11-Nov-2022

Stantec, Inc. (STN)

Q3 2022 Earnings Call

Theresa B. Y. Jang

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

Thank you, Gord, and good morning, everyone. As Gord stated, Q3 was a very solid quarter for us. We grew gross revenue by 26% and net revenue by 24%. Project margin was also up 24%, driven by strong net revenue growth. As a percentage of net revenue, project margin was very solid at 54.1% in line with our expectations. Our project margin reflects our continued discipline in project execution, our ability to increase rates on certain projects to mitigate the impact of wage inflation, and increased selectivity in project pursuit. Consistent with the increase in our project margins, we also delivered adjusted EBITDA growth of 24% and through solid execution across the business, adjusted EBITDA margin was 16.7%, directly in line with Q3 2021.

Turning to our earnings. Net income in the quarter was CAD 68 million or CAD 0.61 per share. This was down slightly compared to Q3 2021, primarily driven by acquisition-related expenses. Our adjusted net income for the third quarter was CAD 95 million or CAD 0.86 per share, an increase of 18% and 19%, respectively, over Q3 2021, reflecting our focus on delivering both top line andg bot spe

Getting towards the end of the year here, so I thought I'd take a stab at just any update on your 2023 goals, particularly around 16% to 17% margin and 11% EPS growth. Just wondering if the inflationary environment, including higher rates, is kind of weighing on your ability to achieve those targets?

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

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I think we're confident that our 2023 targets are in sight for us. We're working hard towards achieving that. We will formally roll out our outlook for 2023 in February. But there are always going to be pressures and wage inflation is one of them. But we continue to find ways to manage them to maintain our project margins to operate more efficiently. So overall, we're confident that those targets that we set for 2023 will be achieved.

Yuri Lynk
Analyst, Canaccord Genuity Corp.

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Okay. And on the margin front, is it just some of the cost synergies coming through and better absorption of your SG&A rather than gross profit improvement?

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

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It's really all of the above. All of those things that we look towards in driving to EBITDA margin. Looking for, as I mentioned in my comments, being selective on the projects that we take on with the pricing and acceptance of margins, the pursuit of rate increases to capture the higher wages that we've seen and synergies of course. But again, continuing to operate as efficiently as we can throughout our organization. We've seen a continued uptick in the use and the build out of our delivery center in Pune and now in Manila as well. And that's an important part of our overall cost strategy. And as we move into 2023, again, some specific targets around how we intend to continue to grow the use of those services. So it's kind of a – it's – there's not one major thing, it's just lots and lots of things.

Yeah. Thanks. Good morning. There continues to be good development in the backlog. It's great to see but can you comment on the efforts to expand the workforce? Just wondering if you've seen net additions in Q3 and should we expect head count to push higher again into Q4?

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

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Yeah. We definitely have seen continued head count development and an increase in Q3. We've seen our voluntary turnover rate sort of stabilize. They were up a little bit in Q2. Q3 was remained the same. But I think in Q3, we actually had some of the highest number of new hires that we've had in history, really. So we're bringing on a lot of new people. So absolutely the head count continues to increase.

Now, when you look – you talked about Q4, we'll continue to hire people in Q4, but seasonally, our workforce sometimes comes down in Q4 depending on how soon winter hits for us here in Canada. So some of our field programs may start to wrap up depending on cold and snow and so on. So we'll absolutely continue to be hiring. But seasonally our workforce does come down in Q4 typically.

Devin Dodge
Analyst, BMO Capital Markets Corp. (Canada)

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Devin Dodge

Analyst, BMO Capital Markets Corp. (Canada

And we spent – we – this year, I had talked earlier about investments in our back-office systems and so on. And again, it will be bringing to bear sort of the efficiencies that have come from that investment, continuing to drive and draw on our

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

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Sure. We're actually just putting the finishing touches on our October monthly results, and we have seen positive movement in our working capital as DSO now down up a couple of days from the end of September and moving treatment for these locations. And that actually truly is often our way in the door is on the water and wastewater. But then once you're in there, there's a lot of, we call it, balance of plant. So there'd be – there's parking lots, there's office buildings, there's site security, all these sorts of things. So it really touches almost all of our business lines when we look at a big facility like that. And I think that's why you've seen – or as I mentioned, like our fees and our opportunity pipeline are roughly CAD 1 billion. Now, again, want to concern that's not backlog, and we're not going to win it all, but it's a huge opportunity.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

we haven't seen any really uptick in projects being delayed or canceled. And so as to why that is, I just think that there's still a lot of underlying fundamentals. We've talked about some things like the big logistics center that we're working on in Southern California.

And so we've had interest in that, that facility is still very high. We see no indications of slowdown there or from other similar type projects. So if interest rates go longer – higher for longer, if the economy slows, perhaps we'll see something going forward, but we're really not at this point.

Theresa B. Y. Jang