Stantec, Inc.

In Q3, we drove a 12.4% year-over-year increase in net revenue, with 7.4% representing organic growth across all geographies. In particular, we saw major contributions from the United States and our global operations. Environmental Services and Infrastructure generated double digit organic growth and Water and Buildings delivered strong growth of 7.4% and 4.5%, respectively. Energy & Resources, by contrast, experienced a modest contraction again this quarter, mostly due to major projects nearing completion, but it should be noted that comparative figures for last year were very high. Acquisitions delivered a 4.8% increase in net revenue, primarily in our global Buildings business.

Gross margin, which is a reflection of project mix and the quality of our execution, increased by 13.4%. And at September 30, our consolidated contract backlog remains at a record high, CAD 4.4 billion, that's up 5.4% from the end of 2018 and represents approximately 11 months of work. We've made very good progress on our organizational reshaping initiative and continue to focus on driving efficiency. We've reduced administrative and marketing costs and improved utilization compared to the first half of this year.

Importantly, as demonstrated by the results delivered this quarter, our reshaping initiative has not impacted our ability to achieve organic growth, execute projects or build backlog. In fact, we've won a number of major projects in the back half of this year, and we're actively hiring in regions and businesses with strong organic growth. We're also on track to deliver annualized cost savings of approximately CAD 40 million to CAD 45 million or CAD 0.26 to CAD 0.29 per share, consistent with our estimate in Q2.

And with that, I'll hand it over to Theresa.

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

Thanks, Gord.

As we've done throughout this year, we've presented Q3 2019 results both before and after the adoption of IFRS 16. And you'll find the reconciliation of our Q3 2019 statements in our MD&A, in the appendix of the slide presentations and in the supplemental information posted to the Investors section of our website.

Adjusted net income for the quarter increased 29.5% to CAD 66.3 million and adjusted earnings per share increased 31.1% to CAD 0.59 per share. This was largely due to net revenue growth, which increased 12.4% to CAD 952.6 million in the quarter. As Gord outlined earlier, 7.4% of that increase was organic growth and 4.8% was acquisition growth. Gross margins for the quarter increased 13.4% to CAD 516.1 million. As a percentage of net revenue, gross margin increased from 53.7% to 54.2% and this reflects our continued focuses on improving project execution and our diverse mix of projects.

Admin and marketing costs were CAD 355.6 million, representing 37.5% of net revenue and that includes a 0.3%

Yeah. So Mark, we had estimated that for the second half of the year, we would achieve savings in that CAD 16 million to CAD 20 million range the forecast and before severance. And so I'd say that we are on track for that and because the initiatives [indiscernible] (00:13:08) a little bit later in the year that's why [indiscernible] (00:13:11) doubling when we get to the CAD 40 million to CAD 45 million for next year. But we are on track for the second half of this year to be in that CAD 18 million to CAD 20 million range.

Analyst, Scotia Capital, Inc.

Q

Okay. But I guess, just by math and so the progress, there wouldn't be much in Q3. You see more of a –in Q4 and probably a bigger chunk sort of next year at least in the P&L, am I thinking about that right?

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

A

Yes. That's right.

Analyst, Scotia Capital, Inc.

Q

Okay. Again, just maybe just on the organic growth, you touched on or you said you'd talk about plans for 2020, I guess, next month. But just I'm just curious if you're seeing sort of anything that would sort of materially change either up or down sort of what the business is doing sort of now into next year?

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

A

We're feeling good about the backlog that we've had all year, which is still at record levels. So as we move into next year, I think we're still looking at that low- to mid-single digits.

A

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

Hello?

Q

Hi Gord, can you hear me?

A

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

Gordon and Theresa are here, but we can't hear you at this point.

A

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

Of course, they've lost you, but they can hear, Chris.

Q

whether it was like project-specific revenue recognition changes or a higher head count or utilization or and what was driving that outsized organic growth in Q3?

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

A

Certainly, a number of the projects that we've been waiting to, to fully engage in really kicked into high gear. There is certainly a seasonality component in Q3 as well as we have more people out in the field and those programs are growing a bit stronger. So it really wasn't due to any one of those issues. But pretty broad based across all the geographies, and we felt good about the quarter.

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

A

And just to confirm, we did not change any of our revenue recognition approach for the quarter, so there wasn't anything from an accounting perspective that caused that. I think it's probably a bit of that feeling that we would – we have commented that we were still getting out to the field this year because of the cold, the winter and so on, and we saw that in our results in the first and the second quarters. So I think there is some respect as well because of the pent up ability to move forward. And it was more pronounced in the third quarter because of that.

Analyst, BMO Capital Markets (Canada)

Q

Okay. Okay. Makes sense. To maybe just kind of continue on that theme, but organic growth in the Canadian business was positive in Q3, it remains lower or a bit lower on a year-to-date basis. Just with what you see in the backlog, what you're seeing in the bid pipeline, just wondering how we should be thinking about the pace of organic growth in Canada over the next say two to four quarters?

President, Chief Executive Officer & Director, as we're entering into new contract, there is a very keen focus on payment terms as we enter into new work, but it's just going to take a lot of those other contract to roll off.

Analyst, BMO CapMarkets (Canada)

Q

Okay. So a day or two by year end and there is –it sounds like there's a little bit more room to go maybe in 2020 is that fair?

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

A

We're to keep trying. And I think DSO is clearly one of the things that every organization, particularly as a professional services company, should be working on to reduce. I made the comment earlier around the work we've done on looking at our return on working capital. And that would indicate to us that over the last couple of years even when DSO has moved up and by a fair number of days that we're still the return we're generating has been consistent.

: We'll take our next question from Jacob Bout with CIBC.

Yeah, absolutely. The backlog of projects is there and a number of the projects that we're just beginning to engage with our large multiyear projects. So once they get rolling, we feel confident in that that type of a range going forward about 4% to 5%.

Analyst, CIBC World Markets, Inc.

Q

And then maybe just on the US. So seeing some outsized growth there, it sounds like a pretty big step up in transportation environmental. You've got a couple of projects here the Long Island, the Red, Purple Line. How are those projects? When are they expected? And how are you thinking about the continued growth in the US?

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

A

Yeah, yeah, and a good question. We have –those projects are certainly in the midst of full design. We have resources from –throughout the United States and Canada working on them, but they are a large projects. So those will certainly be going for the next couple of quarters. And in the case of Long Island and in terms of full flat out design and for Chicago even longer than that. But as that winds down, we talked about during the prepared comments the railway project in Florida comes on, and we have other like rail projects that we're working on in Canada. So we see good backlog in transportation, overall.

Analyst, CIBC World Markets, Inc.

Q

I'll leave it there. Thank you.

Okay. And for Environmental Services, you already provided some color, but if you look at organic growth it's been in the double-digit over the last two quarter. Would you still –or is it reasonable to expect double-digit in Q4 again, but maybe kind of a more moderate growth for 2020 in the mid- to high? Or how should we be thinking about the 2020 for Environmental Sernvironmental SerleQF1 9.98 2.43 tal4o

280 g7(k)OBTF1 9.96 tal4o

Ye

but not moving into the next stage. So a little bit I think of trepidation a little bit of a wait and see on some of those properties or on the projects.

Analyst, National Bank Financial, Inc.

Q

Okay, that's fair enough. And the other question I had was just in terms of capital allocation priorities, do you have any thoughts, incrementally speaking, in terms of deploying capital via M&A versus share buybacks? Just in terms of if you have evolved your thinking over the last little while, just maybe any thoughts there, please?

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

A

Sure and it's really pretty consistent, Max, from what I shared in the earlier part of the year. From our perspective, allocating capital to make accretive acquisitions is our biggest priority. It drives growth and drives returns and so that remains a priority. Hav

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