

STN Earnings Call Transcript

Date: 2025-08-14

Quarter: 2

Operator: Welcome to Stantec's Second Quarter 2025 Results Webcast and Conference Call. Leading the call today are Gord Johnston, President and Chief Executive Officer; and Vito Culmone, Executive Vice President and Chief Financial Officer. Stantec invites those dialing in to view the slide presentation, which is available in the Investors section at stantec.com. Today's call is also webcast. Please be advised that if you have dialed in while also viewing the webcast, you should mute your computer, as there is a delay between the call and the webcast. All information provided during the conference call is subject to the forward-looking statement qualification set out on Slide 2, detailed in Stantec's Management Discussion and Analysis and incorporated in full for the purpose of today's call. Unless otherwise noted, dollar amounts discussed in today's call are expressed in Canadian dollars and are generally rounded. With that, I will turn the call over to Mr. Gord Johnston.

Gordon Allan Johnston: Good morning. and thank you for joining us today. Before I get into our Q2 results, I'm pleased to announce that on July 31, we closed the acquisition of Page. In early April, we announced the acquisition and in the interim period, we were working on various regulatory approvals prior to the formal close. Page is a very strong U.S.-based architecture and engineering firm headquartered in Washington, D.C. The acquisition complements our buildings business and helps bolster our services in key growth sectors, including health care, advanced manufacturing, data centers and mission-critical, academic science and technology and Civic markets. In addition, I'd also like to highlight that on June 27, we acquired Cosgroves, a 90-person firm, expanding our buildings engineering capabilities in New Zealand. And as we previously announced, we acquired Ryan Hanley back in April, bolstering our offerings in the Irish water sector. I'd like to welcome the 1,500 talented individuals from Page Cosgroves and Ryan Hanley to the Stantec team, which has now grown to over 34,000 employees. I'm also pleased to share that Stantec continues to earn recognition through a range of accolades from respected industry and media organizations. We are honored to be ranked the #1 architecture firm in health care worldwide by Modern Healthcare's 2025 Construction & Design survey. In addition, Time Magazine ranked us fifth on its 2025 list of Canada's best companies and among the top 50 of the world's 500 most sustainable companies. Now let's focus on our results. Stantec has delivered very strong results in the first half of 2025, delivering organic growth across all of our regions and business operating units. Public infrastructure spending and private investments continues to be a key driver of growth in 2025 with strong demand across the water, transportation, mining, energy transition and mission-critical sectors. In the second quarter, we delivered net revenue of \$1.6 billion, up 6.9% year-over-year, which was primarily driven by 4.8% organic growth. Our Energy & Resources business delivered high single-digit organic growth, and water achieved 12.4% organic growth. With our focus on solid project execution and operational excellence, we grew our adjusted EBITDA by 15% with an enhanced margin of 17.8%. We also delivered EPS growth -- adjusted EPS growth of over 21% compared to Q2 2024. Looking at our results in each of our geographies. In the U.S., our Q2 net revenue increased by 5.7%, which was supported by organic growth of 4.4%. From a trend perspective, we saw improvements in U.S. organic growth compared to the first quarter. Client demand for mission-critical, science and technology and civic all contributed to growth in our buildings business. Growth in environmental services was mainly driven by our energy transition, mining and industrial infrastructure sectors as well as a continued work scale utility provider. Growth in water was

driven by large public sector water supply and wastewater treatment projects and Energy & Resources growth saw the ramp-up of a major hydropower dam project in the Southwest. In Canada, net revenue grew by 6.2%, underpinned completely by organic growth. The continued momentum on major wastewater projects contributing to over 30% organic growth in water. Consistent progress on major industrial process projects drove double-digit organic growth in Energy & Resources. Solid growth in infrastructure was supported by land development projects in Alberta and public sector investment in Western Canada drove growth in our buildings business, primarily in our health care and civic markets. Finally, our global business delivered net revenue growth of 10.5% in the second quarter with 4.3% organic and 3.6% acquisition growth as well as positive foreign exchange impacts. Our industry-leading water business delivered double-digit organic growth across the U.K., Australia and New Zealand through long-term framework agreements and public sector investment in water infrastructure. The ramp-up of new projects in Chile and Peru drove double-digit organic growth in Energy & Resources as the growing need for energy transition solutions continues to drive demand and mining for copper. And we also achieved double-digit organic growth in our German business due to continued momentum on a major public sector energy transportation project and increased volume on transit and rail projects. Now I'll turn the call over to Vito to review our Q2 financial results in more detail.

Vito Culmone: Thank you, Gord, and good morning, everyone. Stantec's positive momentum continues as seen with our second quarter results, positioning us to deliver another exceptional year. In Q2, we achieved gross revenue of approximately \$2 billion and net revenue of \$1.6 billion, an increase of 6.9% compared to Q2 2024. This was primarily driven by 4.8% organic growth. As a percentage of net revenue, our projects margins remained in line with our expectations at 54.2%. We achieved a very strong adjusted EBITDA margin of 17.8% in the quarter, a 120 basis point increase compared to last year. The increase in margin primarily reflects lower admin and marketing expenses as a percentage of net revenue due to lower claim provisions and discretionary spending. And our adjusted EPS in the quarter increased over 21% to \$1.36. Our Q2 results build on a strong first quarter, and on a year-to-date basis, our adjusted EBITDA margin is 17%, a full 1% ahead of the first half of 2024. In addition, our adjusted EPS is up a very robust 24.9%. With our year-to-date performance and the closure of the Page acquisition, we are very well positioned to increase guidance across various metrics, which Gordon will speak to shortly. Turning to our cash flow, liquidity and capital resources. Year-to-date operating cash flows are up 100% compared to 2024, from \$117 million to \$235 million, reflecting continued strong revenue growth, operational performance and continued strong collection efforts. DSO at the end of the second quarter was 73 days, a decrease of 4 days compared to the first quarter. This is well below our internal target of 80 days or lower. Our net debt to adjusted EBITDA ratio at June 30 was 1.1x, essentially in line with where we closed out the first quarter and remaining well within our internal target range of 1 to 2x. I'd like to take a minute to highlight some recent financing transactions we completed in Q2. I characterize these as being in the normal course of our business and reflecting the significant growth in our operations over the last few years. On June 10, we issued \$425 million senior unsecured notes bearing an interest rate of 4.374% per annum for a 7-year term. These notes were assigned an investment-grade rating -- investment-grade credit rating of BBB by DBRS Limited. Also in mid-June, we increased our unsecured revolver credit facility to \$1.2 billion, up from \$800 million and we extended the maturity date out to June 30. Both of these financing transactions were well oversubscribed and reflect the credit community's deep understanding and confidence in our sector and company. We appreciate the continued support. As Gord noted, we closed the Page acquisition on July 31 and post closing, our remaining credit capacity is just over \$1 billion, and our balance sheet remains very strong. Gord, I'll now hand the call back to you.

Gordon Allan Johnston: Thanks, Vito. At the end of the second quarter, our contract backlog stood at \$7.9 billion, reflecting approximately 12 months of work. Our backlog underscores the continued strong demand to support our clients' most pressing challenges. Year-over-year, backlog has grown by almost 10% reflecting robust organic growth of 9% across each of our geographies and most notably, double-digit growth in our Water and Energy & Resources businesses. I'd also note that our U.S. organic backlog is up 9.8% year-over-year. This reflects the positive trend in organic growth and continued strength of our business in the region. Growth within our global operations was driven by new project awards in our Infrastructure and Environmental Services business in Europe and AMP8 project

awards in our U.K. Water business. This growth is partially offset by a retraction in our Australian business -- buildings operations as well as high burn rates in our Water business. I'll now highlight a few of the projects that Stantec has recently been awarded. A Stantec joint venture was recently awarded a \$150 million single-award contract supporting the U.S. Navy shipyard infrastructure optimization program focusing on the modernization of the Portsmouth Naval Shipyard in Maine. U.S. Navy shipyards were originally designed and built in the 19th and 20th centuries and this program will support the upgrade of facilities, utilities, dry docks equipment and information technology infrastructure. In the U.K., our infrastructure team was awarded a 4-year framework with Transport for Greater Manchester, where we will deliver a range of transport, design, engineering and analysis services as well as program and project management support. And lastly, Stantec's Water and Environmental services teams are collaborating on Google's water replenishment project sourcing in Taiwan. This project is part of Google's global water replenishment initiative. It also highlights Stantec's use of nature-based solutions, which includes a gravel contact oxidation process for sustainable water treatment and watershed restoration. On the strength of our performance year-to-date, the completion of 2 acquisitions within the second quarter and with the recent closure of Page we're increasing our outlook for 2025. We now expect to achieve net revenue growth of 10% to 12%, up from our previous guidance of 7% to 10%. Given our strong diversification across geographies, we continue to expect mid- to high single-digit organic growth across the businesses. In Canada and in global, we continue to expect organic net revenue growth in the mid- to high single digits. We continue to see strong momentum in both these regions with elevated backlog levels in Canada, particularly in Infrastructure and Energy & Resources and through high levels of activity in our global Water business. AMP8 continues to ramp up in the U.K. and other water frameworks in Australia and New Zealand are ramping up as well. In the U.S., we expect organic growth to accelerate in the second half of the year, and we've moderated our outlook slightly to mid-single digits. The U.S. administration has significant shifts in policy, funding priorities, tariffs and regulatory frameworks and most notably with the recent passage of the One Big Beautiful Bill Act. The ultimate driver of these initiatives is to stimulate investment in the U.S. across all sectors and to strengthen the U.S. economy. In fact, we're already seeing momentum starting to wrap up again. Furthermore, we're also encouraged by our healthy backlog, which positions us for continued positive growth. On the strength of our operations year-to-date, we've also increased and narrowed the range for adjusted EBITDA margin to 17% to 17.4%, up from 16.7% to 17.3%. This reflects solid project execution and continued discipline in cost management. With this, we actually expect to hit our strategic plan target of 17% to 18% a year early with the ability to continue building on this performance. We now expect to deliver 18.5% to 21.5% growth in adjusted EPS compared to 2024, up from 16% to 19%. Once again, driving earnings well above net revenue growth. And finally, adjusted ROIC is now expected to be greater than 12.5%. As we enter the second half of 2025, we remain firmly on track to deliver another record year. Macro trends of aging infrastructure, data centers, energy security, water and wastewater treatment, health care and reshoring all continue to drive our business. We will remain focused on delivering strong project execution and operational excellence. And while we have already completed 3 acquisition line of opportunities remains full, and we are extremely well positioned, both from an integration and a financing standpoint to do more. It's an exciting time for our industry and for Stantec, and we'll continue to deliver compounded growth as we drive towards our 2024 to 2026 strategic plan goals. And with that, I'll turn the call back to the operator for questions.

Operator: [Operator Instructions] Our first question is going to come from the line of Krista Friesen with CIBC.

Krista Friesen: I was wondering if maybe you can just provide us with a little bit of additional color on what you're hearing from your U.S. customers, specifically in the private sector, as you called out, maybe an elevated level of caution right now.

Gordon Allan Johnston: Yes, great question, Krista. What we're seeing is in the first half of the year, there was a little bit of trepidation to make that final investment decision and to move forward. But as we said in the prepared remarks, we really are looking to see our -- forecasting our U.S. organic growth to accelerate in the second half of this year. our U.S. backlog is up 9% -- 9.8% organically year-over-year, and it's actually particularly strong in water, energy and data centers, some of those

private sector type work that you're talking about. So in the private sector, interestingly, data centers, mission-critical and so on, we're currently working on over 100 data center projects. And so it's interesting. We see from -- even from our July results, we saw an increase in our U.S. organic growth to that -- even at that high single-digit range. But we also interestingly saw continued acceleration even on an organic backlog in the July period. So we're actually feeling pretty good about that acceleration in organic growth, both in public and in the private sector in the second half of the year.

Krista Friesen: Okay. Great. And then maybe just on the acquisition front, you guys have been busy with a couple of acquisitions recently. How are you feeling on the integration? I appreciate Page was just 2 weeks ago here, but just any update there?

Gordon Allan Johnston: Yes. So the Ryan Hanley is a firm -- a smaller firm, a couple of hundred people in Ireland. We've been working with them for years. So that integration is going very well. We actually anticipated, I think, to be completed by the end of this year, the financial integration. Cosgrove, similarly, 90-person firm, 100-person firm down in New Zealand. That one is continuing. Page is really interesting. 1,400, 1,500 people, but we've worked with them for a long time. And we've -- over the last number of months, we've been working on how do we align leadership, starting to look already at the financial transformation. And in fact, that's planned for Q4 of this year. So we think we're going to be in pretty good shape, really having wrapped up the majority of the integration and the financial work by the end of the year on all 3 of these.

Operator: Our next question comes from the line of Sabahat Khan with RBC Capital Markets.

Sabahat Khan: I guess just sticking with kind of the outlook commentary. It looks like the margin guidance, the midpoint has been kicked up a little bit. Maybe if you can just get into some of the details around the progress year-to-date on the margin side? And just what are some of the contributors to the margin being pushed up higher for the full year?

Vito Culmone: Sabahat, yes, we're really -- it's Vito here. Really pleased with our progression year-to-date and what we see for the balance of the year with respect to EBITDA margins. You're absolutely right. We have bumped up the EBITDA margins now from 16.7% to 17.3% to that 17% to 17.4% range. Year-to-date, we're at 17%, which is 100% -- 100 basis points ahead of where we were a year ago. I don't believe we'll be able to maintain that 100 basis points year-over-year improvement in H2, obviously, because the guidance reflects a moderation to the year-over-year side of things, but continue to see improvement in it. For us, it always starts with just strong project margins. Of course, we don't take that for granted. Your EBITDA margins always start with that, the right customer, right price, excellent execution. So just a huge shout out to the operations team's continued focus on that. Our project margins in the quarter were 54.2%, which actually is 0.2% lower than prior year, but that really reflects mix. Global business was a higher percentage of our overall business in Q2, and they profile at a lower project margin. So in North America, project margins were actually up year-over-year. So it starts with strong project margins. You saw that admin and marketing costs, we target that as a lower percentage of overall net revenue. Utilization in the quarter was higher. That always contributes. Just the general nature of our operational scale and leveraging our back offices and growing that at a pace that's lower than our overall revenue growth continues to be a positive contributor, of course. We did call out claims in the quarter for particularly Q2. Claims is always a little bit lumpy, obviously. But in Q2, we did have favorable settlement of 2 claims in particular relative to the provisions we had. And that contributed, I'll call it, 30 to 40 basis points in the quarter. But those are all the drivers. Very, very pleased with it. And it's a continuation of a multiyear story for us. As Gord referred to in his opening remarks, hitting the 17 -- piercing the 17% mark 1 year earlier than our strapline just is a strong indication of what we believe is to come here in the next several years.

Sabahat Khan: Great. And then maybe the second one for Gord. On the water side, it looks like about a 12.5% organic growth this quarter. And the interesting thing there being it's been several years of good strength in the water market. So maybe if you can just help us think through what drove that, the near-term demand drivers. It sounds like AMP8 might still be at the early stages. So assuming some of the other work is driving. So maybe just give us a perspective on what's driving the strong growth there and maybe the opportunities in the data center side if some of those are tied to water as well.

Gordon Allan Johnston: Right. No, great perspective. As we've talked about before, and I think everyone on the call is aware, like we've had strong organic growth in water back to 2019. And every

quarter, it just continues to get stronger with our overall water business. And so you're right, we're still early days with AMP8 ramping up, although we are already sort of at a level roughly about 50% higher this time of year than we were a year ago. So we're -- that is already coming, and we're actively hiring people in the U.K., expanding our delivery centers in Pune, India to continue to service that demand. But I think we talked about like even in Canada, we had 30% organic growth on top of more and more strong quarters year-over-year. So there's just an enormous amount of work that we see in water treatment, wastewater treatment, advanced manufacturing facilities. You mentioned the data centers. But also as we're talking to clients about reshoring some of their facilities, it all starts with water. So while our water business continues to strengthen, our backlog is even up even further. So we see continued strength in that water business for the remainder of '25 and really for the years to come. No slowing down in the water space whatsoever.

Operator: Our next question comes from the line of Chris Murray with ATB Capital Markets.

Christopher Allan Murray: Gord, maybe turning back to thinking about the U.S. business maybe longer term. I mean, I guess it feels like a bit of a blip in the quarter because you're talking about again, like high single-digit type growth in the backlogs and your commentary a little bit about recovery. If I go back a couple of quarters, sort of the discussion has been how long could the U.S. market continue to support, frankly, what are kind of above average single-digit organic growth levels. And just any thoughts on how you're viewing kind of the next couple of years on what the spending pace looks like and your comfort level on where we're going. And with that, is there any particular sectors that you think that you need to add in order to be able to accomplish or achieve some of that?

Gordon Allan Johnston: Yes. Great question. So as we look forward in the remainder of this year and the rest of next year, we mentioned already that we're [10%] organic growth in backlog in the U.S. But then you look at some of the other drivers. We've done a lot of talking before in the industry about IJJA, only about 40% of that -- less than 40% of that has been spent. So there's a lot of opportunity to continue to come there in the next couple of years to allocate some of those funds before it's -- they're not eligible for allocation at the end of 2026. So that part feels strong. When you look at the One Big Beautiful Bill, and there's some additional support for infrastructure, state and local government there. Data centers, mission-critical, those continue to grow. And it's interesting there. I mentioned to Chris' comments, we've been -- we're working on over 100 data center projects right now from 20 megawatts up to 1 gigawatt in size. And now the addition of Page to our team even strengthens our already strong group there. So there's -- so just a lot of opportunity across whether it's transportation or water, buildings, energy, the transition, mining, they're just -- we see really, really strong strength going forward. I think that what we've seen in the first couple of quarters of this year, not just us, but the industry overall. It's just a little bit transitory, and we see good fundamentals going forward. So we did lower our organic guidance for the year to 5%, but that's really just a function of mathematics. Like we're sitting at 3.3% year-to-date and so we're 3.4% year-to-date. So as we thought about just wanting to be clear and state our expectations just when we were saying mid- to high single digits, everyone goes to 6% to 8%. And if we're at 3.4% for the first half of the year, that means we'd almost have to be double-digit organic growth in Q3 and Q4 in order to get into that range. We see continued acceleration, but not sure that we're getting it to 10% double-digit organic growth in both quarters. So we just wanted to be clear with everyone to confirm our expectations. But just to confirm, though, we expect acceleration of organic growth in the U.S. for the second half of the year and through 2026 and beyond.

Vito Culmone: Gord, I'll just add maybe a couple of things in there, and Chris asked whether there was any particular areas of potential gaps for us in the market or areas of focus. Chris, we remain incredibly bullish about the U.S. market. I just -- aging infrastructure, U.S. remains incredibly behind in that building resiliency to weather events, so on and so forth. The macro factors are just continue to be extremely buoyant. And when you look at this administration's focus frankly and what they're investing in and what their areas of policy enforcement are with the OBBA and whatnot. It just speaks to increased focus and support for much of what we're describing.

Christopher Allan Murray: And then one other question I just had on margins, and this maybe goes back to the Investor Day and talking about sort of the implementation of technology across the platform. And I'm kind of listening to some of the comments about SG&A; leverage. But can you just talk to some

of the AI and other technologies you guys were referencing and how they're playing into this margin profile at this point? Are you actually seeing them have any sort of impact or change, I guess, in the trend on revenue per head type metrics or earnings per head metrics at this particular point? Or is it still kind of too early to be able to point to anything definite?

Gordon Allan Johnston: Yes. I think overall in the industry and Stantec included, we're still early days in so how far we can push this. Interestingly though, our entire C-suites went down to the Microsoft campus in Redmond there a couple of weeks ago, spent a day with their technology folks and our folks really talking about their journey, our journey, what are some of the areas that we believe that we could make use of AI and other digital tools and so we're working very, very closely with them on some of some co-investment sort of ideas there. But as we look at our -- inside of Stantec, we've deployed over 10,000 licenses of Copilot throughout the organization. And so we're looking at it from a number of perspectives, Chris. One is like what can we do to make our back office more efficient, whether that's HR or accounts payable, expense account review, those sorts of things that we can make the back of house more efficient in reducing some of the SG&A costs. Proposal writing, how can we speed -- get speed to market on those sorts of things. And then also thinking about on the design side, where we can start optimizing and automating some of the design processes. So I think it's still early days. I'm not sure that you're seeing it too much in that margin expansion yet. But certainly, I think we'll see it playing more of a factor in the years to come.

Operator: Our next question comes from the line of Yuri Lynk with Canaccord Genuity.

Yuri Lynk: Just back, Gord, on the acceleration in organic growth in the back half of the year. The comps are kind of interesting in terms of what you're lapping there. Q3 is 5.5% and then a 10% comp in Q4. So fair to say that, that should help shape our expectations for more organic growth and bigger organic growth improvement in Q3 versus Q4?

Gordon Allan Johnston: I think that's exactly right. And when you look at the Q4 comp, already up 10% and that's again, one of the reasons why we lowered our guidance to that mid-5% type range. It's just because the comp in Q4 is a bit tough, and we just wanted to set reasonable expectations of where we saw it. But we do see -- I think we mentioned like in July, and of course, one period -- one does not make a quarter, but it's a very, very positive trend that we saw high single-digit organic growth in the U.S. in the quarter -- sorry, in the period in July as well as backlog -- organic backlog acceleration as well. So we're still feeling really good about that. And then, of course, consolidated, we still have mid- to high single digits. It's just we only made that one adjustment on the U.S. side.

Vito Culmone: Yes. And just -- I mean, I think the fact that obviously, the U.S. represents half of our business. But on the consolidated, we're still at mid- to high, just reflects, I think, Gord, and our listeners, the diversity and the strength of our global business including, of course, North America.

Yuri Lynk: Okay. Just thinking about the U.S. Water business and one of your customers in financial difficulties there. Wondering if that might have any impact over the next year or so?

Gordon Allan Johnston: Yes. And so in particular, you're thinking -- talking about Thames Water in the U.K.?

Yuri Lynk: Yes, exactly, yes.

Gordon Allan Johnston: Yes. No, exactly. And that's pretty public, I think, for everyone to see that they are in financial difficulty. But what's interesting with Thames Water is we've worked for Thames Water and their predecessor organizations for almost 200 years in the U.K. And so discussions that we're having is whether the government -- and we have no indication of anything would happen. But if that were to be nationalized for some period of time, the work still needs to be done. And so we -- all of our discussions with our client are -- the work needs to be done, continue. We're having no payment issues at this point. So we don't see that really as an impact to our business from a negative perspective.

Vito Culmone: Not at all.

Operator: Our next question is going to come from the line of Michael Tupholme with TD Cowen.

Michael Tupholme: Gord, it's pretty clear from your comments that you expect an acceleration in U.S. organic growth, which is great to hear. I guess my question is the factors that you called out that, I guess, in the shorter near term here have been weighing on organic growth. So in the public sector side, you talked about some slower procurement on the private sector side, some of the issues in the larger capital project side within private sector. I guess, like have you overcome all of these? Or are you

seeing pickups in other areas that are allowing you to offset those headwinds? And just trying to get a sense if you've sort of fully moved past all those issues and those are now behind you and behind the industry or if those are still there, but you're seeing strength elsewhere?

Gordon Allan Johnston: Yes. I think what we're seeing is that the issues are diminishing a little bit. I don't think that we've -- that they're passed. Michael, it's interesting. One thing that we've been hearing from some of our business leaders is that from some of the agencies that we're working with, particularly in the U.S., a number of people took early retirement when it was offered and those sorts of things. So it's taking a little bit longer, sometimes for them to get new people in those roles, to get the projects out the door and such. But we see that diminishing. I think we saw not just us with the industry overall, a little slower organic growth in the U.S., Q1, Q2 as we're working through some of these items. But I think that they're diminishing but in no way would I say that they're all solved. But as we think about acceleration of organic growth in the U.S. going forward, we still feel very positive about it, even with the diminishing issues that we've called out there previously.

Vito Culmone: Michael, 5 sectors, I mean, thousands of projects, thousands of clients across multiple industries, obviously. So I just echo 100% of what Gord has described you still see pockets of it, but overall, diminishing as we move forward. And very few cancellations, if any, right, Gord. I mean these aren't cancellations we're talking about. We're just talking about some delays and pausing.

Michael Tupholme: Right. That's very helpful. And then I guess, as we look beyond this year, maybe you can just comment on how you're feeling about the multiyear organic growth guidance you put out for over 7% organic growth that extends through 2026. And then is this level of activity that you're seeing here, including the pickup in the U.S., how does that make you feel about sort of the period beyond 2026 as your -- we're getting closer, I guess, to the point you're going to start to think about your next 3-year plan?

Vito Culmone: Yes. And Michael, maybe I'll chime in and then Gord, you can add your sentiments on that. Obviously, we'll come out with our 3- year plan, we're -- our updated 3-year plan post 2026 in due course. But there is absolutely nothing that we are seeing that it would be fundamental in nature. And I think across all of our markets, including, of course, the U.S., those macro factors that we're describing support that level of growth activity for what we believe at this point in several years to come.

Gordon Allan Johnston: And when you look at some of their recent funding programs that have been announced around the world, the U.K. put out another 10-year infrastructure plan, GBP 725 billion, very supportive, an additional tailwind for us. In Ireland, where we just acquired Ryan Hanley, another GBP 102 billion -- GBP 100 billion to GBP 200 billion there from infrastructure. So again, very, very supportive. So we feel when you look at the One Big Beautiful Bill and some of the support that, that does, certainly, the increase in defense spending around the world. And again, for everyone on the line, we don't do anything related to hot weapons but the work that we do would be infrastructure in support of hangers for aircraft, docks and ports and improvements to barracks and hospitals and such. So again, whether it's defense spending increases or just increased infrastructure spending around the world, that all point to a pretty solid multiyear macro for the overall industry.

Operator: [Operator Instructions] Our next question is going to come from the line of Maxim Sytchev with NBF.

Maxim Sytchev: If it's possible to get a bit more of an update in terms of what you guys are seeing on the ground when it comes to FEMA and whether -- I mean, some of the federal work is just being shifted to kind of state and local? Just trying to get your perspective there.

Gordon Allan Johnston: Yes. Absolutely, as you look at some of the disaster preparedness work, in particular, Max, that is looking to be shifted to some of the states and local governments. So we had a number of those on calls with FEMA at a national level, and we absolutely are in discussions now with a number of other local state and local government agencies about how we could respond to support them. But that still is in a transition phase, but we're absolutely engaged in those discussions.

Maxim Sytchev: Okay. That's great to hear. And then is it possible to provide a bit more of an update when it comes to the M&A; landscape? I mean, obviously, you mentioned your capital capacity, but what are you guys sort of seeing on the ground from a seller's perspective, et cetera?

Gordon Allan Johnston: Yes. The environment is actually, I would say, becoming increasingly active over the last quarter and I think will be for the second half of the year. Certainly within North America,

but we're seeing globally as well. So there's a number of assets that we've been talking for a while that we thought we're going to be coming to market in kind of a 12- to 18-month time frame. And I think those are probably shortened by half a year now, probably in the next 6 months to 1 year, some of these assets will be coming to market. And wherever possible, we're having proactive meetings with individuals before a process would start just to be sure that we're well positioned. So I think you'll see increased activity over the next 6 to 12 months.

Operator: Our next question comes from the line of Benoit Poirier with Desjardin.

Benoit Poirier: We saw an update on Section 174 being removed following the approval of the Big Beautiful Bill. Vito, could you talk a little bit about the boost we might expect on free cash flow going forward? And with respect to the delays that we are seeing temporarily in the U.S. I'm just wondering if customers were waiting for interest rates to decline and whether, lower interest rates that could come could accelerate spending when talking to customers?

Vito Culmone: Yes. No, with respect to the recent changes, Benoit, with the tax deductibility on R&D, I believe that's what you're referring to. That's overall a positive factor. Of course, these are domestic R&D expenses incurred in the United States that basically effective for 2025 and now are 100% deductible in the year incurred. And actually, the provisions allow you to go back to 2022 through to 2024 and accelerate that deduction as well. So overall, positive. Too early to tell at this point on our end what the impact would be from a timing perspective for the cash flow. We're modeling that through. There are some complexity, particularly being obviously a foreign jurisdiction and other taxes such as BEAT taxes and whatnot that we need to work our way through. But I would say neutral at worse than positive from a cash flow perspective for us, Benoit.

Benoit Poirier: Okay. And just for a follow-up with respect to the global technology center in Pune, could you maybe provide an update on how many employees right now? And maybe how do you track and whether there is a potential to exceed the target of 2,000 people by the 3-year period?

Vito Culmone: Yes. We're about 1,400, 1,500 people right now, Benoit. We're really pleased with the progress. We see huge opportunity, such an engaged knowledgeable, motivated team over there working across not only supporting our corporate functions, but importantly, obviously, supporting our operations as well. We see huge opportunity, continued opportunity across both those layers and both those segments. In fact, we've got trips planned for the business here in the back half of this year where they'll get up and close in personal. So optimistic, continue to be optimistic about the growth of the global delivery centers and in servicing. And obviously, that continues to be a lever not only in margin expansion, but importantly, in high-quality delivery for our customers on a timely basis as we continue to see across several of our markets, very robust demand. I'll stop short of whether we're going to hit the 2,000 and what not because I don't have that at the tip of my fingers. But overall, obviously, it continues to be a very important strategic part of our efforts.

Operator: Our next question will come from the line of Devin Dodge with BMO Capital Markets.

Devin Dodge: I wanted to start with a question on Page. The purchase price was, I think, a bit more than we had expected. Just wondering if you could provide a bit of color on say, the revenue the business generates. Organic revenue growth, it's been having in the last couple of years and how maybe margins stack up to the Stantec company average?

Vito Culmone: Yes, you would see us disclose. We disclosed the purchase price as [USD 5.25]. You saw that in the notes to our financial statements. I'm surprised to hear you say it was a little more than you had expected. I think when the reports of what the analyst community sort of reported out, I think it was in that range, obviously, translated to Canadian dollars. We'll stop short about also just speaking to what are revenue did Page bring to the table. Obviously, we closed the deal July 31, the teams are incredibly excited about the strategic value. We're happy with the multiple and the value that, that business will bring forward to us. Gord, I don't know if you had much more to add to that.

Gordon Allan Johnston: Yes. There are roughly USD 300 million in net revenue company. High average net revenue generation per employee. And we also are really impressed with them in terms of just the amount of synergy that we've already seen from a client perspective and a project perspective, certainly on track or even a little bit better than we thought we were going to see. So particularly pleased with that one.

Devin Dodge: Okay. Second question, Gord, I think you mentioned in the past about capping your

exposure to the more cyclical end markets? I think it was around 15% of revenues. Historically, I think that cyclical exposure has been more focused on oil and gas and mining. But I think you've also hinted that maybe data centers could be part of that cyclical basket. Just wondering if you could provide an update on where you view your cyclical market exposure now? And just based on backlog and bidding activity, where you think this could be over the next couple of years?

Gordon Allan Johnston: Yes, great question. Our data centers for us are a 2% to 3% of net revenue. And are they increasing? Yes, they're going up. But I think that we still feel really comfortable that we're that sub-15% when you look at mining, you said as you say, oil and gas. And data centers like right now, we're seeing pretty continuous growth there, but again, it's only 2% to 3% of the overall. So I think that we're still well within that 15% range that we've talked about and yes, I think we're comfortable where we're at.

Operator: Our next question comes from the line of Jonathan Goldman with Scotiabank.

Jonathan Goldman: Maybe just to start off, is there any risk with the slower growth environment in the U.S., even if it does prove temporarily that there could be some pressure on pricing?

Gordon Allan Johnston: We haven't really seen that yet. Even though things are organic growth has been a little bit slower for industry over the first half of the year, we haven't seen a deterioration in pricing in any way. Now should it go on for a couple of years? We might see that, but we're not expecting that to be the case. As we said, we see accelerated organic growth going forward. We're still actively hiring as are others in the industry. So, yes, we haven't seen pricing pressure at this point, which would then translate to project margin pressure. But as Vito said, that's really been holding up well for us.

Vito Culmone: Now we very much see a market -- a strong demand market where frankly, we're picking our customers and many of them have been with us for, obviously, several decades and what not. So I don't anticipate that at all.

Jonathan Goldman: Okay. That's good color. And you did talk about the M&A; environment levels previously on the call, about activity levels. But on valuations, have you seen any change in multiples whether higher or lower?

Gordon Allan Johnston: I think it's very similar to how we've seen in the market for the last little while that if larger firms have a little bit of a higher multiple firms and power and data centers have a little bit of a higher multiple. But in general, we haven't seen trends either moving higher or unfortunately, lower over the last little bit. So pretty -- we're seeing some -- just really things being stable really from where I would say that they were even a year ago.

Vito Culmone: And just to add Gord, that just reflects the continued strength of the overall markets and the macro factors that we've been speaking to.

Operator: And I'm showing no further questions at this time. And I would like to hand the conference to Gord Johnston for closing remarks.

Gordon Allan Johnston: Great. Well, thank you, operator, and thank you to everyone for joining us this morning. If you have any follow-up questions after call, please reach out to Jess Nieukerk, our VP of Investor Relations. So thanks again for your time and look forward to connecting with many of you soon.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.