And then in transportation, the market was slow in recent years following the change in government, particularly when 12 major projects were stopped, which did have an impact on our business in the past. But we're now seeing positive signs with government announcing continued investment in public transport. The rapid transport to the airport is a strong focus on regional rail. And we will continue to grow combining the skills of the legacy MWH business, the recent Transport (sic) [Traffic] (02:56:40) Design Group acquisition. We now have over 100 transport sector specialists in New Zealand.

And then finally, really just – I just want to talk about Europe for a couple of minutes. In Europe and the UK, as we've talked about, we've really increased our presence with recent acquisitions. Our Europe business offers really niche environmental services in the Netherlands and Italy. And in Brussels and Turkey, I've talked about we have small teams who do international development work for IFI market. And as we've talked about, our UK team is concentrating on Water and Infrastructure. So, I just want to talk a little bit about the Netherlands for a moment, because the Netherlands is actually one of our most profitable operations in the region. Relatively small, 250 staff providing services to a variety of clients.

But of note is a particular service offering that we have called our soil risk mapping service, and this provides readily available information on ground conditions across the region to clients via handheld tablets and mobile phones. Okay, so our clients have these and they access the information that we hold on our platforms. So, this service is valuable to any company looking to route cables or networks beneath the ground. But what's important in the Netherlands is legislation really drives this, because it prevents any work commencing on excavation until site investigation information has been obtained and reviewed.

So, we've gathered this information over 35 years of operation, continually doing site investigation for many clients, and we now host all this information on a digital platform. So, we have many clients who buy this service, and this offering is growing. Two of our key clients [ph] Ziggo and Liando who (02:58:31) have multiple year frameworks with Stantec for the provision of this information, and this offering has really just emerged over the last few years.

So, in this area of the business, we have a young and energetic team with a real start-up mentality, and the idea to host all this work on the platform really came from our younger engineers. So, there is huge investment in both the Netherlands and the surrounding areas in subservice infrastructure. In the Netherlands alone, there is €16 billion per year earmarked for energy, smart grids, 5G networks, due to strong growth in the residential market.

So, in Europe, our strategy is three-fold. We want to continue to support our strong environmental groups, and we want to be at the forefront of creating a digital-savvy consultancy model, really building on that success that we've had in the Netherlands. We want to grow both organically in those areas where I talked about, where legislation drives the need for quick access to this sort of – type of information, and potentially by acquisition by probably acquiring small, digital-savvy, niche environmental companies to achieve a scale position in the Netherlands and surrounding areas.

In addition, in the European market, we will continue to support our IFI work, as I've talked about, maintaining our brand in a far more coordinated approach. And we will also over time explore other areas of Europe that are attractive for growth, probably enter the market by an acquisition in environmental services or potentially Infrastructure, but no decisions yet.

We talked about the UK a lot. We've got over 200 staff with the recent acquisitions, and we've now embarked on full integration of our teams. This is a real focus of mine over the next 6 to 12 months. We've got the legacy MWH business, the Peter Brett business and the ESI business. We can't fail to integrate these really well and really to harness what we have and to make sure that we're talking to the market about the fantastic opportunities that we've got by bringing these three companies together.

So, our plan really in this geography, particularly in the run up to Brexit, is just to organically grow and focus on delivering what we've got really, really well. The UK has billions of pounds worth of investment in the coming years. There is £483 billion of investment in over 600 infrastructure projects. There's £15 billion of investment in roads. We've got the largest rail modernization program since Victorian times with projects like high-speed rail, Crossrail.

There's huge investment in large-scale housing and regeneration and food dispense schemes. There's investment in social infrastructure, schools, hospitals and programs. And I think combining what Stantec – the legacy Stantec business have in the UK with a programmatic approach to the water utilities, with the real entrepreneurial spirit of Peter Brett and ESI, who have literally hundreds of clients, I think our teams are working very well together and will generate growth for the UK business in the coming years.

So, that really concludes my presentation. As you can see, we have a very diverse geography here with very many interesting projects across the global operation. What I have to say is that we have a very enthusiastic leadership team. We brought people into the company, and the teams are working very well together with their new colleagues and are very excited about growing our global operations. And I'm actually delighted to be taking on this role. I started this role in October of last year. I'm delighted to be leading the global operations to feature success. Thank you.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

Great. Thanks, Cath. Okay. So, now, we'll move into the second part of the Q&A session for this morning. So, certainly any question that you'd like to ask any of the individuals who presented in the second half, we'd be glad to address those now, and certainly, as well anyone who presented in the first part as well. But we'll go first...

QUESTION AND ANSWER SECTION

Jacob Bout
Analyst, CIBC World Markets, Inc.
Q

Jacob Bout, CIBC. Just a question on the Water business and the organic growth that you've seen there. So, I think it was 3% in 2018, negative in the first quarter. It seems like you're lagging your peers. Maybe talk a bit about what's going on. Has the divesture of the Construction business impacted this in any way and what's the outlook going forward?

Marshall Davert
Executive Vice President-Water, Stantec, Inc.
A

I'll take it maybe in reverse order. I think I said that the impact of the Construction business in North America hasn't really had an effect. I think the way our clients are buying, have an integrated delivery of construction and engineering is not as important. So, we're actively in the alternate project delivery market working with other contractors, and we're getting our share. I tried to show a couple examples with the Kiewit project in North Hollywood in Los Angeles. A little bit more nuanced in the UK. I'll let Cath address that.

As far as the growth, we had significant growth from 2016 to 2017 and then we slowed in 2018. But we had a record sales year at the end of 27 (sic) [2017] (03:03:59) into 2018 where the backlog grew. Our win-to-burn was about 1.6-to-1, which is best-in-class. We've been slow to turn that backlog into net revenue over the last four quarters, but we're going to see it start to increase this year. It's mainly been our – the challenge of hiring staff to do the work. It's a very competitive market for staff. All of our competitors have the same issue.

We're more or less trading staff back and forth as we try to grow head count. To adjust that, we're doing two principal things. One, we're trying to [ph] access the (03:04:36) U.S. backlog by sending work to Canada to execute it in Canada and send it to Pune to execute it there. At the moment, those two efforts are adding about 1.8% of utilization to our direct time. So, we're slowly getting the engine running on executing work to burn off that backlog. So, we will see the revenue increase.

As far as with our peers, I've seen what some of our competitors report, and sometimes, I wonder if it's apples-to-apples. We look at net revenue, and they report often the gross revenue, which will include their construction, their operations companies. So, sometimes, I look at it, because are we winning our share? I believe we are. Probably the one market where we know we need to focus on, that's the U.S. federal market. Some of our competitors that, I would say, are growing faster than us, they have significant presence in the federal market, companies like Tetra Tech and others. So, we're making a push into the Army Corps of Engineers on the heavy civil side. Getting a piece of the federal market will help us continue to get our market share, but we will see net revenue pick up this year in North America.

Jacob Bout
Analyst, CIBC World Markets, Inc.

Q

Is 4% to 5% how you think about this – the water industry growing on the consulting side?

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

I think so, yes. Yeah, faster than inflation certainly.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Okay. Was it Derrick that had a question?

Derrick Richard Gut
Analyst, Jarislowsky, Fraser Ltd.

Q

Yeah. On to Jacob's point, is it faster than inflation or faster than nominal GDP, I think, in terms that your thinking of growth in the Water, maybe as an industry as well, not just you, but as an industry, curious of your thoughts on the industry? And a question for each of you actually. Cath, are you involved in the M&A process? And then, maybe I'll ask Stu and Len after those two maybe.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

So, do you want to start with Marshall on the...

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

Yes. GDP...

Derrick Richard Gut
Analyst, Jarislowsky, Fraser Ltd.

Q

Yeah. As an industry, like where's Water growing as an industry?

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

Yeah. Water in the U.S. – [ph] I think you asked a (03:06:31) specific question – I think is growing faster than GDP. And the reason is after the last recession, the water industry went straight into recession, but then didn't really come out in 2013/2014 like it typically did. There was pent-up demand, and in 2015/2016, we started seeing projects come to market. What I think that's going to continue is many of the water/wastewater projects in particular are funded at the local level rather than state or federal. So, their funding is being driven by growth in cities. They have pent-up demand. They have replacement needs. It's not as much driven by greenfield growth anymore, but there's still brownfield replacement, and we still see a steady stream of projects coming to market in water/wastewater. On the heavy civil side, the climate change response and resiliency of these extreme events, that's where we see the federal funding stepping in, and that's like in the Gulf Coast and the East and West Coast as well. So, I think in North America, U.S. in particular will outperform against GDP.

[indiscernible] (03:07:35)

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

Yeah. I can talk about the M&A process. Yeah, absolutely, I'm involved in the M&A process. So, I generally get involved very early on, because for me it's about working with Bjorn to meet the leadership of the potential acquisition and just to test whether we think there's synergies there, but most importantly, to see whether we think that the leadership is going to get on, because in many of these acquisitions, the ones that we've done recently, maintaining that leadership in Stantec when we bring them in is really, really important.

And so, just testing the dynamic between myself, Bjorn and those leaders that are coming in is really important – as important as understanding whether there are going to be synergies is actually can we get on with these leaders, do we think that culturally they're going to fit in Stantec, do we think they're people that we can work with and people that will be invested in the future of growing our operations. So, yeah, I get involved early on. And I stay very involved through the integration process. We're just going through that integration process in the UK with Peter Brett and ESI, and I'm integral to making sure that those are successful. In fact, I'm held to account to making sure they're successful.

Derrick Richard Gut
Analyst, Jarislowsky, Fraser Ltd.

Q

Okay, great. Len, you've referred in your presentation to – sorry, Stu. Sorry, Stu first. You referred in your position to a one-off in Texas in 2017 caused the revenue drop. Can you just elaborate on what that one-off was?

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.

A

Yeah. It was during the acquisition process [ph] when we move into the (03:08:58) numbers as far as – we acquired some projects that reduced compensation basically. We accounted for that, but that's what kept some of the numbers down.

Derrick Richard Gut
Analyst, Jarislowsky, Fraser Ltd.

Q

Okay. And [ph] Stu (03:09:09), the 2% uptick in margins you referred to, is that sustainable or is that a question of just mix or what – pricing, better pricing on certain projects?

Leonard Castro
Executive Vice President, Buildings, Stantec, Inc.

A

Yeah. So, we're seeing a pretty high margin in the U.S., and we do believe it's sustainable. And we believe it's largely around – well, the market is very healthy in the U.S. right now across the entire Buildings platform.

Chris Murray
Analyst, AltaCorp Capital, Inc.

Q

Thanks. Chris Murray, AltaCorp Capital. Just maybe if you guys want to touch on a couple of topics around the U.S. First of all, just infrastructure spending, there's been a lot of noise around different bills. We've seen some bills though get passed [indiscernible] (03:09:50) for Water. But how should we be thinking about kind of the path forward? There seems to be a recurrent theme, the question about the election coming up. There's a FAST Act that comes back up in 2021, which affects transportation. And then, as a second part of that, can you just elaborate a little bit on how you can actually move into that federal space? Is that something that you're just going to have to go acquire or can you build that organically?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.
A

Probably Marshall and Stu primarily. But go ahead, Marshall.

Marshall Davert
Executive Vice President-Water, Stantec, Inc.
A

Yeah. I'll start out with – you're exactly right. We're always disappointed in Water that TIFIA is that big and WIFIA is that big, and largely that's because, as I said earlier, municipal projects are typically funded at the local level. Federal funding coming in through the SRF, the State Revolving Funds, but the funding is local. So, for a lot of our business, what the Federal Government does is largely irrelevant, other than the fact how does that affect the economy. Where there is going to be significant federal funding, this is where the Army Corps of Engineers is stepping in for big heavy civil projects, whether it's in response to the funding along the Mississippi main stem and the tributaries, extreme climate events on the coastal impacts such as what's happening with our Mid-Breton project.

So, we will see – in the last WRDA, the Water Resources Development Act, last WRDA legislation, there was significant authorizing language for big heavy civil projects. Whether we get appropriated, that remains to be seen, but there are projects coming to market. Just last week, we interviewed for two SATOC projects for the Army Corps, that's Single Award Task Order based, each one about [ph] $100 million (03:11:31) or more in fee. As far as getting into the federal space, my opinion is we're doing [ph] CAD 130 million (03:11:39) right now. To become a major player, i.e., multiple billions, trying to do that organically will be a challenge. And we spoke about this at our strategic meetings the last couple of days. We probably need to look at an acquisition in that space, but I think that's a decision that we have not made as a company yet, but it's certainly something we're looking at.

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.
A

And then, on the transportation side, I think the fact that the Federal Government in the U.S. has struggled with respect to Infrastructure. Obviously, you talked about certain spots. I think the states have more than made up for it. Places like California, places like Washington State, New York State, Chicago have all funded certain projects. The Chicago project [indiscernible] (03:12:19) worth of federal funding, that has been maintained. There's also a lot of ballot measures in California that have passed. So, I think the general sentiment is to keep funding infrastructure regardless of what happens at the federal level. I do think that 2020, the federal election in the U.S., infrastructure is going to be an issue, and I suspect that something will have to break.

Derek Spronck
Analyst, RBC Capital Markets
Q

Yeah. Derek Spronck at RBC. How do you see the consolidation within the industry playing out over the next five years? Do you prescribe that there'll continue to be larger and larger design firms capturing a bigger portion of the market share? And in that vein, how competitive is the M&A environment right now? Do you think you'll still be able to get that on average 2 turn differential versus your multiple going forward?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.
A

Yeah. So, on the M&A pricing and that couple turn differential, the pricing that we've seen lately is similar. There's been a bit of escalation in multiples that people are looking for. But the ones maybe that you read about in the paper, the big ones with the double-digit multiples on it, those are the ones that we shy away from. We're still being disciplined in our mid-size groups and continue just to hit base hits.

In terms of consolidation, I do see that things will continue to come together. We see a lot of the projects and some of the ones that we chatted about even here getting larger and more complex. And so, the small local or regional firm just can't compete. And so, we see that as a lot of these firms have grown, the leadership is getting ready to think about how they want to transition. They can't really – from my perspective, I think a lot of these firms, unless they're specialists, can't continue to exist in the form where they're at. They're going to have to join in with an aggregator like ourselves in order to continue to grow their business.

Derek Spronck
Analyst, RBC Capital Markets

Q

With Stantec being an aggregator, could you be aggregated yourself? Do you worry about that at all or...?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Not particularly. Anything could happen any morning when you come in the door. You never know who's going to pick up the phone. But it's not something that we're completely – or that we're particularly concerned about. When you look at some of the firms that – as we've projected who might be someone who would be interested, there's a lot of overlap. When you look at a lot of the North American firms, an enormous amount of geographic overlap, they wouldn't make a lot of sense. What would make more sense for us is if someone came after us, but more of a partnership, a big European firm or a big firm like that, it might make more sense because it wouldn't be cannibalizing each other. But I think a big North American firm, to my mind, doesn't make a lot of sense at this point.

Mark Neville
Analyst, Scotiabank

Q

Hi. Mark Neville, Scotiabank. I just had a few questions. First for Marshall, you talked about a record backlog, but some issues on the conversion. I'm just curious, is there any risk that some of that backlog goes away?

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

We don't think so.

Mark Neville
Analyst, Scotiabank

Q

Okay. And for Cath, I'm just trying to get a better understanding of sort of what the UK looks like holistically, sort of how much Water-Buildings, how much public-private. And then, on the Water side, AMP6 to AMP7, what you've got secured sort of as a percentage of what you did in AMP6, if that makes sense?

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

Yeah. So, in the UK, in terms of what we've got secured in terms of the backlog that I've shown is CAD 77 million. That's what's shown on the slide. There is another CAD 348 million that we've secured, but it's not yet issued, because [ph] they aren't set in (03:16:02) contracts. Although they've been awarded, the work, we only count it as authorized when it actually – it comes through. So, there's another CAD 348 million there. And then, there's about another CAD 450 million that we are actually just rebidding at the moment through or renegotiating with Thames Water, Southern Water, Irish Water and Affinity Water. So, that's about CAD 877 million in total.

And then, in terms of the shape of the UK, I'm just thinking off the top of my head here, but 50% of it is Water and then 50% of it – actually, it's 55% Water. 45% is Infrastructure and Buildings. The Water business is pretty much 100% on the privately owned water utilities, and the Infrastructure and Buildings business really concentrates on local developers and that type of project.

Mark Neville
Analyst, Scotiabank

Q

That CAD 877 million, how would that sort of compare to what AMP6 – I'm just kind of thinking what's secured versus what you're doing now.

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

I don't have that figure off the top of my head.

Mark Neville
Analyst, Scotiabank

Q

Okay.

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

But there is significantly more investment in AMP7 than there was in AMP6. So, I can probably get those figures for you relatively quickly.

Mark Neville
Analyst, Scotiabank

Q

And maybe just one for Stu. I think the New York Department of Transportation sort of mandated some cuts to fees for engineering-related work recently. Is that – I don't know if that impacts your business or – yeah.

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.

A

Yeah. So, it's actually the New York MTA that's mandated 10% cut, and obviously, the industry is pushing back. I just read recently this morning that for that matter, the WSP has said thank you and they had their contract removed. That being said, we are working with the MTA to figure out an alternative way to deliver the projects. And quite frankly, we'll try to leverage our Canadian folks to deliver the projects more economically, and that should largely take care of it. We are waiting back for a response from the MTA.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

And for those of you that might not be aware of that, so the New York MTA did come out a month ago – Stu, a couple of months ago and said, thank you, everyone, all my consultants, I know we have existing contracts, but I'm requiring you to reduce all your fees by 10%. And so, of course, people aren't responding positively to that.

Mark Neville
Analyst, Scotiabank

Q

How big is that business?

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.

A

We have about CAD 15 million worth of backlog with the – CAD 15 million, 1-5, backlog with the MTA. That excludes...

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

[indiscernible] (03:18:31).

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.

A

That does not include the [ph] Long Island Rail Road track (03:18:32) project, but that would not be affected.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Right. So, it's not particularly material to our business at this point.

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.

A

Right.

Benoit Poirier
Analyst, Desjardins Securities, Inc.

Q

Okay. Benoit Poirier from Desjardins. Cath, could you talk a little bit about the potential to grow your workforce in Pune? Right now, it's over 400 people. But I'm just wondering about where the number could be in about three years, and also what kind of lift it provides on margin on top of the faster cycle?

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

Yeah. So, our Pune operation at the moment has about 420 staff. So, it's relatively small. That's mainly because it was concentrated on the MWH Water market, and that was a business that we built in MWH. We've never really attempted to grow it too big. The focus has really been on using resources there that generally we struggle to find in the individual operations. So, just as an example, in the UK, we have built a very strong hydraulic modeling team in Pune, and that's partly because we can't find those resources in the UK. So, it's not just about using a lower cost base. It's also about providing resources that you couldn't find elsewhere.

So, that's the first thing. And if you think MWH with 7,000 people and we had a team of 400, it's not inconceivable that we could be growing to 1,500, 2,000 people if we could really leverage what this has over Stantec. And so, a large part of taking the two Canadian business leaders to Pune was really to concentrate on creating those relationships. But we don't have a set timescale for doing that. We want to do it very carefully and make sure that the quality is there, okay. In terms of margins, it really depends on the region. There isn't a huge cost differential, if I'm honest, between say Pune and the UK and Europe regions. We could make a lot more margin if we leveraged the Pune operation in places like the States, where the differential in cost is much more significant. So, that's where the real opportunity is.

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.
A

And we're doing that for example on some of the transit work going on [ph] in New York (03:20:41).

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.
A

Yeah. We do have a small transportation – I'm saying we mainly concentrate on Water in Pune today. But there is a good transportation team in Pune that particularly delivers work for our New Zealand operation. We also have a very small Buildings team. We have a few architects out there as well. So, there's opportunities to look across all the business lines and the margins really depend on which region you're providing that service to.

Benoit Poirier
Analyst, Desjardins Securities, Inc.
Q

Okay. And my second question is for Stu. In Boston, a few years ago, you highlighted a big CAD 14 billion of transportation projects, six major projects in Canada. Could you maybe provide an update where we are right now and what you see in terms of transportation opportunities for the next three years, how it compares to the CAD 14 billion highlighted at that time?

Stuart Lerner
Executive Vice President, Infrastructure, Stantec, Inc.
A

Well, we're actively involved with a lot of [ph] Massport (03:21:30) work, and that's going like gangbusters quite frankly. So, our backlog in Boston is as strong as it's ever been. With respect to Canada, Ontario is particularly a robust market. Quite frankly, we're looking to perhaps expand our workforce substantially there in the very near future.

Benoit Poirier
Analyst, Desjardins Securities, Inc.
Q

Okay. Thank you.

Q

General question, do you guys have any waste-to-energy projects going on?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.
A

You guys want to talk about [ph] – oh, you did (03:22:05)? So, waste-to-energy from a number of different forms, Marshall, a lot of the wastewater plants, we are up-scaling – so, go ahead.

Marshall Davert
Executive Vice President-Water, Stantec, Inc.
A

Yeah. So, waste-to-energy in wastewater plants, that's a big focus of ours that wastewater plants now are water factories, energy factories, nutrient factories. So, there's two major processes, thermal hydrolysis processes and then just pulling off gases [indiscernible] (03:22:27). So, that's some of the work that we're doing in Miami. We're also doing that extensively in the UK. I think we're the number one provider of THP-type projects in the UK. Large project we're doing in New Zealand in water care. We're doing a design-build in Piscataway on the East Coast of U.S., where we've brought the expertise from the UK. So, yes, a huge focus on energy recovery at wastewater plants, just pulling out the BTUs off sewerage.

Q

And what about solid waste to energy capture, carbon capture?

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

So, Water is not really focused on that particular business...

Q

Okay.

Marshall Davert
Executive Vice President-Water, Stantec, Inc.

A

In North America.

Q

Okay. Okay, thanks.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Any other questions? One maybe that I'll just ask, because it's a question that I often get asked. And Cath, you always have the best answer for it. And that's the effective of a government change that it might have on the nationalization of the water utilities or other things in the UK.

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

Where do you go with that question?

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc.

A

Well, you have a great answer for it to explain, yeah.

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc.

A

Yeah. I think that we talked a little bit about Brexit before, and I said that Brexit is not particularly of a huge concern to us in the industries that we operate in. Potentially more of a concern might be a change in government, and the UK are – we have the Labor government who is openly saying that if they are elected to power that they would renationalize the water industry, and that could have an effect. However, the UK Labor government would have to be elected, which is a very big if at the moment. They would then have to spend time deciding how to actually renationalize the whole of the industry and then they would then have to put that in place.

But everything that I said before about making sure that the UK water utilities are serviced, because they have to continue and provide the services of the future and particularly deal with things like climate change and some of the supply deficits that we're dealing within the UK, they wouldn't go away if the government changed. So, there might be a period of turbulence if there were to be renationalization of the industry, and that's only if the Labor government got into position. So, at this moment in time, yes, both Brexit and renationalization and the whole political situation is something that we're watching very carefully. But I'll just take us back to what I said before is providing a great service for those clients, because whatever the political situation is, those clients will need to provide water and wastewater services to customers in the UK, and that's what our focus has got to be.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc. A

And I think that's bang-on. The work needs to be done.

Catherine Margaret Schefer
Executive Vice President & Regional Operating Unit Leader, Stantec, Inc. A

Yeah, the work needs to be done.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc. A

And in fact, the work is increasing over time. Actually, just one question. Max had a question.

Maxim Sytchev
Analyst, National Bank Financial, Inc. Q

Sorry. Thanks a lot. As we're talking about difficulty to attract staff, because it's super competitive, unemployment rate is super-low everywhere in the world. So, trying to think about the levers to grow the margin and – well, hopefully preserve it at best and then grow it, is it – are we just thinking only about utilization as the main lever? What else can you, I guess, leverage to help from a margin perspective? Yeah, thanks.

Gordon Allan Johnston
President, Chief Executive Officer & Director, Stantec, Inc. A

So, a number of things. Certainly, as we negotiate the initial fees that we're bringing in for a project, that's something that we're focused on. We're also looking at how can we utilize some of the technological advances that everyone talked about to deliver the projects more efficiently. And particularly, that's appropriate on these large lump-sum projects, because the – if you can get the work out for less hours, you can continue to improve your margins. So, things like the virtual reality and augmented reality where we can have our clients see the building or see what the roadway is going to look like before we go too far just down the design process, because we don't want them to come back and want to change it again. So things like that the parametric design processes that we talked about, the eDNA, the sampling that Bob talked about. So it's really – it's looking at the fees. It's looking at – of course, we're always looking to optimize utilization, reduce costs but really empower the use of this technology to make us more efficient.

Gordon Allan Johnston

President, Chief Executive Officer & Director, Stantec, Inc.

Okay. Great. Well, if there's no further comments, then, well, that will bring our Investor Day to a close. It was a great opportunity I think today for everyone to hear directly from our business leaders on where they are, where they see us going into the future, certainly the trends that we see and how we're going to focus on capturing those opportunities. So as we talked about at the start of the day, there's five key points that we really want to leave you with.

The first is that we've taken deliberate action to evolve into a company with a strong, diversified suite of service lines that can withstand these market cycles and provide stability for our shareholders. As part of that, we've divested of construction last year and got us back to our consulting routes. We've created a solid foundation for continual and systematic organic and acquisition growth going forward.

We're being intentional about fostering a culture that inspires employees to bring their best selves to work every day and we continue to support them with resources and tools that continue to drive that positive project execution.

And in our pursuit for growth, we're committed to maintaining our financial strength and discipline as you heard from Theresa. And as that change continues to occur in an ever increasing pace, our drive for innovation and creativity just as we were just chatting about will continue to position us to deliver these future-ready solutions for our clients.

So, in summary, thanks everyone for joining us today. We appreciate you traveling to Edmonton to see our new building and to spend some time with us.

And I'll turn it over to Ali just to give us directions on what happens next? So, thanks very much.

Alison Tucker

Vice President-Sector Marketing & Client Development, Stantec, Inc.

So, I'll just give you a quick notification that lunch is being set up beside us again, we'll exit through the orange doors. And we'll start our tours at about 12:30. And then we'll have here your attention, we did want to let you know that beginning next week, we've engaged an organization that named [ph] Ravel (03:29:00) to conduct a perception study on our behalf. We've asked them to reach out to some of you to get your feedback on our connections with each of you and our overall IR program. We'd really appreciate if you could take some time and answer some of their questions as we seek to continue to improve our engagement with the investment community.

So with that, let's break for lunch.