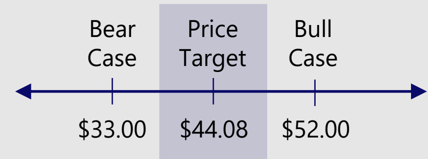
RESEARCH REPORT

January 20, 2020

Stock Rating	HOLD
Price Target	CAD $44.08
Current Price	CAD $38.68



Ticker	STN
Market Cap (MM)	$4,327
P/E NTM	19.6x
EV/EBITDA NTM	9.4x

52 Week Performance

Industrials

Mathew Andreou
mandreou@quiconline.com

Tawfek Abdelwahed
tabdelwahed@quiconline.com

Stantec Inc.

Stan & Deliver

Introduction:

Known as a leading Engineering and Design firm, Stantec is a high-quality business with a good project track record, a long history of strong capital allocation, and a habit of solid cash flow generation.

Thesis I: High Quality Exposures With Defensible Positioning

Thesis II: Thoughtful Mgmt. Approach to Capital Allocation

After decades of underinvestment in infrastructure across many parts of the world, the stage has been set now for what may be the start of an E&C super cycle. As such, the Industrials team chose to analyze the merits of Stantec as a long-term value creator in the Design sector.

Conclusion:

Based on a comparables analysis and a discounted cash flow analysis using a long-term growth rate, the implied all-in return was ~15%. Ultimately, given the current market conditions, the Industrials team views Stantec as a great company, but not a great investment. Thus, we will be adding the name to our sector watchlist and monitoring price action for a potentially more attractive purchase price.

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Table of Contents

Company Overview 3
Management Incentives 6
Cycle Analysis 8
Secular Growth 9
Competitive Landscape 10
Subsector Valuations 11
Thesis I: High Quality Exposures With Defensible Positioning 12
Thesis II: Thoughtful Mgmt. Approach to Capital Allocation 13
Valuation 15
Appendix 16
References 21

Company Overview

History

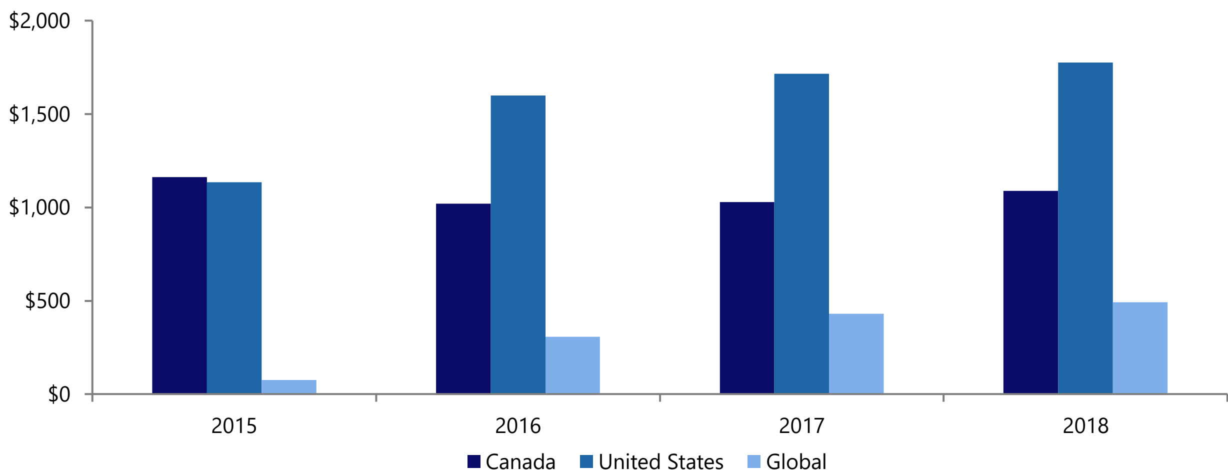
Stantec Inc. ("Stantec", "the company", "STN", "they") was founded in 1954 by Don Stanley and initially began as a one-person firm completing water and sewage projects in small, rural municipalities in Western Canada. In the first four months, Dr. Stanley sent out 600 letters and drove 27,000 kilometers visiting rural communities in search of work. In 1983, with a downturn in Western Canada, the company downsized staff and implemented a major strategic redirection – they attribute their survival during these times to their geographic and business line diversification. The company completed its first acquisition in 1976 and first US acquisition in 1991. Stantec was listed on the TSX in 1994 and on the NYSE in 2005. In 1997, STN completed the Confederation Bridge further cementing its reputation as an Engineering firm. Bob Gomes became CEO in 2009 and continued the strategy of growing through acquisitions with the company's stated business objective of being a top 10 global Design firm. Since its founding in 1954, STN has turned a profit in every year. Today, Stantec has approximately 22,000 employees working in over 400 locations across six continents.

Operations

STN operates as a "fee-for-service" Engineering Design firm involved in many sectors and many stages of the life-cycle. The first stage is the planning and design which provides conceptual and detailed design services, feasibility studies, and prepare plans. The next stage is construction, where STN acts as owners' representative providing project and construction management, surveying and resident engineering services. Thirdly, the maintenance phase provides ongoing professional services for integrity management as well as maintenance and rehabilitation projects. Lastly, the decommissioning phase provides solutions, recommendations, and remediation strategies for taking facilities out of active service.

Exhibit I

Historical Geographic Net Revenue



Source(s): Company Filings

Company Overview

STN has the ability to adjust staffing levels when activity slows down with limited restructuring costs. In the firm's cost structure, 70% is labor and 60% of staff is hourly, 30% is salaried, and 10% is contract.

Geographic Diversification

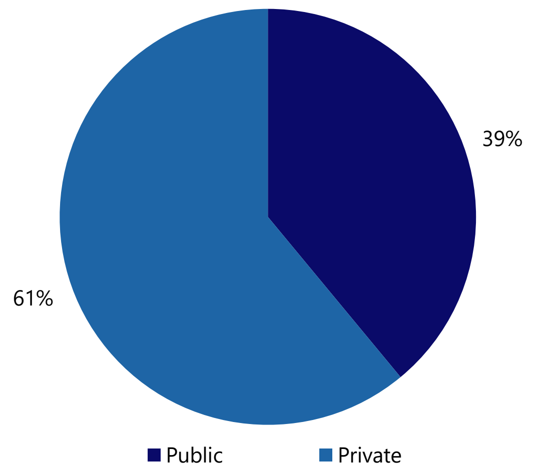
The company operates in three regional operating units – Canada, United States, and Global – offering similar services across all regions. In 2018, the company generated approximately 32% of it's revenue in Canada, 61% in the United States, and 7% globally, respectively.

Business Operating Units

The company identifies five core business units which are all driven by population growth, GDP per capita, and urbanization. However, Buildings, Infrastructure, and Environmental Services are more closely tied to public funding than changes in overall economic conditions.

Exhibit II

Client Revenue Segmented



Source(s): Company Filings

Buildings

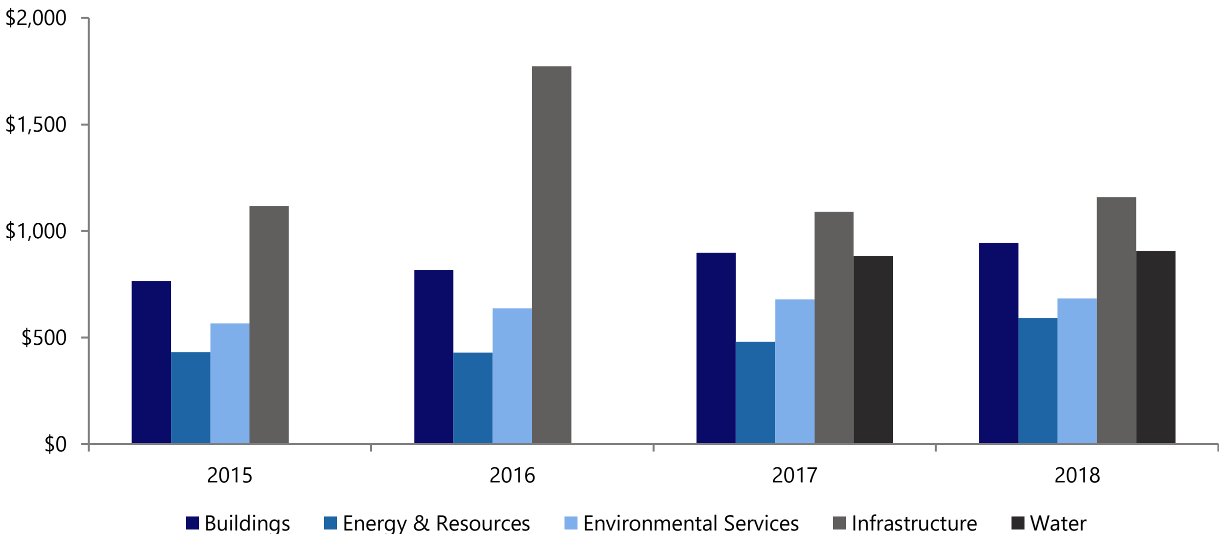
The Building unit involves the pre-design, design, and construction administration services in planning, architecture, interior design, buildings engineering, and sustainability for vertical infrastructure. This segment generates most of its revenue for private sector and institutional clients. Within the buildings unit, the company has Airports & Aviation, Healthcare, Industrial, Commercial, Science & Technology, and Education sub-units. First, the Airports & Aviation sector is driven by passenger, air freight traffic, and regulatory factors. In Canada, Airports have recently completed major programs and are unlikely to embark on new investment given current economic circumstances, however, the airport sector is growing in the US. Second, the Healthcare sub-unit is driven by healthcare reform and the aging population in the developed world. This sub-unit typically generates revenue from public-private partnerships (P3). Third, the Industrial sub-unit is driven by the reshoring of manufacturing in the United States. Fourth, the Commercial sub-unit is driven by consumer demand and e-Commerce. The improved economic fundamentals and lower vacancy rates should drive continued investing in corporate real estate and multiuse buildings. Lastly, the Education sub-unit is deriving its growth from the rise of online education. With the deterioration of provincial government balance sheets, it could dampen spending for building construction. However, modestly increasing capital expenditure budgets and upgrades to facilities should continue to drive growth in North America.

Energy & Resources

The Energy & Resources unit services mining, oil and gas, power, and waterpower & dams. Overall, it is driven by commodity prices, macroeconomics, and political drivers.

Exhibit III

Historical Revenue by Business Unit



Source(s): Company Filings

Company Overview

Environmental Services

The Environment Services serves community development, transportation, and water sectors. The most significant drivers are economic expansion, public emphasis on environmental sustainability, immediate remediate / clean ups of emergencies and regulations.

Infrastructure

The Infrastructure segment involves front-end design and engineering services and some construction management an inspection work for private and public sector clients. This business unit is primarily driven by economic, demographic, public funding, and regulatory factors. In the US, management expects strong residential housing activity due to a strong job market, low interest rates, and growth in household formations. In Canada, there is continued stability in Ontario and British Columbia with downward pressure in Western Canada.

Water

The Water segment *(note: business unit separated from Infrastructure on January 1, 2017)* involves the design and construction management of water projects for public and private sector clients. Additional regulations, aging infrastructure, and population growth should all contribute to moderate growth in Water in US and Canada.

Management Incentives

Stantec has four components of executive pay structure, which include base salary, short-term incentive (STIP), long-term incentives (LTIP), and ESPP, Retirement Benefits and Service Awards.

The company has a Corporate Governance and Compensation Committee made up of independent directors that reviews and benchmarks Stantec's compensation for its executive against a comparable peer group (similar to our peer group in valuation section). The committee regularly reviews the peer group to select peers that are similar to Stantec in size, scale, and complexity.

First, for base salary, the committee aims to pay base salary at the 50th percentile of their peer group, then adjust salaries to recognize experience and individual performance. Although, Mr. Johnston, the CEO brought into the company in 2018, had his base salary set at the 80th percentile of the peer group, despite having no performance to base this favourable compensation on.

Second, the STIP is designed to reward the achievement of annual business objectives laid out by the committee in the form of cash. There are four main buckets of metrics that the company consistently uses. The first group focuses people based metrics including diversity, retention, and engagement. The second set of metrics involve growing relationships with top clients and improving the backlog per employee (currently sits at $118,000+). The third group of metrics involves health & safety mainly through the decrease of total recordable injury rates. Fourth and finally, this set of metrics involves improving the financial performance through overall revenue growth, organic growth, return on equity, and diluted EPS growth. Overall, the Industrials team believes all metrics are important, however, it is important to note that they are not meeting three of the five financially oriented metrics (including return on equity of 9.8%). Despite failing to meet these objectives, all executives were paid over the STIP target allocation.

Exhibit IV

2018 Executive Compensation

Name and Principal		Salary	Long-Term Compensation		Non-Equity Incentive Plan		All Other Compensation	Total Compensation
Position	Year	($)	Share Awards	Option Awards	Annual Incentive Bonus	Long-Term Incentive	($)	($)
Gord Johnston	2018	762,500	1,039,990	519,995	702,000	0	42,643	**3,067,128**
President & CEO	2017	324,623	108,331	54,172	145,000	0	20,174	**652,300**
Dan Lefaivre	2018	572,112	306,662	153,331	360,000	0	34,902	**1,427,007**
Executive Vice President & CFO	2017	498,077	266,667	133,333	262,500	0	32,684	**1,193,261**
Scott Murray	2018	562,882	263,140	131,571	355,186	0	36,504	**1,349,283**
Executive Vice President & COO	2017	526,223	250,967	125,483	263,695	0	37,831	**1,204,199**
Tino DiManno	2018	434,236	203,001	101,500	274,000	0	30,583	**1,043,320**
Executive Vice President & CBO	2017	414,866	193,657	96,829	203,340	0	26,429	**935,121**
Steve Fleck	2018	396,157	186,667	93,333	252,000	0	24,919	**953,076**
Executive Vice President & CPO	2017	299,603	99,981	50,013	140,000	0	21,083	**610,680**

Source(s): Company Filings

Management Incentives

Third, the LTIP is designed to strongly incentivize performance and is tied to net income growth and return on equity. In the past, the LTIP was made up of two-thirds performance share units (PSUs) and one-third options. However, in 2019, stock options were replaces with restricted stock units (RSUs) to improve alignment between executive pay and shareholder interests. The committee similarly uses the peer group for the LTIP and targets the 50th of the group.

The retirement benefits and service awards were not material for executive compensation.

Overall, the Industrials team views the compensation structure as fairly standard. However, the committee and management team have announced a number changes to the compensation structure in November 2019, which we view favourable.

First, as previously mentioned, they replaced stock options with RSUs that vest at the end of a three-year service period and settle in cash. This change ultimately addresses misalignment issues between management and shareholders while reducing dilution.

Second, for 2020, relative total shareholder return will replace net income growth as one of the two performance metrics for PSUs. Return on equity will remain the other. Again, the Industrials team views this positively as it makes management invested in the returns of its shareholders.

Exhibit V

Executive Insider Ownership

Name	Stantec Shares Owned ($)	Base Salary ($)	Multiple of Base Salary ($)	Value of PSUs Held ($)	Total Value at Risk ($)
Gord Johnston	1,074,250	780,000	1.38	1,213,095	**2,287,345**
Dan Lefaivre	2,545,711	575,000	4.43	803,127	**3,348,838**
Scott Murray	1,420,121	563,891	2.52	744,623	**2,164,744**
Tino DiManno	1,230,564	400,000	3.08	582,181	**1,812,745**
Steve Fleck	383,764	400,000	0.96	376,632	**760,396**

Source(s): Company Filings

Cycle Analysis

Currently in the early stages of the E&C cycle

Relative to the broader economic cycle, which we view as being in a late expansionary phase, we believe that the E&C sector is a late cycle cyclical. As a result, being in the early stages of the E&C investment cycle means that there is likely room for multiple expansion in the future, specifically within the Design and Construction subsectors. As the economic recovery churns higher, E&C company valuations will likely have more runway for growth, especially compared to early cycle cyclical names in the coverage universe.

Industry valuations lag the market by 6 - 9 months

Through looking at the historical timing of EV/EBITDA valuation levels of both the Design and Construction subsectors compared to the broader S&P500 index, the highest positive correlation occurs on a 6 to 12-month forward basis. Since Design and Construction valuations lag behind the market index by roughly 6 to 12 months, this further supports our perspective that the E&C sector is a late cycle cyclical.

Backlog-driven nature adds stability through cycle

From 2007 to 2009, while E&C companies experienced above-average decreases in revenue, they experienced below-average falls in profitability. This is a product of the industry structure, where you have backlog-driven business models as well as multiyear projects. So, even during periods of declining demand when revenues start falling, E&C players are effectively able to delay subsequent affects on the bottom line by continuing to work through profitable projects booked during previous periods with healthier industry conditions.

Exhibit VI

Correlations vs. S&P500 FWD EV / EBITDA

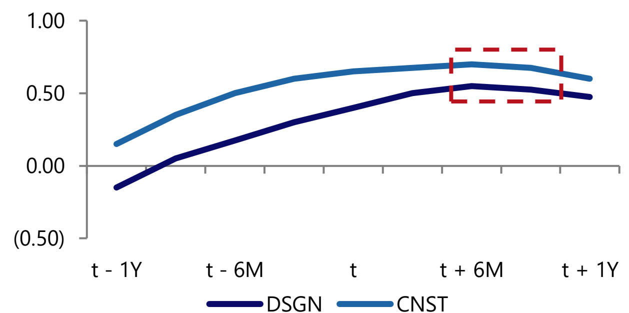
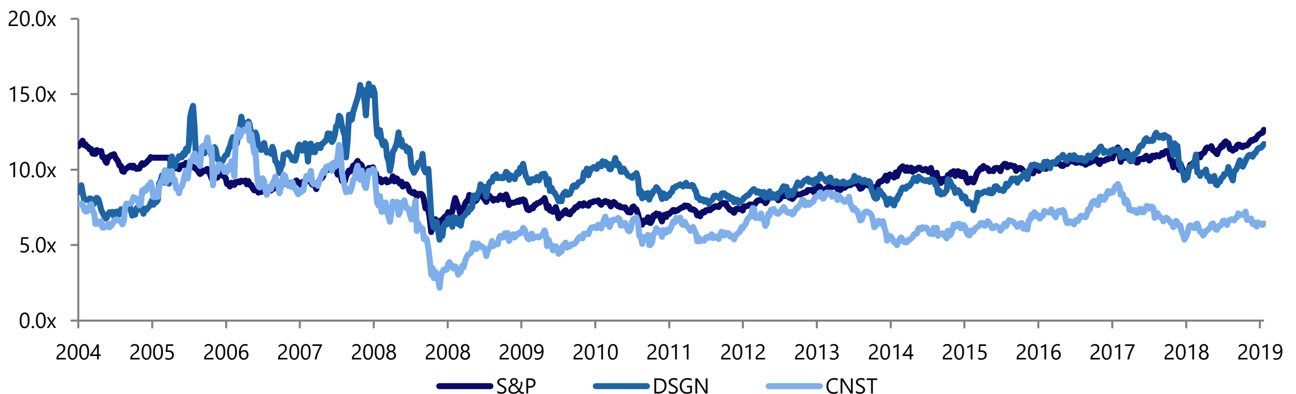


Exhibit VII

Historical FWD EV / EBITDA For Design & Construction Firms



Source(s): Capital IQ,

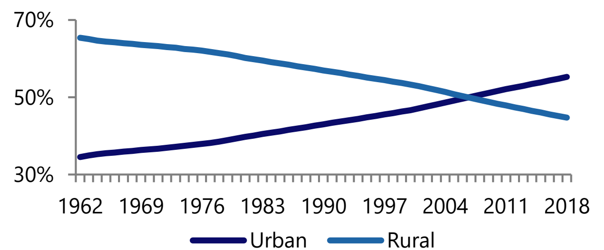
Secular Growth

Population growth = urbanization = infra spending

The need to support global human growth is immense. By 2050, the World Bank Group estimates that world population levels will exceed 9.5 billion, equivalent to a ~2 billion increase from our current position. The other important dynamic, which is largely attributable to the millennial demographic, is the urbanization movement. Together, it is clear that a massive amount of utilities, buildings, and infrastructure will be needed to support this level of global growth. Yet, despite these obvious trends, infrastructure spending has been declining. As such, we view E&C as very well positioned to capture upside on the secular growth of private / public funds.

Exhibit VIII

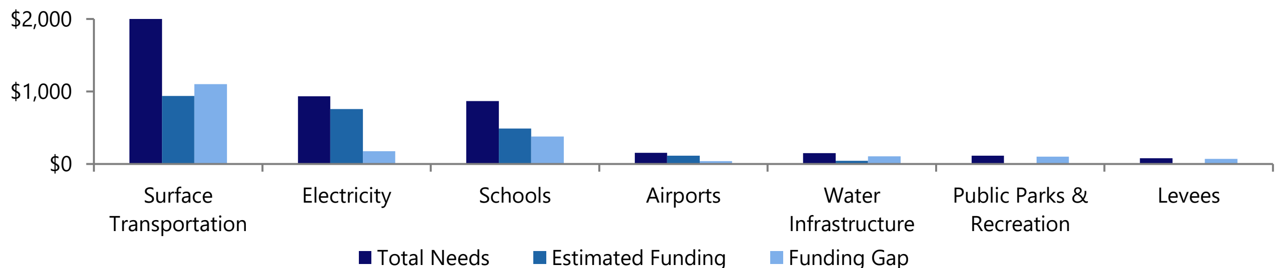
Proportion of Urban & Rural Population of World



Source(s): World Bank Group

Exhibit IX

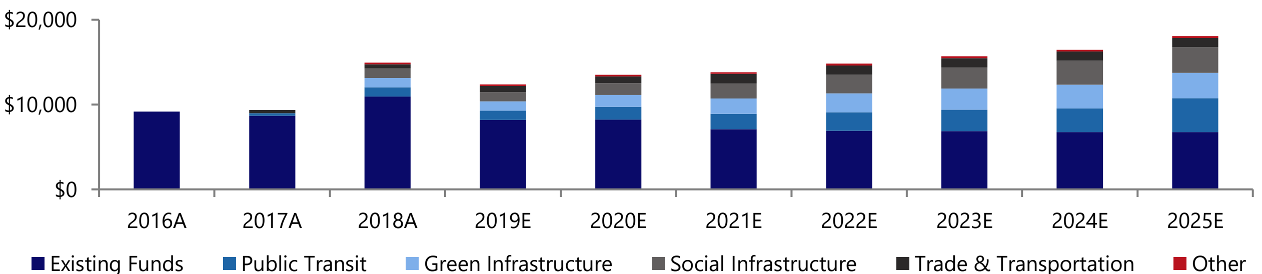
Public Infrastructure Funding Gap in the U.S. by 2025E (B)



Source(s): ASCE Infrastructure Report Card

Exhibit X

Federal Government Spending Plan in Canada to 2025E (MM)



Source(s): Federal Fall Economic Statement

Competitive Landscape

How should one think about the different players?

Given this, if an investor does decide to take a long position in E&C, since the market capitalizations of just the four major companies sum to over $20 billion and each company offers a unique investment opportunity, one needs differentiate between the names in order to effectively gain overweight exposure. When investing in E&C, diversification benefits must be managed, and the correlations of the five-year returns between the major companies do vary and can be more correlated depending on skews of Design versus Construction.

What should an investor make of the continuum?

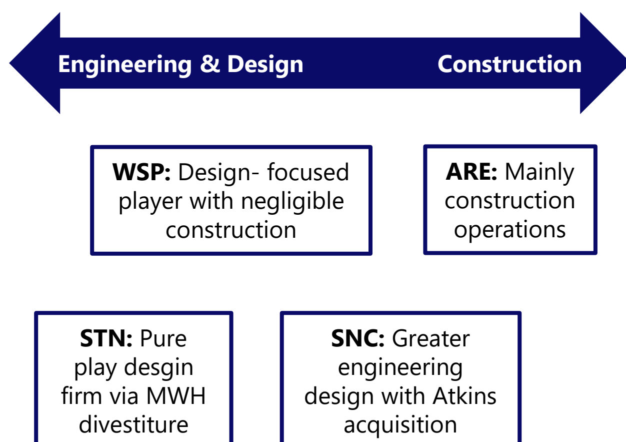
On the segment exposure continuum, Design is usually much less capital intensive with a higher variable cost structure (i.e. labour). Relative to construction, Design also maintains notably less execution risk and balance sheet risk, which ultimately allows for better earnings and stronger FCF generation throughout all stages of the cycle. Additionally, loftier valuations are typically awarded to companies with Buildings, Transportation, and Infrastructure exposure, as the funding of large-scale projects represents a critical multi-year period revenue driver for E&C.

Why should managers favor Engineering & Design?

According to Moody's, relative to other sectors, E&C demonstrates only a moderate level of cyclicality. By analyzing the financial stability of different players throughout the cycle, we see the Design subsector and the companies weighted towards it, allow for less risk and variability. The higher valuation multiples alluded to below are explained by the FCF and EBITDA stability of Design throughout the cycle versus Construction. Additionally, with more cost-plus contracts and more opportunities for consolidation in a highly fragmented market, the publicly traded Design companies are the highest quality E&C businesses available.

Exhibit XI

Coverage Universe Segment Exposure Continuum



Source(s): National Bank Financial

Exhibit XII

Correlation on 5-Year Returns of E&C Peers

	WSP	SNC	STN	ARE
WSP		0.52	0.76	0.54
SNC	0.52		0.47	0.75
STN	0.76	0.47		0.56
ARE	0.54	0.75	0.56	

Source(s): RBC Capital Markets

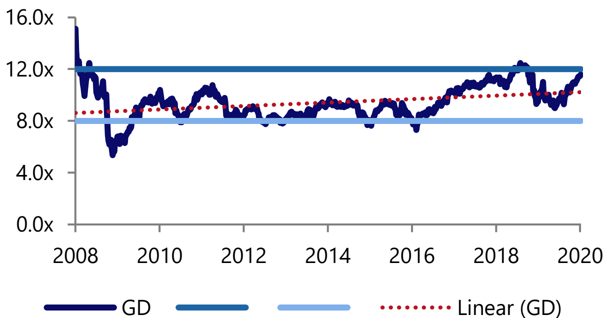
Subsector Valuations

Global Design: EV / EBITDA ranges from 8x - 12x

The Global Design (GD) index used is made up of six companies that combine for a market capitalization of ~$25 billion and include Stantec and WSP Global. Employing a forward EV/EBITDA analysis from trough to peak levels since '08, GD valuations range between 8x to 12x with the sub-index currently trading near the upper bound at 11.7x. Here, it is important to note that these multiples are the highest of the E&C subsectors, which is indicative of the lower risk profile of a GD and allows it to garner a higher valuation.

Exhibit XIII

GD Historical Range of FWD EV / EBITDA Multiples



Source(s): Bloomberg

Global Integrated: EV / EBITDA ranges from 5x - 9x

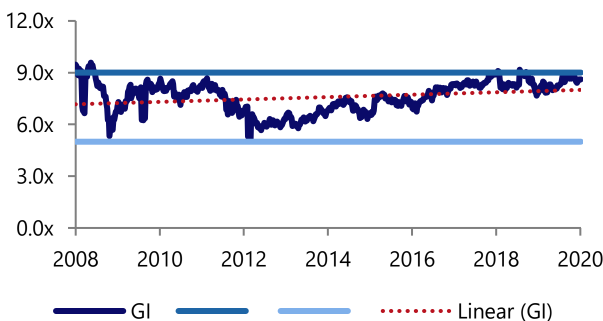
The Global Integrated (GI) index used is made up of eight different companies that combine for a market capitalization of ~$68 billion and include SNC-Lavalin. Employing a forward EV/EBITDA analysis from trough to peak levels since '08, GI valuations range between 5x to 9x with the sub-index currently trading near the upper end bound at 8.8x. Here, it is important to note that these multiples are lower relative to GD and higher relative to NC.

NA Construction: EV / EBITDA ranges from 4x - 8x

The NA Construction (NC) index used is made up of eight different companies that combine for a market capitalization of ~$10 billion and include Aecon. Employing a forward EV/EBITDA analysis from trough to peak levels since '08, NC valuations range between 4x to 8x with the sub-index currently trading in the middle of the range at 6.4x. Here, it is important to note that these multiples are the lowest of the E&C subsectors, which is indicative of the higher risk profile associated with fixed priced contracts and regional and vertical concentration (i.e. commodity-based projects).

Exhibit XIV

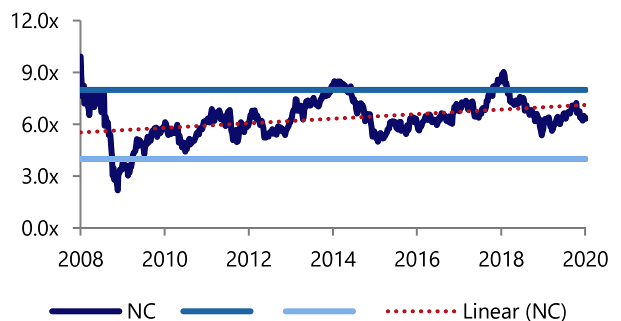
GI Historical Range of FWD EV / EBITDA Multiples



Source(s): Bloomberg

Exhibit XV

NC Historical Range of FWD EV / EBITDA Multiples



Source(s): Bloomberg

Investment Thesis I: High Quality Exposures With Defensible Positioning

Stantec is a long-term value creator…

Among the different Design firms, Stantec stands out with high exposure to Canadian and U.S. infrastructure, which we view as favourable. Stantec is also one of the only pure play design firms in its peer set. With a clean slate since the construction divestiture and headcount adjustments, organic growth is set to slowly round the corner. Ultimately, we think Stantec will see significant opportunities for improved margins, profitability, and returns on capital.

With favourable geographic segments…

Stantec generates the majority of its revenues from the U.S. (~61%) and Canada (~32%). For the U.S., although at the federal level the infrastructure funding plan has not yet been put into place, at the state and municipal levels project funds are starting to flow through ballot initiatives. In Canada, the E&C sector will also benefit from the growing pipeline of $1 billion infrastructure projects across the country, which are expected to be awarded over the next twelve months. From a global perspective, the need to replace deteriorating assets in developed economies paired with the demand for new infrastructure in emerging markets will form an almost long-term macro agnostic tailwind for Stantec.

And an attractive business line mix…

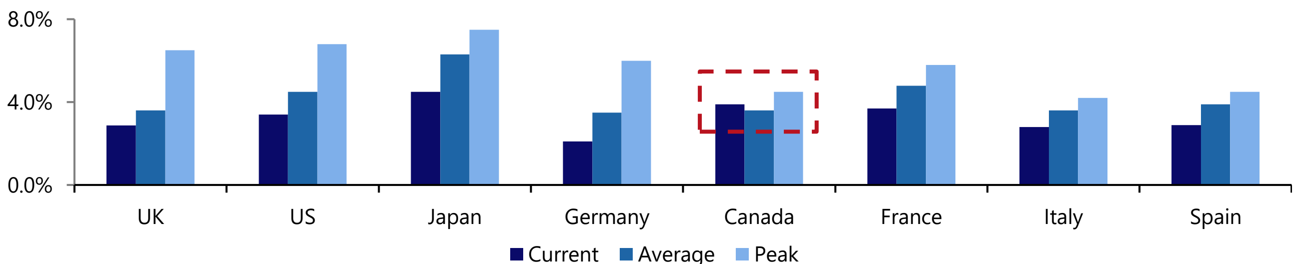
Currently for the pure play design firm, Infrastructure is above a quarter of sales, while Buildings and Water are both below a quarter of total sales. Ultimately, Stantec wants a balanced ~25% exposure across Infrastructure, Buildings, and Water, with Environmental accounting for the remainder of consolidated revenues. We view the decision to focus on less cyclical markets as a step in the right direction for the new management team. Stantec's recent strategic vision aims to limit earnings from Energy and Resources to less than ~15%. As a result of the disciplined approach taken by Stantec in selecting the end markets it chooses to participate and engage in, the company is able to source ~70% of its business from a repeatable and profitable client base.

But, is 2 – 5% annual organic growth realistic?

After decades of underinvestment in many parts of the world, the stage has been set now for what may be the start of an E&C super cycle. But, what rate of organic growth do we feel comfortable prescribing to Stantec? In FY2018, the company managed to post an organic growth rate of ~3.3% on net revenues. That being said, since inception, Stantec has completed more than 130 acquisitions and plans to continue to focus on small- to medium-sized transactions in the Design space.

Exhibit XVI

Government Infrastructure Spending as a % of GDP



Source(s): International Monetary Fund

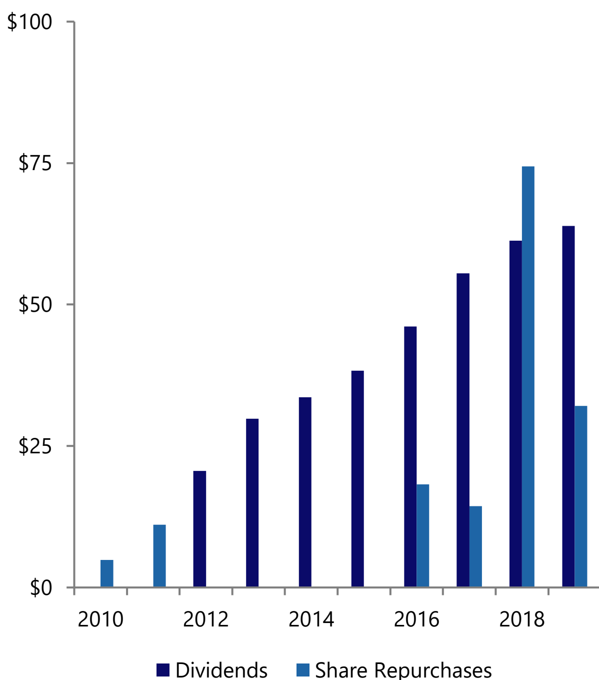
Investment Thesis II: Thoughtful Mgmt. Approach to Capital Allocation

Capital allocation is a crucial aspect to any business and yet very few companies do it well. Each business has an intrinsic return on equity (ROE) that investors are willing to pay for. The essential role of any CEO or management team is to enhance or at least maintain that level of return to shareholders as the business environment evolves. We have a simple concept of what that intrinsic ROE is: take the operating profit and divide it by the minimum capital it would take to maintain production. That number is what we believe should be the benchmark rate for the reinvestment of operating earnings (retained earnings). As long as the CEO continues to reinvest capital at or above that rate, the intrinsic value of the company will be maintained or enhanced. A more difficult concept for corporate management to accept is that if they cannot reinvest capital at the corporation's benchmark rate, they should pay it out to shareholders either in the form of a dividend or share buybacks.

Both methods enhance the market value of the firm to the shareholders, although arguably, share buybacks are a little more efficient since capital gains taxes are lower than taxes on dividend income.

Exhibit XVII

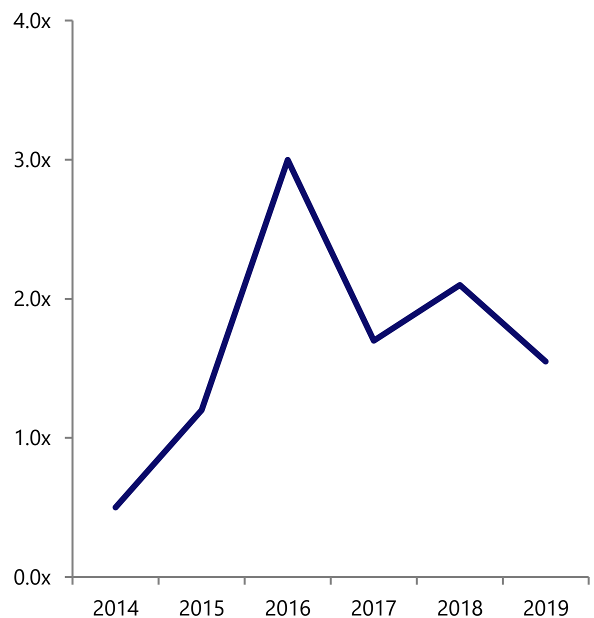
Historical Capital Allocation Strategy



Source(s): RBC Capital Markets

Exhibit XVIII

Net Debt to Adjusted EBITDA



Source(s): Company Filings

Investment Thesis II: Thoughtful Mgmt. Approach to Capital Allocation

Following Stantec's Strategic Plan for the next three years (2020-2022), the company seems to have undergone quite a change to the way they approach capital allocation. This is most likely the result of the recent appointment of Theresa Yang as CFO.

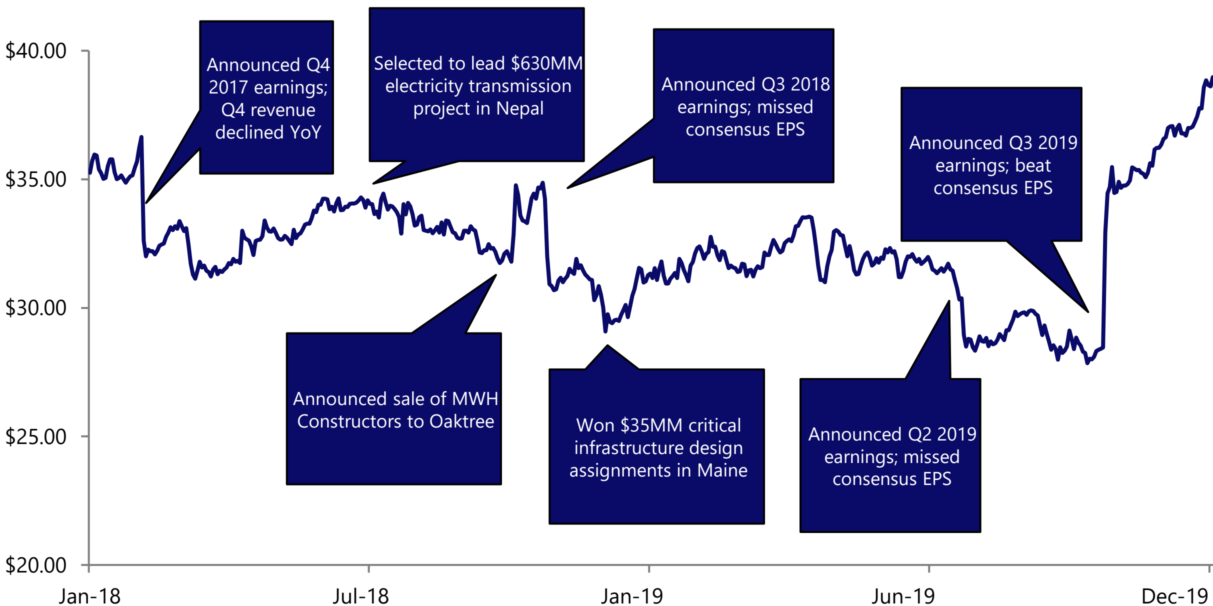
In the past, the company has acquired over 130 different Design / Construction firms (divested all Construction presently). In each acquisition, management has stated that the risk adjusted internal rate of return was greater than the weighted average cost of capital leading to accretive deal for shareholders. Furthermore, the Industrials team believes that management's plan to focus on small-medium acquisitions with 750 employees or less is ideal. This is because as the industry consolidates, it is becoming increasingly difficult to source, integrate, and synergize larger transactions leading to destroyed shareholder value.

Separately, management has stated that its acquisition targets are focused in North America, Australia, New Zealand, and continental Europe. In these markets, management's targeted end markets are Buildings and Water, where management expects to see outsized growth, and infrastructure. We view this as favourable as if they are able to execute on this objective, 85% of net revenue will come from non-cyclical business units (Buildings, Water, and Infrastructure) with 15% or less coming form cyclical units (Environmental Services and Energy & Resources).

After M&A, management has historically focused on returning capital to shareholders through dividends, however, they have since indicated to prioritize share buybacks. Since 2010, management has increased that amount that they returned to shareholders through dividends and buybacks by a compounded annual growth rate of 34%.

Exhibit XIX

Annotated Share Price Performance



Source(s): Company Filings

Valuation

The Industrials team approached valuation for Stantec using a discounted cash flow analysis and comparables analysis.

For the discounted cash flow analysis, we modeled base revenue growth through 2019-2024 based on each regions' respective GDP growth rate for that specific year. This made sense given the drivers for all business segments were macro-based. Overall, this amounts to approximately 2% revenue growth per year which is below management's organic revenue growth target of 5%. Gross margin was modelled at 54% which is below management's guidance of 55%. The long-term growth rate for the company was based on the 2024 (terminal year) GDP growth rates of US, Canada, and Global weighted according to revenue at the at time.

Overall, while we believe that Stantec is high-quality business, there is limited upside after the large run up the company had in the late half of 2019. Therefore, we plan on adding the name to our watch list and waiting for a more attractive entry point.

Gordon Growth Method	
Long term growth rate	1.7%
FCF	391
Terminal value	**6,298**
Present value of terminal value	4,656
Present value of stage 1 cash flows	1,797
Enterprise value	**6,453**
Less: Net debt	(1,416)
Equity value	**5,038**
Diluted shares	114
Implied share price	**$44.08**
Current share price	$38.98
Capital return	**13.1%**
Dividend yield	1.5%
All-in return	**14.6%**

Weighted Average Cost of Capital	
Cost of Debt	4.4%
Tax Rate	28.0%
After tax cost of debt	**3.2%**
Risk free rate	1.75%
Beta	1.26
Levered beta	1.55
Market risk premium	5.0%
Cost of equity	**9.5%**
Market Value of equity (%)	75.88%
Market Value of Debt (%)	24.12%
Cost of Capital	**8.0%**

Valuation

Discounted Cash Flow Model for Stantec Inc.

General Assumptions	
Share price as of last close	$38.98
Latest closing share price date	2020-01-20
Latest basic share count	114
Weighted average cost of capital	8.0%

FREE CASH FLOW BUILDUP

Fiscal year	**2016A**	**2017A**	**2018A**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**
Fiscal year end date	*12-31-16*	*12-31-17*	*12-31-18*	*12-31-19*	*12-31-20*	*12-31-21*	*12-31-22*	*12-31-23*
EBITDA	0	414	383	568	576	588	599	610
EBIT	0	284	262	434	444	454	464	474
Tax rate	0.0%	63.2%	53.7%	28.0%	28.0%	28.0%	28.0%	28.0%
EBIAT (NOPAT)	**0**	**104**	**121**	**312**	**320**	**327**	**334**	**341**
Depreciation and amortization				128	126	127	128	129
Stock based compensation				6	6	7	7	7
Accounts receivable				180	(12)	(33)	(21)	(21)
Other current assets				(1)	(1)	(1)	(1)	(1)
Accounts payable & accrued liabilities				10	12	12	11	11
Other assets				0	0	0	0	0
Other liabilities				0	0	0	0	0
Deferred income tax				1	1	1	1	1
Non-cash PIK interest				0	0	0	0	0
Unlevered CFO				**637**	**452**	**439**	**459**	**467**
Less: capital expenditures				(80)	(78)	(80)	(81)	(83)
Less: purchase of intangible assets				0	0	0	0	0
Unlevered FCF				**557**	**374**	**359**	**378**	**384**
% growth					(32.8%)	(3.9%)	5.1%	1.7%
Discount factor				5.6%	94.7%	194.7%	294.7%	394.7%
Present value of unlevered FCF				554	348	310	301	284

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Appendix – Revenue Model & Comparables Analysis

Revenue Model								
Fiscal year	**2016A**	**2017A**	**2018A**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**
Fiscal year end date	*12-31-16*	*12-31-17*	*12-31-18*	*12-31-19*	*12-31-20*	*12-31-21*	*12-31-22*	*12-31-23*
Geographic gross revenue segment								
Canada	1,169	1,192	1,276	1,296	1,318	1,342	1,365	1,388
% growth		2.0%	7.1%	1.6%	1.8%	1.8%	1.7%	1.7%
United States	2,468	2,226	2,335	2,389	2,439	2,482	2,521	2,561
% growth		(9.8%)	4.9%	2.4%	2.1%	1.8%	1.6%	1.6%
United Kingdom	318	129	185	187	190	193	196	199
% growth		(59.3%)	42.9%	1.2%	1.5%	1.5%	1.5%	1.5%
Other countries	345	482	489	503	520	539	558	578
% growth		39.6%	1.4%	3.0%	3.4%	3.6%	3.6%	3.6%
Total gross revenue	**4,300**	**4,029**	**4,284**	**4,375**	**4,468**	**4,555**	**4,639**	**4,725**
% growth		(6.3%)	6.3%	2.1%	2.1%	2.0%	1.8%	1.9%

	Market	Enterprise	EV / EBITDA		Net Debt / EBITDA		Price / Earnings	
Company Name	Cap ($MM)	Value ($MM)	2019E	2020E	2019E	2020E	2019E	2020E
WSP Global Inc.	9,959	12,281	12.0x	10.9x	2.3x	2.1x	27.1x	23.5x
AECOM	7,906	10,229	9.7x	9.0x	2.2x	2.0x	15.2x	13.6x
SNC-Lavalin Group Inc.	5,453	6,865	14.1x	8.4x	2.9x	1.7x	46.4x	12.7x
Tetra Tech, Inc.	4,876	5,043	17.1x	16.4x	0.6x	0.5x	26.0x	23.9x
EMCOR Group, Inc.	4,894	5,037	9.2x	8.7x	0.3x	0.2x	15.3x	14.5x
High	9,959	12,281	17.1x	16.4x	2.9x	2.1x	46.4x	23.9x
Low	4,876	5,037	9.2x	8.4x	0.3x	0.2x	15.2x	12.7x
Mean	6,618	7,891	12.4x	10.7x	1.6x	1.3x	26.0x	17.6x
Median	5,453	6,865	12.0x	9.0x	2.2x	1.7x	26.0x	14.5x
Stantec Inc.	4,327	5,831	10.3x	9.4x	2.7x	2.4x	19.6x	16.8x
Premium / (Discount) to Mean			(17.0%)	(11.9%)	62.2%	83.3%	(24.7%)	(4.6%)
Premium / (Discount) to Median			(14.2%)	4.6%	20.8%	41.2%	(24.6%)	15.8%

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January 20, 2020
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Appendix – Income Statement

INCOME STATEMENT							
Fiscal year	**2017A**	**2018A**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**
Fiscal year end date	*12-31-17*	*12-31-18*	*12-31-19*	*12-31-20*	*12-31-21*	*12-31-22*	*12-31-23*
Gross revenue	**4,029**	**4,284**	**4,375**	**4,468**	**4,555**	**4,639**	**4,725**
(-) Subconsultant and other direct expenses	(855)	(929)	(948)	(969)	(987)	(1,006)	(1,024)
Net revenue	**3,174**	**3,355**	**3,427**	**3,500**	**3,568**	**3,634**	**3,701**
(-) Direct payroll costs	(1,412)	(1,540)	(1,576)	(1,610)	(1,641)	(1,671)	(1,703)
Gross margin	**1,762**	**1,815**	**1,851**	**1,890**	**1,927**	**1,962**	**1,999**
(-) Administrative and marketing expenses	(1,408)	(1,438)	(1,302)	(1,330)	(1,356)	(1,381)	(1,406)
(-) Depreciation of property and equipment	(52)	(50)	(51)	(52)	(54)	(55)	(56)
(-) Amortization of intangible assets	(73)	(65)	(63)	(63)	(63)	(63)	(63)
Gain (loss) from divestures, impairments, net	55	0	0	0	0	0	0
Operating profit (EBIT)	**284**	**262**	**434**	**444**	**454**	**464**	**474**
Interest expense, net	(33)	(34)	(34)	(27)	(20)	(16)	(11)
Equity in net losses unconsolidated entities	3	2	0	0	0	0	0
Net loss from discontinued operations, net of tax	0	(124)	0	0	0	0	0
Other expense, net	10	(3)	0	0	0	0	0
Pre-tax profit	**264**	**102**	**400**	**417**	**434**	**447**	**462**
(-) Taxes	(167)	(55)	(112)	(117)	(122)	(125)	(129)
Net income	**97**	**47**	**288**	**300**	**312**	**322**	**333**
Basic shares outstanding	114	114	114	114	114	114	114
Impact of dilutive securities	0	0	0	0	0	0	0
Diluted shares outstanding	**114**	**114**	**114**	**114**	**114**	**114**	**114**
Basic EPS	$0.85	$0.42	$2.53	$2.64	$2.75	$2.83	$2.93
Diluted EPS	**$0.85**	**$0.42**	**$2.53**	**$2.64**	**$2.75**	**$2.83**	**$2.92**
Growth rates & margins							
Gross revenue growth	nmf	6.3%	2.1%	2.1%	2.0%	1.8%	1.9%
Gross margin, % of net revenue	55.5%	54.1%	54.0%	54.0%	54.0%	54.0%	54.0%
Administrative & marketing, % of net revenue	44.4%	42.9%	38.0%	38.0%	38.0%	38.0%	38.0%
Depreciation & amortization margin. % of net revenue	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Tax rate	63.2%	53.7%	28.0%	28.0%	28.0%	28.0%	28.0%
EBITDA reconciliation							
Depreciation & amortization	125	115	128	126	127	128	129
Stock based compensation	5	6	6	6	7	7	7
EBITDA	**414**	**383**	**568**	**576**	**588**	**599**	**610**

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Appendix – Balance Sheet

BALANCE SHEET								
Fiscal year	**2016A**	**2017A**	**2018A**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**
Fiscal year end date	*12-31-16*	*12-31-17*	*12-31-18*	*12-31-19*	*12-31-20*	*12-31-21*	*12-31-22*	*12-31-23*
Cash and cash equivalents		247	185	644	921	1,088	1,371	1,660
Receivables		1,231	1,263	1,083	1,095	1,127	1,148	1,170
Contract assets		0	60	61	62	63	65	66
Income taxes recoverable		62	48	48	49	50	51	52
Prepaid expenses		54	57	58	59	60	62	63
Other assets		234	218	218	218	218	218	218
Property and equipment		213	289	304	320	336	352	369
Acquired intangible assets (incl. goodwill)		1,819	1,869	1,806	1,743	1,680	1,617	1,554
Deferred tax assets		23	21	22	22	23	23	23
Total Assets		**3,883**	**4,010**	**4,244**	**4,489**	**4,646**	**4,906**	**5,175**
Payables		705	567	578	590	601	612	624
Deferred revenue		187	174	179	183	187	190	194
Income tax payable		29	19	18	18	18	19	19
Provisions		96	121	123	126	128	131	133
Revolver		0	0	0	0	0	0	0
Long-term debt		740	934	934	934	837	837	837
Deferred tax liabilities		55	54	55	57	58	59	60
Other liabilities		172	232	232	232	232	232	232
Total Liabilities		**1,984**	**2,101**	**2,119**	**2,139**	**2,062**	**2,080**	**2,099**
Common stock / additional paid in capital		900	893	899	905	912	919	925
Treasury stock		0	0	(6)	(13)	(19)	(26)	(33)
Retained earnings		947	851	1,067	1,293	1,527	1,769	2,018
Accumulated other comprehensive income (loss)		50	163	163	163	163	163	163
Total Equity, attributable to GC		**1,896**	**1,907**	**2,123**	**2,348**	**2,583**	**2,824**	**3,074**
Noncontrolling interests		3	2	2	2	2	2	2
Total equity		**1,899**	**1,909**	**2,125**	**2,350**	**2,584**	**2,826**	**3,076**
Total liabilities and equity		**3,883**	**4,010**	**4,244**	**4,489**	**4,646**	**4,906**	**5,175**
Balance check		*0*	*0*	*0*	*0*	*0*	*0*	*0*
Ratios								
Net debt		(492)	(749)	(290)	(13)	251	533	823
Asset turnover (revenue / total assets)		1.04x	1.07x	1.03x	1.00x	0.98x	0.95x	0.91x
Net profit margin		2.4%	1.1%	6.6%	6.7%	6.9%	6.9%	7.0%
Return on assets		2.5%	1.2%	6.8%	6.7%	6.7%	6.6%	6.4%
Return on equity		5.1%	2.5%	13.6%	12.8%	12.1%	11.4%	10.8%

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Appendix – Cash Flow Statement

CASH FLOW STATEMENT								
Fiscal year	**2016A**	**2017A**	**2018A**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**
Fiscal year end date	*12-31-16*	*12-31-17*	*12-31-18*	*12-31-19*	*12-31-20*	*12-31-21*	*12-31-22*	*12-31-23*
Net income				288	300	312	322	333
Depreciation and amortization				128	126	127	128	129
Stock based compensation				6	6	7	7	7
Receivables				180	(12)	(33)	(21)	(21)
Contract assets				(1)	(1)	(1)	(1)	(1)
Income tax recoverable				()	(1)	(1)	(1)	(1)
Prepaid expenses				(1)	(1)	(1)	(1)	(1)
Payables				10	12	12	11	11
Income tax payable				(1)				
Deferred revenue				5	4	4	3	4
Other assets				0	0	0	0	0
Other liabilities				0	0	0	0	0
Deferred tax liabilities				1	1	1	1	1
Deferred tax assets				()	()	()	()	()
Provisions				3	3	2	2	2
Non-cash PIK interest				0	0	0	0	0
Cash from operating activities				**617**	**437**	**428**	**451**	**463**
Capital expenditures				(80)	(78)	(80)	(81)	(83)
Purchases of intangible assets				0	0	0	0	0
Cash from investing activities				**(80)**	**(78)**	**(80)**	**(81)**	**(83)**
Long-term debt				0	0	(96)	0	0
Common dividends				(72)	(75)	(78)	(81)	(83)
New share issuances				0	0	0	0	0
Share repurchases				(6)	(6)	(7)	(7)	(7)
Other comprehensive income / (loss)				0	0	0	0	0
Revolver				0	0	0	0	0
Cash from financing activities				**(78)**	**(82)**	**(181)**	**(87)**	**(90)**
Net change in cash				**458**	**277**	**168**	**282**	**290**

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