

28-Feb-2019

# Stantec, Inc. (STN)

Q4 2018 Earnings Call

## CORPORATE PARTICIPANTS

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

Theresa B. Y. Jang

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to Stantec's Fourth Quarter and Year-End 2018 Earnings Results Conference Call. Leading the call today are Gord Johnston, President and Chief Executive Officer; and Theresa Jang, Executive Vice President and Chief Financial Officer.

Today's call is a webcast and Stantec invites those dialing into view the slideshow presentation, which is available in the Investors section at [stantec.com](http://stantec.com). All information provided during this conference call is subject to the forward-looking statement qualification set out on slide 2, detailed in Stantec's Management Discussion & Analysis and incorporated in full for the purposes of today's call.

With that, I'm pleased to turn the call over to Mr. Gord Johnston.

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Gordon Allan Johnston

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

Thank you, and good morning. I'll start with a brief overview of the year, then Theresa will share details of the results. Following that, I'll share some operational highlights from across our business. In 2018, our Consulting business achieved all the financial targets we established at the start of the year. We also made significant progress on the business objectives that I set out early last year.

The first objective was driving organic revenue growth. We achieved this in every quarter of 2018 culminating in a 3.3% organic net revenue growth compared to 2017. We generated organic growth in all geographies and in our Environmental Services, Energy & Resources and Water business.

My second objective last year was to reinvigorate our focus on strategic acquisitions after we had pause to digest MWH. Last year, we acquired seven strong firms that add to the diversity, depth of expertise and geographic reach of all our businesses; and notably, three acquisitions [ph] were outside (00:01:54) North America marking a big step forward in our strategy to build on the Global platform we acquired through MWH.

Thirdly, we wanted to achieve cost efficiencies, while we will never compromise on health, safety or our ethical standards, we recognize that maintaining an efficient administrative cost structure is critical to our competitive advantage and profitability. In 2018, we looked closely at administrative costs and success – and successfully reduced spending in several areas. We continue to see incremental improvements in utilization and reduced our admin and marketing expenses as a percentage of net revenue.

And my fourth objective for 2018 was to complete a strategic review of Construction Services. As I reflect back on the MWH acquisition, I can say that, despite the turmoil caused by the Construction business, Stantec is stronger with the addition of MWH's design practice. It brought us a global footprint, added strength to our established teams and gave us a mature and leading presence in the UK water sector. However, that narrative was overshadowed by poor performance in Construction Services.

We closed the sale of Construction Services in November and are in the process of reviewing the closing financial statements with the purchaser. With this chapter largely behind us, we're looking forward to refocusing all our attention and energy on continuing to grow our core Consulting business.

And yesterday, our board declared a dividend of CAD 0.145 per share, an increase of 5.5% from last year. This signals the board's confidence in our strategic direction and our ability to execute on our growth strategy while recognizing Construction [ph] has led (00:03:36) down our earnings and cash flows in the last two years. The board believes the 5.5% dividend increase strikes an appropriate balance in our capital allocation, offering a meaningful dividend increase while supporting investment growth and – investment in growth initiatives that will create long-term shareholder value.

Now, I'll hand the call over to Theresa to walk us through our results.

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## Theresa B. Y. Jang

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

Thank you, Gord. Before I jump into our earnings review, I'll note that we've made certain changes to the presentation of our financial results, mainly as a result of following accounting rules for discontinued operations which became a requirement when we sold Construction Services.

First, earnings and cash flows for Construction Services have been classified as discontinued operations for the current period and restated as such in comparative periods. Second, the accounting rules for discontinued operations required that certain corporate costs historically allocated to Construction Services be reclassified with continuing operations because those costs are ongoing in nature. The effect of this has also been incorporated into our restated results.

Unrelated to the sale of Construction Services, we've broadened our definition for adjusted EBITDA, adjusted net income and adjusted EPS from continuing operations. We'll discuss these changes in greater detail and we've

done so on page M-3 of our 2018 Annual Report and as well, we provided some supplemental financial information as an appendix to this presentation and in the Investors section of [stantec.com](http://stantec.com).

So let's move on to our results from Consulting Services, starting with Q4 2018. All the comparative data I'll reference relate to Q4 2017. Adjusted net income from continuing operations was CAD 45.5 million or CAD 0.40 per diluted share, representing increases of 14.6% and 14.3%. These increases reflect solid net revenue growth in Consulting Services, reduced admin and marketing expenses as a percentage of net revenue, and decreased amortization of intangible assets.

Q4 net income from continuing operations was CAD 21.2 million or CAD 0.19 per share, increasing by 35.9% and 35.7%, respectively. Q4 net revenue increased by a healthy 11.4% reflecting 3.5% organic growth and 6% acquisition growth. Gross margin increased 7.3% but declined as a percentage of net revenue by 2.1% to 53.8%, this is largely due to our project mix downward fee pressures in certain business segments and project execution challenges in some of our Canadian Buildings operation.

Admin and marketing expenses increased 9.1% partly due to certain unusual and non-recurring items. Excluding these items, that increase would have been 4.3%. As a percentage of net revenue, admin and marketing would have decreased by 3.1% to 43.7% mainly due to improved utilization, operational efficiencies and reduced share-based compensation charges. Adjusted EBITDA increased 26% to CAD 84.2 million increasing by 1.2% as a percentage of net revenue to 10.1%.

Now looking at discontinued operations, we recorded a CAD 32.2 million after-tax loss in Q4, CAD 35.8 million pre-tax. This includes operating losses incurred by Construction Services up until the November 2 divestiture, project losses associated with the remaining UK waste-to-energy project, CAD 5.8 million for past service cost resulting from a court ruling related to equalization benefits for the UK construction defined benefit plan, a CAD 1.5 million gain on sale and the corresponding tax expense. The waste-to-energy project has experienced EPC-related delays but we are now 20 days into our 30-day acceptance testing.

In calculating adjusted EBITDA and adjusted net income, we've excluded certain unusual or non-recurring items because we don't believe that they are reflective of our underlying operations. For Q4, these items include a CAD 12.8 million charge for a lease exit liability related to our Edmonton head office move, a court ruled CAD 4.7 million past service cost adjustment for our UK defined benefit pensions, and the CAD 5.5 million unrealized loss on investments held for self-insured liabilities. We've provided a reconciliation of these adjusted measures to net income in the appendix of this presentation.

And now moving to our full-year 2018 results where all comparative data reference relates to full-year 2017. Adjusted net income from continuing operations was CAD 206.6 million or CAD 1.82 per diluted share, representing increases of 5% and 5.8%. This demonstrates our success in growing organically and through acquisitions, while maintaining an efficient cost structure. For comparison purposes, had we not been required to change our methodology of allocating corporate cost, Consulting Services would have reported adjusted net income of CAD 215.5 million or CAD 1.89 on a per share basis, increases of 11.1% and 11%.

Unusual or non-recurring items for the year includes the Q4 items previously discussed, as well as a CAD 10 million tax recovery because of proposed U.S. federal tax regulations in August. Losses incurred from Construction Services coupled with the unusual or non-recurring items had a considerable impact on net income. 2018 net income was CAD 47.4 million or CAD 0.42 per diluted share, decreases of 51.1% and 50.6%, respectively.

Net revenue increased 5.7% to CAD 3.4 billion. As Gord mentioned at the top of the call, we achieved 3.3% organic net revenue growth with growth across all geographies and in our Environmental Services, Energy & Resources and Water businesses. Gross margin increased by 3% to CAD 1.8 billion, but declined by 1.4% as a percentage of net revenue to 54.1%. This is largely due to overall project mix and execution challenges in our Canadian Buildings operations, compounded by the 2017 Innovyze divestiture which was a higher margin business and several positive 2017 revenue adjustment.

Admin and marketing, excluding unusual or non-recurring items, fell by 2.1% as a percentage of net revenue to 42.3% demonstrating the effectiveness of our focus on operational efficiencies. Adjusted EBITDA increased by 11.1% to CAD 392.5 million representing 11.7% of net revenue. As for discontinued operations, we recorded an after-tax loss of CAD 123.9 million for the year. And in addition to the items described in the Q4 discussion, the full-year loss includes a CAD 53 million non-cash goodwill impairment charge and a CAD 13.8 million tax charge on the disposition. Despite this overall, Consulting Services had a very good financial performance year while all of our financial targets were achieved.

And before we move to highlights from operations, I'll touch on our liquidity and capital resources. Underpinning our pursuit for growth, there is a commitment to protect and strengthen our balance sheet and to optimize our capital structure. While we've always benefited from strong liquidity and access to capital, our 2019 priorities include further strengthening our cash flow and leverage metrics by improving the efficiency of our working capital and by being disciplined on how we allocate capital.

Our days sales outstanding have crept up over the past year from 94 days to 103 days and that is higher than we'd like it to be, we know that we can do better. So, we're committed to lowering that number and we've taken targeted measures to do so. I should note that in calculating our DSO, we do not net of deferred revenue from accounts receivable and work-in-progress. And others may I think this practice is mixed in our industry but doing so would drop our DSO to 88 days, this doesn't change our focus on reducing our DSO but I just think that it was important to highlight.

In terms of our borrowing capacity at the end of 2018, we had approximately CAD 223 million of undrawn capacity on our credit facility and access to another CAD 400 million under our accordion feature if required for future acquisitions. Our net debt to EBITDA ratio was 2.42 at year-end below our target of 2.5 and well within our covenant requirement. Nevertheless, we're focused on reducing this metric to further enhance the efficiency of our capital structure. We've also been very active in repurchasing common shares to our Normal Course Issuer Bid program. In 2018, we repurchased and canceled over 2.4 million common shares at an average price of CAD 31.09 per share for an aggregate price of CAD 76.7 million. And so far, this year, we've repurchased and canceled a further 195,000 shares.

Lastly, in Q1 of 2019, we'll transition to IFRS 16, which will introduce significant changes to our financial statements, including increased assets and liabilities related to our leased assets, and reductions to our admin and marketing expenses offset by higher depreciation and financing cost. Our transition is still a work-in-progress, so we can't share specifics of the extent of the impact yet. We know IFRS 16 will change the complexion of EBITDA and other metrics, so we're working to develop our disclosures with the aim of providing transparency and comparability. We'll provide an update to our 2019 guidance in our Q1 2019 reporting.

And with that, I'll turn it back to Gord for a closer look at the operations and our 2019 outlook and targets.

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Gordon Allan Johnston

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

Thank you, Theresa. In 2018, our Canadian operations performed quite well with net revenue increasing by 5.9% in the year. That breaks down to 3.7% net organic growth and 2.2% growth from acquisitions completed in 2017 and 2018. Our Power and Oil & Gas sectors were our strongest performers in Canada largely due to significant progress on several major projects in the power sector and a ramp up of midstream work in oil and gas. Our Water business also had strong growth, driven by major projects in Western Canada where we continue to build the top tier presence.

And although we saw a slowdown in Community Development work in the Western provinces, we offset this with a steady stream of work in the East. Environmental Services retracted year-over-year, but it grew organically in the fourth quarter. Prospects in Canada are positive with midstream oil and gas were continuing to increase. Growth in our Canadian Buildings business was impacted by major projects nearing completion and by certain projects that required more specialized consultants. The result was a year-over-year retraction for Buildings in Canada.

Moving on to slide 15, our U.S. operations also had a solid year with 3.5% net revenue growth which includes 2.5% organic net revenue growth and with the exception of Buildings, all our U.S. businesses and sectors grew organically. Roughly 1.3% of our overall net revenue growth was due to acquisition growth. Our U.S. Environmental Services business achieved organic growth in several sectors and we continue to capitalize on our Environmental mitigation expertise and build on our remediation and recovery practices. And with commodity prices on the upswing, we experienced organic growth in our U.S. Mining, Oil & Gas, and WaterPower & Dams sectors. Our Water business grew as well due largely to our ability to capture a share of the growing amount of work flowing from California and Texas. And when you're looking at year-over-year comps, it's important to remember that we're still comparing against the sale of Innovyze which had a strong positive impact on our Water business in 2017.

Elsewhere in our U.S. sector's Community Development work is growing in the busy Southeast and Northeast corners of the country. But this was partly offset by competitive fee pressures in other regions and by projects with higher sub-consultant fees. In Transportation, the ramp-up of previously awarded major projects offset the ramp down of other projects. We have a strong strategic position in transit, bridge inspection, light-rail transit, roadways and bridges, and we continue to secure impactful projects. Our U.S. Buildings business had an organic retraction mostly due to project issues in a large healthcare project that's winding down early in the year. But in the second half of the year, the downward trend reversed with strong organic growth in the fourth quarter and growth in our commercial, healthcare, and science and technology sectors, especially in Florida and the Northeast.

In Global operations on slide 16, we generated very strong net revenue growth of 14.3% that includes 5.4% net organic growth and roughly 9% acquisition growth, primarily in our Environmental Services and Infrastructure businesses. Leading net revenue growth within Global operations was our Water business propelled by new projects in Australia and New Zealand. Our Mining sector continued to benefit from improving commodity prices and a steady flow of Environmental Services work in Latin America. Our Global Buildings business performed well with two major project awards in Qatar and the UAE. Due to decreased volume on a large – on large project in Europe, Environmental Services retracted. Our WaterPower & Dams sector grew as a result of new project wins – excuse me, but growth was partly offset by projects winding down in our export business.

Now, we'll shift gears and look at backlog. At year-end, backlog for continuing operations was CAD 4.2 billion representing 11.7 months of work, just over 60% of that work is in the U.S., about 25% is in Canada and roughly 14% is in our Global operations. We were awarded many significant projects in 2018. Those on the slide represent just a handful of the largest projects in our backlog and of course these are supplemented by the many thousands of smaller projects we [ph] win (00:19:20) around the world, thanks to our strong local relationships. As

we look ahead to 2019, we expect organic net revenue growth to be in the low-to-mid single digits in line with global GDP growth. We remain committed to our long-term average compound target rate of 15% net revenue growth achieved through a combination of organic and acquisition growth.

In Canada, we expect that continued oil price volatility, rising interest rates and increased regulatory restriction on mortgage qualifications will slow economic growth. In the U.S., we expect solid consumer spending and business investment, slightly increasing interest rates and continued strong employment. We anticipate growth in our global markets as we continue to expand our global footprint. We expect healthy GDP growth in the countries where we operate, less volatility in commodity prices helping our Mining and Environmental Services business. We do expect Brexit to create some uncertainty in Europe and the UK but we believe our UK business is insulated from these uncertainties, given our long-term critical public infrastructure contracts.

Now looking at our 2019 targets on slide 19, we remain committed to our previously identified target ranges for gross margin, admin and marketing expenses, EBITDA and net income as a percentage of net revenue as shown on the slide. The transition to IFRS 16 will impact admin and marketing expenses and our EBITDA and we'll revisit these targets in Q1 once we've completely assessed how the transition to the new standard will impact us.

Our 2019 acquisition strategy is to remain disciplined as we focus on small- to mid-sized firms that will help us deepen our expertise, diversify our services in key regions and create value. We plan to continue to infill in Canada and still see significant opportunity to grow and diversify in the U.S. We need to be a top tier provider in multiple sectors to operate at scale and acquisitions are key to growing and diversifying our operations and building vertical depth. Our intent is to achieve the same thoughtful North American focused geographic and business line expansion in the key global markets, namely New Zealand, Australia and in the UK.

We remain committed to the UK as part of our long-term growth strategy with long-term infrastructure demand, there are plenty of opportunities but we'll wait and see where everything lands when the uncertainty surrounding Brexit subsides.

Stantec steps into 2019 determined to deliver shareholder value while providing solutions to challenges facing our clients and the world. Our Consulting business remains among the best in the world. We work hard to build the practices that is diversified by business line and geography providing a stable base against potential volatility in any one sector or region. Our business model is further strengthened by our solid client base which is well-balanced between public and private sector clients and built upon strong local relationship backed by our team of global experts. Our backlog is strong and we're well-positioned to continue winning meaningful work that will grow earnings and help us create communities. As always, I think our employees, clients and the investment community for their continued confidence in Stantec.

With that, I'll turn our call back to the operator to begin the Q&A.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from Jacob Bout. Please go ahead.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Hi. Good morning.

Gordon Allan Johnston

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

A

Good morning, Jacob.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Wanted to go back to your 15% net revenue CAGR guidance. I guess we would back into then a kind of a 10% plus M&A for net revenue. What is your target areas right now for M&A by geography and sector?

Gordon Allan Johnston

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

A

And so Jacob, I'd also like to clarify that that 15% is on a five-year average, some years will be higher than that and certainly some years will be lower than that. From a geographic and business line expansion, we – as we mentioned earlier, we have in the prepared remarks, when we started back in June of 2017, when I was named to this role, we spent a lot of time in the UK and in Australia and New Zealand looking at firms. So in the UK, we've identified still a number of really good top tier firms that would like to join Stantec. At this point, though we've paused any further additions of firms in the UK, until we learn a little bit more about Brexit.

So with that said, we'll continue to focus on Australia and New Zealand. Certainly, we've previously press released the – that we've signed an LOI with WGE Engineers, Wood & Grieve Engineers of Perth, and we'll continue to talk to two additional firms down there. But we don't intend to take our foot off the gas at all in the U.S. We still see strong opportunities for growth in the U.S., across all of our business lines. And perhaps just for a movement going back to Australia, New Zealand area, in Australia, we have some – some good presence in Water, an emerging presence – presence in Transportation. And when WGE joins us, subject to due diligence in the first quarter of this year, that will give us a very strong national Buildings presence.

So I think we've got a lot of opportunities still in Australia and New Zealand. Australia, in particular to continue to focus on transportation firms, additional strength in our Water business, really filling out the full suite of services that typically within the Stantec are five business operating units. We are seeing still in Australia a lot of growth in the Southeastern corridor from a land development perspective, Community Development in the West certainly a lot of work, emerging work coming back in the Mining business and we're hiring there in fact having trouble filling some of the positions we want to hire just because it's so robust there. So pretty good geographic opportunities for M&A growth as well as a lot of sectors that we still have a good run rate in as well.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q



Okay. Thank you. That was helpful. And maybe just a question on how the divestiture of your Construction business is impacting your [ph] E&C Water (00:26:24) business. Any impact on win rates or any other impacts thinking about...?

Gordon Allan Johnston

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

A

We have not seen any impact on win rates or at this point in the U.S. in particular no impact that I could speak of whatsoever and in the UK as well we still have – we haven't seen any impact from the divestiture of Construction at this point.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Okay. Last question here just on the quality of your backlog. What's the embedded EBITDA margin in your backlog you have currently?

Gordon Allan Johnston

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

A

We feel that the backlog hasn't been achieved through price reductions. So we feel good about the quality of the backlog as well, that it will be in line with what we've seen historically.

Jacob Bout

*Analyst, CIBC World Markets, Inc.*

Q

Thank you very much.

Gordon Allan Johnston

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

A

Thanks Jacob.

**Operator:** Thank you. And our next question comes from Yuri Lynk. Please go ahead.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

Hey, good morning. Thank you. Just a follow-up on the net debt-to-EBITDA ratio it's struck me as it rather high 2.42, I think is the number provided. Can you just clarify the – if the EBITDA you're using in that calc is restated for just the Consulting EBITDA or is that including the losses in the Construction business over the last year?

Theresa B. Y. Jang

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

A

No, that is using our actual EBITDA, not the adjusted metrics.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

Okay, that makes a little more sense. So that should, I guess the thinking if we were to tie that into the plan to do more – more M&A because at face value it looks like you're rather tight there EBITDA lapping some easy comps, better cash flow and that kind of gets you into a better comfort range on the balance sheet, is that the thinking?

Theresa B. Y. Jang

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

A

Yes. And keep in mind I mean the EBITDA is we know it's going to improve now that we've shed the Construction business. And so we're anticipating that that coverage to improve pretty dramatically as we roll into 2019 and those – [ph] the weak EBITDA (00:28:43) from Construction rolls off. So, we – it's something that we're monitoring absolutely. But it's not really for me an area of concern.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

Got it, okay. Can you share with me what the guidance implies for the Buildings segment, particularly around margin, and you described continued execution challenges in the fourth quarter in that segment. I mean this has been going on for a while, what's being done, what are the nature of the issues and when might [ph] they cease (00:29:16)?

Gordon Allan Johnston

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

A

When we certainly in the fourth quarter of last year, we did a deep dive on these two Buildings projects in Canada that was the Mackenzie Vaughan Hospital and [ph]

Kamis (00:29:31).

And what we found there was, so the issues, we trued up really with the strong earned value assessment. The cost to complete the design phase both of those projects are in Construction now. The design phase is largely complete. And really those you know we trued up what we believe the earned value to address with that. Going forward, we have services we'll continue with services during construction. But that were the services during construction were those budgets remain intact. So, we believe that the performance in the Buildings sector going forward into 2019. While we don't see it as being spectacular, we don't foresee the degree of impact that we had in 2018.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

And was the issue there just you know underestimating the number of man hours, it would take to complete these jobs?

Gordon Allan Johnston

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

A

Yeah. Those were both [ph] P3 (00:30:30) jobs and you're right, the scope, we found that the scope was not well-controlled. The client came back with numerous change orders and perhaps we [ph] hadn't (00:30:41) managed that as well internally as we could have. We've changed some, some people around. We've brought in some additional – from internally, we've put some of our project management specialists on it. That's where we did the deep dive into the earned value. Did those true ups in Q4 and that's why going forward we expect that we're going to be in better shape there.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

Okay. So we see better margins on the whole in 2019 versus 2018 in Buildings, is that the message?

Gordon Allan Johnston

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

That would be our anticipation, yes.

A

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Okay. Okay. Thanks very much. I'm going to turn it over.

Q

Gordon Allan Johnston

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

Okay. Thanks Yuri.

A

**Operator:** Thanks you. [Operator Instructions] Our next question comes from Mark Neville. Please go ahead.

Mark Neville

*Analyst, Scotia Capital Inc.*

Hi, good morning. Maybe just first on the last Construction project just, can you just remind us or just let us know when that officially wraps up and if there is any cash flow impacts that we should expect in Q1?

Q

Gordon Allan Johnston

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

So we – good question, Mark. So as Theresa noted in her remarks, the focus right now on this 30-day acceptance test and we're over 20 days into it. So that's the next big milestone is to achieve that that 30-day acceptance period. Once that's complete, we still have, we have O&M contracted for a five-year period. So we're not particularly focused on the O&M contract right now but we have received interest from a number of firms who would be interested in picking up that O&M contract from us and thereby us shedding all go-forward liability on that, so that's kind of something that we're certainly interested in and we'll engage on in those discussions once we've completed this – our 30-day performance test and again we're over 20 days into that.

A

Theresa B. Y. Jang

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

Yeah, as far as the cost goes, and we took a pretty hard look in the fourth quarter at what we needed to provide for with respect to completing this project as well as the anticipated impact of the O&M contract over its five-year life. And so from an earnings impact, we feel that we've been conservative in providing at our best estimated amount and so the goal would be that as we move into 2019 to not see material losses recorded in the year and so that's the approach that we've taken, from a cash flow perspective of course that timing will be as the project unfolds and over the course of that O&M contract.

A

Mark Neville

*Analyst, Scotia Capital Inc.*

But maybe just related to the actual ignoring the O&M just the Construction portion of this wrap up, again in Q1 is there a significant cash flow tied to that?

Q

Theresa B. Y. Jang

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

A

I don't think a significant, no.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Okay. Maybe just on your [indiscernible] (00:34:01) your 2019 guidance, I'm just trying to reconcile sort of everything you're saying, are you actually expecting growth in the Canadian Office next year?

Gordon Allan Johnston

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

A

Yes. Yeah. We are forecasting organic growth in Canada for next year.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Okay. I mean it looks like a fairly difficult comp in 2019 versus 2018 in Canada but like consolidated as you're sort of roughly in the same range as what you did in 2018, so I'm just curious if there is some softness in Canada or if it's down from last year the growth rate maybe where you expect to make that up?

Gordon Allan Johnston

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

A

We're seeing really good activity in the transportation sector in Canada. There is – we have been shortlisted on a number of projects in the GTA area there, Hurontario, Milton Corridor, Lakeshore West, so a lot of good opportunities in Transportation. Certainly good opportunities [indiscernible] (00:35:01) continuing in the – in both Environmental Services and Environmental and our Energy & Resources Group as they relate to Coastal Gas, LNG Canada and [ph] Transvaal (00:35:14) should that be approved to move forward. So we do see some green shoots in a lot of our operations in Canada.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Okay. Maybe just one last one then for Theresa, just on the reclassification of the corporate cost I apologize if I missed this in the MD&A but the 11.7% margin that you did in 2018, is that sort of reclassified or is that sort of on the old classification of corporate [ph] cost (00:35:42)?

Theresa B. Y. Jang

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

A

Yeah. So it's – I don't blame you. It's a little bit of a mind twister and following through. So, the 11.7% on the EBITDA margin that piece is related to adjusting out those unusual and non-recurring items.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Yeah.

Theresa B. Y. Jang

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

A

It doesn't take into account the reallocated costs. If you do adjust for the reallocated cost, we would actually have been at 12%.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

12%. Okay. And I guess for – I guess that's my question for 2019 the baseline then is 12% or 11.7% just for guidance in...

Theresa B. Y. Jang

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

A

For 2019 the basis would have to be 11.7% because the new methodology of allocating cost is now the go-forward approach.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Okay. So, the 11.7% is the reallocated number and maybe I don't fully understand I apologize but the 11.7% is reclassified.

Theresa B. Y. Jang

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

A

Yes, that's correct.

Mark Neville

*Analyst, Scotia Capital Inc.*

Q

Okay. Okay. Okay. All right, I'll turn it over. Thanks a lot.

Theresa B. Y. Jang

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

A

Okay.

Gordon Allan Johnston

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

A

Thanks Mark.

**Operator:** Thank you. Our next question comes from Maxim Sytchev. Please go ahead.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Hi, good morning.

Gordon Allan Johnston

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

A

Good morning, Max.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

I had a maybe a question for Theresa to start off. The reported tax rate in the MD&A, you talk about 10.9%. So is that what you used to calculate the CAD 0.40 for the Q4 adjusted EPS?

Theresa B. Y. Jang

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

A

The tax rate, it would have included the adjustment for the CAD 10 million provision – sorry, recovery that we adjusted for in arriving at our adjusted net income. So the lower tax rate would have the recovery included the normalized rate would have it backed out.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Sorry, the normalized EP – so the normalized EPS that you calculate the CAD 0.40 because like what we're just going through – right now through the spreadsheet. So was that imputing a 27% tax rate or the 10.9%?

Theresa B. Y. Jang

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

A

That would have been imputing a 27% tax rate.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Okay. Okay. Thank you. And then in terms of when we look on a by divisional basis gross profit percentages are trending downward sort of across the board and especially when you combine it with potential wage pressure due to relatively low unemployment rates. How should we think about the gross profit percentages on a prospective basis your comfort level around being able to bring those back up?

Gordon Allan Johnston

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

A

So the – yeah, Max, as we look at gross margin, you're right that has been kind of trending in a downward direction. We're pretty focused as we did last year on the cost side, this year we're going to continue to focus as well on – and you're right you know there is wage pressure in a number of our areas and we're also really having a look at at our overall workforce, the demographics, the organizational structure and looking for how we can continue to optimize that and bring down our overall average cost per hour of labor. So, I think as we continue working through these initiatives in the first half of 2019, we're hopeful that that will – as we bring down the average cost of labor that our gross margin will continue to trend back upwards.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Right. And so do you want may be expanding a little bit on additional efficiencies that you can drive through kind of the system because like it's easier obviously to say like it's going to go up by 100 basis points, but what is exactly behind that?

Gordon Allan Johnston

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

A

So we're – when we look at our overall structure, Max, we're looking at how we can continue to lean off the structure a little bit more, how we can get less people looking at administrative-type task and more people back working with clients and on projects. So we're continuing that, that work. We have – we've presented some initial

work to the board yesterday and we're going to continue working through that. In terms of just how can we become leaner and meaner, we need to do that now. But I think you've brought up in the past and some of our discussions that as our – as the U.S. expansionary cycle has gone on for quite some time now, do we see it at some point softening, and if so, how quickly can [ph] confirm to (00:40:43) respond to a softening. So we're making sure that, that we're working hard to get out ahead of that.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Okay, no that makes a lot of sense. And last question/clarification. You've added the adjusted net income to net revenue target better than 5% and I think consensus is already implying kind of like 7% for 2019. So what was the rationale of adding that, that additional target to your list if it's possible?

Gordon Allan Johnston

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

A

It's something that we've always tracked internally, Max. It's been our – something that we've used. And so the thought was that if it's something that's important for us to track internally and hold ourselves accountable to that from a transparency perspective, we didn't mind sharing that with you as well.

Maxim Sytchev

*Analyst, National Bank Financial, Inc.*

Q

Okay. That's helpful. Thank you very much.

Gordon Allan Johnston

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

A

Thank you.

**Operator:** Thank you. And our next question comes from Mona Nazir. Please go ahead.

Mona Nazir

*Analyst, Laurentian Bank Securities*

Q

Good morning. And thank you for taking my questions.

Gordon Allan Johnston

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

A

Good morning, Mona.

Mona Nazir

*Analyst, Laurentian Bank Securities*

Q

Good morning. So my first question is just following on the last line of questioning, you had 11.7% Consulting margin in 2018, which was a year that effectively there was a lot of noise surrounding the business you had challenges within your Construction division, you were trying to sell that new management transition. And given these noises have subsided for the most part in your recent comments surrounding optimization, do you think it's possible to hit the upper end of the guidance range for EBITDA, so 12.5% or more?

Gordon Allan Johnston

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

A

You know, Mona, we're going to continue to focus hard on that, both through efficiencies, increasing our quality of delivery and so on. We feel that a range of 11% to 13% is reasonable. Often we get asked would we ever get above 13%, and I don't think that – that is getting back in those 14% numbers that we had several years ago [ph] is could have been (00:42:52). We're going to focus hard to do as to get the best we can there, but certainly I think the midpoint is probably a reasonable objective for us to think about.

Mona Nazir

*Analyst, Laurentian Bank Securities*

Q

Okay. That's helpful. And then just secondly, I wanted to turn to Infrastructure spending initiatives both in Canada and the U.S. And it's been slow to takeoff on both sides and from calls dating back to last year and even 2017 there was an overall optimism within the sector and we saw strong rallying of the [ph] EBITDA somewhat died down since (00:43:27). I'm just wondering if your current organic growth forecast of low-to-mid single digits does that factor in any uptick in spending or is it based on the status quo.

Gordon Allan Johnston

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

A

It's really based on the status quo. Mona like the – certainly there has been a lot of talk both North and South of the border of in – a significant increase in Infrastructure spend but we really haven't seen anything that, that has materially come along. So market is pretty close to capacity both on the design and the construction side. So if there was a big injection of significant Infrastructure funds either North or South of the border, part of my concern is that that would lead to some significant inflationary spirals in our industry. So – but to your point, no, we have not included in our forecast a significant uptick in Infrastructure spend.

Mona Nazir

*Analyst, Laurentian Bank Securities*

Q

Okay. That's it for me. Thank you.

Gordon Allan Johnston

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

A

Thanks Mona.

**Operator:** Thank you. And our next question comes from Derek Spronck. Please go ahead.

Derek Spronck

*Analyst, RBC Capital Markets*

Q

Yeah. Good morning. Thank you for taking my questions. Can you provide any updates on the AMP 6 to AMP 7 transition?

Gordon Allan Johnston

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

A

Yeah that process is going well, we're currently as you know in AMP 6, AMP 7 will really kicks in April of 2020. So as we have a number of AMP 6 clients in which we have the provision as they roll into AMP 7 of just renegotiating the contract, we will not have to re-compete. So we're in discussions with a number of clients on that now. But



there has only been two AMP 7 contracts that have gone out, one for Yorkshire Water and one for South West Water. And we were successful on winning both of those AMP 7 agreements, those AMP 7 contracts going forward both run through 2025 with an option to extend past that. So, we feel pretty comfortable with where we are in the AMP 6 to AMP 7 transition.

Derek Spronck

*Analyst, RBC Capital Markets*

Q

Okay. That's great. Thanks Gord. With the backlog CAD 4.2 billion you indicated that you're feeling relatively comfortable with any sort of uncertainty that might arise with Brexit due to the long-term nature of your contracts there. If we were to look at the – your CAD 4.2 billion backlog, how much of that do you expect to be converted over the next 12 months or what's the duration of that – of the backlog?

Gordon Allan Johnston

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

A

Well, as you know with the new accounting rules that rolled in last year, we used to always report on our upcoming 12 to 18 months backlog now we're required to report on our full backlog. So, certainly that gives us 11.7 months. In terms of how much do we plan to convert, it will be just our continued taking from where we are in 2018 as we roll forward with organic growth into 2019. I don't see – well, we won't – we won't consume all of that because we have certainly a number of additional projects coming on.

[indiscernible] (00:46:50)

Derek Spronck

*Analyst, RBC Capital Markets*

Q

...gives you a pretty good visibility for 2019 – I mean, the majority?

Gordon Allan Johnston

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

A

[indiscernible] (00:46:55). Yeah, we feel quite comfortable for 2019, absolutely.

Derek Spronck

*Analyst, RBC Capital Markets*

Q

Okay. That's great. And then just one more for myself you indicated the gross margins were down largely due to changes in project mix. Is that just the quarterly variance or do you see that trend continuing at all in the future and maybe a little bit more color there would be helpful.

Gordon Allan Johnston

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

A

You know what we do find is that – that some of the Energy & Resources work that we do on the large pipeline jobs and large Oil & Gas jobs are at a lower margin than some of our other lines of business. So I think as that work increased a bit in 2018, we saw a little bit of margin impact from that. But going forward, we don't see margin contraction in a lot of the new work that we're either bidding or being awarded. So coupled with the types of projects that we're getting in the door, coupled with us working to increase our average cost of labor efficiencies, we're optimistic that the gross margins will not – will see no further deterioration. It will either be stable or increase through the year.

Derek Spronck

*Analyst, RBC Capital Markets*

Q

Okay. And then just one last one quickly for myself before I turn it over, did you see any sort of impact from the U.S. Government shutdown there in the first quarter?

Gordon Allan Johnston

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

A

You know we really didn't see a significant impact on our U.S. operations due to that. A big part of our work is for agencies like FEMA and their funding was unaffected by the shutdown. So, we really didn't see much of any impact at all.

Derek Spronck

*Analyst, RBC Capital Markets*

Q

Okay, thank you very much.

Gordon Allan Johnston

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

A

Thanks Derek.

**Operator:** Thank you. And our next question comes from Devin Dodge. Please go ahead.

Devin Dodge

*Analyst, BMO Capital Markets (Canada)*

Q

Hey, good morning.

Gordon Allan Johnston

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

A

Good morning, Devin.

Devin Dodge

*Analyst, BMO Capital Markets (Canada)*

Q

As some of your U.S. peers continue to generate really strong organic growth but high-single digit and low-double digit kind of range, it's good to see a bit of a lift on your U.S. organic growth in the quarter but it still seems like there is a bit of gap between yourselves and maybe the larger players like AECOM and Jacobs, is this just the function of the specific markets you're in or the end markets you serve or are there other things that we should be thinking about?

Gordon Allan Johnston

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

A

So and you're right, when you look at our organic net revenue growth in Q4 in the U.S. we had 4%. We've kind of seen strengthening from Q3 2018 to Q4 2018 and so we see some continued strengthening. We are projecting in the U.S. that we'll have higher organic growth this year certainly than in Canada. So, we've got some good project wins. We've referenced a couple of the big Transportation projects. We've got some good Water projects down there. In Water, in particular our backlogs are at an all-time high and we're working through that process. So, we need to hire more people and get them in the door in order to get the work out the door. But we're trying to still be

very disciplined in our hiring practices and certainly in our pay that we don't fall into a cycle of just continuing to escalate our pay which would then – the pay profile which would then lower our margin. So we're trying to be disciplined and balance that discipline with our need to consume the backlog and get the work out of the door. So it's a – we're trying to balance a little bit there. And I think we're having some success in Water so far this year. We've hired a number of people in the production ranks upwards of – well, without getting into the numbers but we're certainly having some success there in hiring people and maintaining our pay profile and in the way that we want to do so going forward.

Devin Dodge

*Analyst, BMO Capital Markets (Canada)*

Q

Okay. That's – thanks for that's good color. Maybe just switching gears here but last quarter you talked about the acquisition pipeline was as full or fuller than it's ever been, I guess [ph] how this evolved over (00:51:09) the last quarter three or four months and maybe just [ph] fuller (00:51:12) to that I just want to make sure I have this clear, but I think Theresa mentioned there's a desire to strengthen the balance sheet maybe reduce leverage, does this in any way suggest that M&A could slowdown in 2019 versus maybe what it was in last year?

Gordon Allan Johnston

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

A

No, we don't see that occurring. So from – first, I'll talk about the pipeline perspective. From both within North America – primarily in the United States and outside Australia, New Zealand and there are some good opportunities in some of these solid Western European countries up in the Nordics as well, some good opportunities there so the pipeline remains very, very full and probably even fuller than when we had that discussion last quarter. In terms of the capital allocation and our growth going forward there, perhaps I'll let Theresa answer that question.

Theresa B. Y. Jang

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

A

Yeah. I think it's really a matter of ensuring we maintained our discipline. There are so many opportunities in the M&A pipeline that in selecting the ones that we will actually pursue it will be about ensuring that that's the best place to place our capital and that's really what that optimization will be of what I talked about earlier.

Devin Dodge

*Analyst, BMO Capital Markets (Canada)*

Q

Okay. It makes sense. Thank you.

**Operator:** Thank you. And our next question comes from Benoit Poirier. Please go ahead.

Benoit Poirier

*Analyst, Desjardins Securities, Inc.*

Q

Yes. Good morning, Gord and Theresa. And just for to come back on the M&A, could you mention if you saw a step-up in the evaluation that took place over the last year, given the overall improvement in valuation in this space?

Gordon Allan Johnston

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

A

We've been – we continue to be pretty discipline then, why – and as we look at these. The ones that typically would go to an auction and see even higher and higher prices where we typically don't participate in those, because the – you know the sellers motivation to sell and be part of a strategic buyer like Stantec is very important to us. We see that six to eight range maybe over the last year or so is kind of gone from up to a little bit of a seven to nine but we still maintain our discipline and our focus in paying what we believe to be the right price for the acquisitions. And if money is the only reason for an acquisition to join us, then oftentimes we'll find that they might be better to go with elsewhere.

**Benoit Poirier**

*Analyst, Desjardins Securities, Inc.*

Q

Okay. Perfect. And just in terms of capital allocation, Theresa – sorry, if I missed the answer at the beginning but [ph] found net (00:54:00) debt to EBITDA stood at 2.4 time at the end of the year. I was wondering what type of level would you like to be going forward, and also what type of free cash flow generation we should be looking for in 2019?

**Theresa B. Y. Jang**

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

A

Yeah, so the – as I mentioned earlier, the 2.42 is based on our actual EBITDA that does include the impacts of the Construction business and so as we start to roll away from having those results in that metric, we know that the metric will improve. Where do we want it to be – I think historically Stantec [ph] has said (00:54:45), 1.5 to 2.5, so we're well within where we want it to be. It is about improving it further and we know that that will occur as we continue to grow and again as we shed the Construction impacts. From a free cash flow perspective, I think you're going to see the same thing that our cash from operations is forecast to increase from our Consulting business and along with that 2018 was a heavy year for us from a capital expenditure perspective, mainly because of the move into the new tower and so we expect that spending to come down in 2019. And so both of those effects of higher cash from operations, lower CapEx will we think dramatically improve our free cash flow.

**Benoit Poirier**

*Analyst, Desjardins Securities, Inc.*

Q

Okay, have you provided a number in terms of CapEx for 2019, Theresa?

**Theresa B. Y. Jang**

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

A

Yeah, we provided a range of CAD 60 million to CAD 65 million for capital expenditures and CAD 5 million to CAD 10 million for [ph] software (00:55:55) additions.

**Benoit Poirier**

*Analyst, Desjardins Securities, Inc.*

Q

Okay, perfect. And would it be fair that the free cash flow conversion you're still expecting kind of 100% of the net income going forward or is there any changes that we should take into account?

**Theresa B. Y. Jang**

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

A

So I think you know getting close to that one times is certainly what we're shooting for.

Benoit Poirier

*Analyst, Desjardins Securities, Inc.*

Q

Okay, perfect. And the last question for me. Could you talk a little bit about the overall environment for Energy & Resources obviously strong organic growth and earlier this year it seemed that it was strong across each segments, so Mining, Power and Oil & Gas, I would be curious if it's well balanced between those two segments. And also what type of if you could provide kind of an outlook for this segment going into 2019? Thank you.

Gordon Allan Johnston

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

A

Sure. We – certainly, we don't see the continued 20% type of growth that we saw in that group over 2018 is coming off some pretty low comps in 2017, but there remain very good opportunities for that overall group. In the Mining sector, for us, a big part of that is in Latin America. We're seeing that group very busy. We're seeing continued hiring in Latin America really in all three countries where we're active. We see mining work in Western Australia, picking up again, we talked about some of the hiring we're doing there and how we're having trouble filling some of the positions we're looking to hire there.

Certainly, the Power side remains robust for us. Lot of renewables type work there. And then in our standard sort of more the engineering side which for us is a lot of midstream pipeline, we see good opportunities in both Western Canada and some opportunities in the U.S. as well. So I think we'll see continued growth in Energy & Resources in 2019, but certainly not in the 20%-plus range that we saw in 2018.

Benoit Poirier

*Analyst, Desjardins Securities, Inc.*

Q

Thank you very much for the time.

Gordon Allan Johnston

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

A

Thanks Benoit.

**Operator:** Thank you. And our next question comes from Michael Tupholme. Please go ahead.

Michael Tupholme

*Analyst, TD Securities, Inc.*

Q

Thanks. Good morning.

Gordon Allan Johnston

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

A

Good morning, Michael.

Michael Tupholme

*Analyst, TD Securities, Inc.*

Q

You provided some additional disclosure on the backlog in terms of backlog by reportable segment's geographic region this year which is helpful, thank you for that. Can you provide a bit of context around how each of those regions, the backlog would have changed Q4 versus where it would have been say in Q3 or even earlier in 2018?

Gordon Allan Johnston

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

A

No, I think we would have seen not a material change. While we've had some projects awarded in one geography or another, there wasn't a – when you're looking at a CAD 4.2 billion backlog, even if you win a very large project CAD 100 million in the fees or so it doesn't materially make a difference in the big picture, so I don't think that the geographic mix would have changed significantly between Q3 to Q4 or even on a quarter-on-quarter basis. Pretty similar, you know what – that – and the backlog is more or less in line with where we find our head count and where we're proceeding from that perspective, so we feel pretty good about it overall.

Michael Tupholme

*Analyst, TD Securities, Inc.*

Q

Okay. So no one region would have driven a disproportionate share of the change one way or the other, it was pretty balanced?

Gordon Allan Johnston

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

A

Theresa and I are looking at each other thinking you know that we think it was pretty balanced.

Michael Tupholme

*Analyst, TD Securities, Inc.*

Q

Okay. That's helpful. Thank you. Can you talk a little bit about the outlook for your Community Development activity both in in Canada and the U.S.?

Gordon Allan Johnston

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

A

Yeah. So we still see that in Western Canada things are a bit slower than they had been a decade ago and that's just as a result of the slowness in the Oil & Gas business, certainly the Coast Vancouver is still very robust, we're seeing some good activity in Eastern Canada, Toronto and so, and there's still a lot of good activity in the U.S. in the Sunbelt states. Whether it's Florida and California those areas we're seeing a good uptick in our Land Development business in the initiative that we rolled out called Urban Places and that really brings together all of our groups from across the company looking at mixed-use developments sort of the creation of new urban downtown cores, re-densification, we're seeing a lot of that in the larger cities so that actually is a initiative we started several years ago and we're seeing really strong uptick in that area.

Michael Tupholme

*Analyst, TD Securities, Inc.*

Q

Okay. Thank you. And then just lastly just to confirm the Wood & Grieve acquisition has that now closed?

Gordon Allan Johnston

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

A

It has not closed. We've been – we've issued our letter of – that we had signed a letter of intent there some time ago. We're just working through the due diligence and we've stated that we anticipate that closing in Q1 and that's still our thought process.

Michael Tupholme  
*Analyst, TD Securities, Inc.*

Q

Okay. Thanks very much.

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

A

Okay. Thanks Michael.

**Operator:** Thank you. Our next question again comes from Max Sytchev. Please go ahead.

Maxim Sytchev  
*Analyst, National Bank Financial, Inc.*

Q

Hi. Sorry, I just have one follow-up. Theresa, I can't seem to find the reconciliation to the non-cash working capital changes in the financial statements. Is there a reason why that's not there or am I missing something?

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

A

Yeah. So, it won't be in the financial statements but it will be in the MD&A.

Maxim Sytchev  
*Analyst, National Bank Financial, Inc.*

Q

Okay. So the same reconciliation to the indirect method is, [ph] it's on (01:02:07) the MD&A, right?

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

A

Oh, well, I'm sorry. No, I'm sorry you're talking about the cash from ops on the cash flow statement. No, we did not put that in the financial statements. In my drive to reduce the number of pages on the financials of the notes that is not a required disclosure. And so we did not include that in the note this year.

Maxim Sytchev  
*Analyst, National Bank Financial, Inc.*

Q

Because it just – it's kind of hard for us you know like looking from the outside to get a better view on you know what's happening on each of the kind of the buckets of non-cash working capital?

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

A

Yeah. It's – there's a number of complexities involved in that this year, particularly with the Construction Services effect and so that was one of the other reasons that we didn't put it in there. And I don't know that I can commit to or nearly I'd say, if there was something you needed, we put it on the website for you, I don't know that we can commit to that just because of the complexities required to get that number or that information right. But let us take that away and see if we can't figure something out there.

Maxim Sytchev  
*Analyst, National Bank Financial, Inc.*

Q

Yeah, that will be very useful. Thank you very much.

Gordon Allan Johnston

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

A

Thanks Max.

**Operator:** Thank you. Our next question comes from Yuri Lynk. Please go ahead.

Yuri Jonathan Peter Lynk

*Analyst, Canaccord Genuity Corp.*

Q

Yeah, sorry. Max took my question, but I would just echo, if we could get that information at least on a go-forward basis, it would be appreciated. It's pretty important. Thanks.

Theresa B. Y. Jang

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

A

Okay. Noted.

Gordon Allan Johnston

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

A

Okay, thanks Yuri.

**Operator:** Thank you.

Gordon Allan Johnston

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

A

Good perspective.

**Operator:** Hey, we'll come back to Benoit Poirier.

Benoit Poirier

*Analyst, Desjardins Securities, Inc.*

Q

Just a follow-up question. I was wondering if you see any impact of the [ph] well (01:03:52) disaster within the Water segment, especially with regards to the dam work?

Gordon Allan Johnston

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

A

Yeah, we have not seen any impact from that at this point, Benoit. Certainly, that's an area of expertise that we have, we were not involved in that particular dam. So we don't see any downside. It could be potentially some upside as the – that particular firm or other firms need to really have a look at their [ph] tailings ponds in their apartments (01:04:27) to make sure that they're up to standards. So we have not seen any – certainly any impact, if anything going forward, we might see a positive impact.

Benoit Poirier

*Analyst, Desjardins Securities, Inc.*

Q

That's great color. Thank you very much, Gord.



Gordon Allan Johnston

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

Okay. Thank you.

A

**Operator:** Thank you. And our final question comes from Mona Nazir. Please go ahead.

Mona Nazir

*Analyst, Laurentian Bank Securities*

Hi. I'm just wondering what's your UK geographic exposure post the Construction divestiture, and then the Peter Brett addition?

Q

Gordon Allan Johnston

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

Exposure Mona, so – so the two types of work we have there's certainly the AMP 6 and AMP 7 work that we're doing in the Water business is I think with regards to a Brexit would have very little to no impact of a Brexit there. The work that's being done, the capital programs are committed and in fact, as we go into the AMP cycle – AMP 7 cycle, we see them increasing. With the addition of Peter Brett, certainly some solid infrastructure work there that we continued to be involved in. So I don't see considerable exposure. And in fact, that's the reason why we went forward of the number of the firms that we were considering in the UK. That really was the reason that we went forward with Peter Brett, because we saw them to be least exposed to any downside coming from a Brexit.

A

Mona Nazir

*Analyst, Laurentian Bank Securities*

Do you have a number as a percentage of revenue on a pro forma basis or a head count?

Q

Gordon Allan Johnston

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

In the UK, we have I'm going to say roughly 1,800 to 2,000 people. Of that, roughly 1,200 would be the legacy – the legacy MWH folks, who are involved in the water company work. So, I would see no potential for a downside there. If there was a potential with regards to any downside, it would be with the Peter Brett folks, which are in the 600 to 800 person range, but again a lot of that work we don't see having significant downside either.

A

Mona Nazir

*Analyst, Laurentian Bank Securities*

That's exactly what I was looking for. Thank you.

Q

Gordon Allan Johnston

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

Okay, thanks Mona.

A

**Operator:** Thank you. And we have no additional questions at this time.

Gordon Allan Johnston

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

Great. Well, thanks everyone. That concludes our call today. Thank you again for joining us and we look forward to catching up with many of you over the coming quarter.

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**Theresa B. Y. Jang**

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

Thank you.

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**Operator:** And this concludes our call today. Thank you all for joining.

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