

Aecon reports second quarter 2017 results

TORONTO, July 27, 2017 /CNW/ - Aecon Group Inc. (TSX: ARE) today reported results for the second quarter of 2017.

"Aecon's second quarter results demonstrate the strength of Aecon's diverse business model and related growth in Adjusted EBITDA margin" said John M. Beck, President and Chief Executive Officer, Aecon Group Inc. "We continue to be very active bidding on the robust pipeline of opportunities in front of us that will drive revenue growth in 2018 and beyond."

HIGHLIGHTS

- Revenue for the three months ended June 30, 2017 was \$686 million compared to \$839 million in the second quarter of 2016.
- Adjusted EBITDA of \$33 million (margin of 4.8 per cent) for the second quarter of 2017 compared to Adjusted EBITDA of \$29 million (margin of 3.5 per cent) in the second quarter of 2016.
- Operating profit of \$5.3 million and diluted earnings per share of \$0.01 compared to \$12.3 million and \$0.12 respectively in the second quarter of 2016, a reduction due primarily to amortization of the intangible concession asset related to the Bermuda International Airport Project in the second quarter of 2017 of \$8.3 million.
- Backlog as at June 30, 2017 of \$4.4 billion compares to backlog of \$4.4 billion as at the end of the first quarter.
- New contract awards of \$686 million were booked in the second quarter of 2017 including:
 - Two large diameter pipeline awards to our SA Energy Group Joint Venture totalling \$289 million of which Aecon's share is \$145 million. Work is expected to begin in August 2017 and reach completion in the third quarter of 2018.
 - An engineering, procurement and construction contract worth approximately \$34 million from Inter Pipeline for work at its Kirby North Facility. The project is expected to commence in the third quarter of 2017 with targeted completion in the fourth quarter of 2019.
 - A \$21 million contract in the Mining segment for mine site work in Manitoba. The project began in July 2017 and is expected to be complete in the first quarter of 2018.

CONSOLIDATED FINANCIAL HIGHLIGHTS

\$ millions (except per share amounts)	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$ 686.2	\$ 839.3	\$ 1,361.0	\$ 1,530.0
Gross profit	71.6	69.8	122.6	114.9
Marketing, general and administrative expenses	(45.1)	(45.2)	(93.7)	(89.6)
Income from projects accounted for using the equity method	2.1	1.9	3.0	2.2
Foreign exchange gain (loss)	1.4	(0.1)	2.5	1.3
Gain (loss) on sale of assets	(0.2)	0.4	(1.3)	0.8
Depreciation and amortization	(24.4)	(14.4)	(45.1)	(33.5)
Operating profit (loss) ⁽²⁾	5.3	12.3	(12.0)	(4.0)
Financing expense, net	(5.9)	(5.8)	(10.9)	(10.8)
Profit (loss) before income taxes	(0.6)	6.6	(22.9)	(14.8)
Income tax recovery	1.4	0.5	5.3	5.1
Profit (loss)	\$ 0.8	\$ 7.1	\$ (17.5)	\$ (9.7)
Gross profit margin	10.4%	8.3%	9.0%	7.5%
MG&A as a percent of revenue	6.6%	5.4%	6.9%	5.9%
Adjusted EBITDA ⁽³⁾	33.0	29.4	39.8	33.6
Adjusted EBITDA margin	4.8%	3.5%	2.9%	2.2%
Operating margin	0.8%	1.5%	(0.9)%	(0.3)%
Earnings (loss) per share - basic	\$ 0.01	\$ 0.12	(0.30)	(0.17)
Earnings (loss) per share - diluted	\$ 0.01	\$ 0.12	(0.30)	(0.17)
Backlog			\$ 4,365	\$ 4,889

(1) This press release presents certain non-GAAP and additional GAAP (GAAP refers to Canadian Generally Accepted Accounting Principles) financial measures to assist readers in understanding the Company's performance. Non-GAAP financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP in the consolidated financial statements. Further details on non-GAAP and additional GAAP measures are included in the Company's Management's Discussion and Analysis and available through the System for Electronic Document Analysis and Retrieval at www.sedar.com.

(2) "Operating profit (loss)" represents the profit (loss) from operations, before net financing expense, income taxes and non-controlling interests.

(3) "Adjusted EBITDA" represents operating profit (loss) adjusted to exclude depreciation and amortization, the gain (loss) on sales of assets and investments, gain (loss) on mark-to-market adjustments related to the Company's long term incentive plan ("LTIP") program and net income (loss) from projects accounted for using the equity method, but including "Equity Project EBITDA" from projects accounted for using the equity method.

OPERATING AND FINANCIAL RESULTS

Revenue for the three months ended June 30, 2017 of \$686 million was lower by \$153 million, or 18%, compared to the same period in 2016. The largest decrease occurred in the Mining segment (\$103 million) where higher revenue in contract mining (\$10 million) was more than offset by decreased site installation work in the commodity mining sector (\$108 million) and lower revenue from civil and foundations projects (\$5 million). Revenue in the Energy segment was lower (\$28 million) as an increase in utilities operations (\$6 million) was offset by lower revenue in industrial operations (\$34 million). In the Infrastructure segment, revenue was lower (\$35 million) as an increase in social infrastructure operations (\$14 million) was more than offset by lower volume in transportation (\$46 million) and heavy civil operations (\$3 million). Higher revenue in the Concessions segment (\$36 million) was largely offset by higher inter-segment eliminations (\$30 million) related to revenue between the Concessions and Infrastructure segments.

Operating profit of \$5.3 million for the second quarter of 2017 decreased by \$7.0 million compared to operating profit of \$12.3 million in 2016, despite an increase

in gross profit of \$1.8 million. Gross profit increases occurred in: Concessions (\$12.4 million), from the commencement of the Bermuda International Airport Redevelopment Project in 2017, at the Corporate level as part of Other and Eliminations (\$6.7 million), due to the cost of a legal dispute that was settled in the second quarter of 2016 and in the Infrastructure segment (\$3.1 million), primarily from an increase in volume and gross profit margin in heavy civil operations partially offset by lower volume and gross profit margin on roadbuilding work in transportation operations. Gross profit in the Mining segment decreased in the quarter (\$15.0 million) due primarily to lower volume and gross profit margin in the commodity mining sector. Gross profit was also lower in the Energy segment (\$5.3 million) due primarily to lower industrial volume in Western Canada, and lower gross profit margin in the utilities sector in Ontario.

Reported backlog as at June 30, 2017 of \$4,365 million compares to backlog of \$4,365 million as at March 31, 2017 and \$4,889 million as at June 30, 2016. New contract awards of \$686 million and \$1,522 million were booked in the second quarter and year-to-date 2017, respectively, compared to \$1,120 million and \$3,158 million in the same periods in the prior year.

Aecon does not report as backlog the significant number of contracts and arrangements in hand where the exact amount of work to be performed cannot be reliably quantified or where a minimum number of units at the contract specified price per unit is not guaranteed. Examples include time and material and some cost-plus and unit priced contracts where the extent of services to be provided is undefined or where the number of units cannot be estimated with reasonable certainty. Other examples include the value of construction work managed under construction management advisory contracts, concession agreements, multi-year operating and maintenance service contracts where the value of the work is not specified, supplier of choice arrangements and alliance agreements where the client requests services on an as-needed basis. None of the expected revenue from these types of contracts and arrangements is included in backlog. Therefore, Aecon's effective backlog at any given time is greater than what is reported.

REPORTING SEGMENTS

Aecon reports its financial performance on the basis of four segments: Infrastructure, Energy, Mining, and Concessions.

INFRASTRUCTURE SEGMENT

The Infrastructure segment includes all aspects of the construction of both public and private infrastructure, primarily in Canada, and on a selected basis, internationally. The Infrastructure segment focuses primarily on the transportation, heavy civil, and water and wastewater treatment markets.

Financial Highlights

\$ millions	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$ 234.8	\$ 269.4	\$ 383.5	\$ 423.6
Gross profit	\$ 21.8	\$ 18.7	\$ 22.0	\$ 17.6
Adjusted EBITDA	\$ 8.4	\$ 8.6	\$ (7.4)	\$ (6.3)
Operating profit (loss)	\$ 3.3	\$ 3.5	\$ (16.6)	\$ (15.5)
Gross profit margin	9.3%	6.9%	5.7%	4.2%
Adjusted EBITDA margin	3.6%	3.2%	(1.9)%	(1.5)%
Operating margin	1.4%	1.3%	(4.3)%	(3.7)%
Backlog			\$ 2,034	\$ 2,121

For the three months ended June 30, 2017, revenue in the Infrastructure segment of \$235 million was \$35 million, or 13%, lower than the same period in 2016. Revenue was higher in social infrastructure (\$14 million) primarily due to the Bermuda International Airport Redevelopment Project, which commenced construction in the first quarter of 2017. Offsetting this increase was lower revenue in transportation operations (\$46 million) due to lower roadbuilding volume in Ontario which was impacted by unusually wet weather in the quarter. Revenue also decreased in heavy civil operations (\$3 million) as lower volume in Western Canada more than offset increased civil construction work in Ontario.

In the second quarter of 2017, operating profit in the Infrastructure segment of \$3.3 million decreased by \$0.2 million compared to an operating profit of \$3.5 million in the same period in 2016. Operating profit increased in heavy civil operations by \$4.9 million driven by an increase in volume and gross profit margin on projects in Eastern Canada. Operating profit decreased in transportation operations (\$4.8 million) due primarily to lower volume and gross profit margin in roadbuilding work in Ontario with wet weather impacting productivity of roadbuilding work in the second quarter as well as overall volume.

Infrastructure backlog as at June 30, 2017 was \$2,034 million, \$87 million lower than the same time in 2016. The largest year-over-year decrease in backlog occurred in heavy civil operations (\$395 million) as the execution of existing projects, particularly in the transportation and hydroelectric sectors, outpaced new awards. Also, contributing to this decrease was lower backlog in the transportation sector primarily from roadbuilding projects in Ontario (\$66 million). Partially offsetting these decreases was higher backlog in social infrastructure (\$374 million) primarily from the award of the Bermuda International Airport Redevelopment Project, as well as from new awards in the water treatment sector.

New contract awards totalled \$160 million in the second quarter of 2017 and \$754 million year-to-date, compared to \$198 million and \$350 million, respectively, in the same periods last year.

ENERGY SEGMENT

Financial Highlights

\$ millions	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$ 329.5	\$ 357.5	\$ 697.1	\$ 658.8
Gross profit	\$ 28.8	\$ 34.1	\$ 53.1	\$ 46.9
Adjusted EBITDA	\$ 17.7	\$ 19.0	\$ 29.6	\$ 19.4
Operating profit	\$ 12.5	\$ 14.0	\$ 18.2	\$ 9.1

Gross profit margin	8.8%	9.5%	7.6%	7.1%
Adjusted EBITDA margin	5.4%	5.3%	4.2%	3.0%
Operating margin	3.8%	3.9%	2.6%	1.4%
Backlog		\$	2,254	\$ 2,540

Revenue in the second quarter of 2017 of \$330 million in the Energy segment was \$28 million, or 8%, lower than the same period in 2016. Higher revenue in the utilities sector (\$6 million) was more than offset by lower revenue (\$34 million) from industrial operations. The increase in utilities was driven primarily by higher gas distribution volume in Eastern Canada. Higher industrial revenue in Eastern Canada (\$50 million), largely from increased nuclear power work, was more than offset by lower revenue in Western Canada (\$84 million), where a higher volume of pipeline facilities work was offset by lower fabrication, module assembly, and field construction activity in Alberta.

For the three months ended June 30, 2017, operating profit of \$12.5 million decreased by \$1.5 million compared to operating profit of \$14.0 million in the same period of the prior year. Operating profit increased in industrial operations by \$0.2 million as an increase in gross profit in Eastern Canada and lower MG&A costs, as a result of restructuring initiatives, combined to more than offset the impact of lower gross profit in Western Canada. Operating profit from utilities operations decreased by \$1.7 million due primarily to lower gross profit margin in Ontario.

Backlog as at June 30, 2017 of \$2,254 million was \$286 million lower than the same time in 2016, driven by a decrease in industrial operations (\$508 million), primarily in Eastern Canada (\$476 million) due to the continued execution of significant projects in the nuclear and gas sectors. Backlog in Western Canada industrial operations was also down year-over-year (\$32 million) due to fewer new awards in the oil sector. Partially offsetting these decreases was higher backlog in utilities operations (\$222 million) due to higher awards in the telecommunications and gas distribution sectors in Ontario.

New contract awards of \$426 million in the second quarter of 2017 were \$262 million lower than in the same period in 2016, and new awards of \$579 million for the first six months of 2017 were \$1,931 million lower compared to 2016 due in large part to the Darlington Nuclear Refurbishment Project, which was awarded in the first quarter of 2016.

MINING SEGMENT

The Mining segment offers turnkey services consolidating Aecon's mining capabilities and services across Canada, including both mine site installations and contract mining. This segment offers construction services that span the scope of a project's life cycle: from overburden removal and resource extraction, to processing and environmental reclamation.

Financial Highlights

\$ millions	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$ 116.9	\$ 220.0	\$ 283.7	\$ 456.2
Gross profit	\$ 8.4	\$ 23.4	\$ 33.7	\$ 56.7
Adjusted EBITDA	\$ 1.4	\$ 16.9	\$ 20.6	\$ 43.0
Operating profit (loss)	\$ (4.7)	\$ 11.8	\$ 5.1	\$ 28.4
Gross profit margin	7.2%	10.7%	11.9%	12.4%
Adjusted EBITDA margin	1.2%	7.7%	7.3%	9.4%
Operating margin	(4.0)%	5.4%	1.8%	6.2%
Backlog		\$	63	\$ 228

Mining segment revenue in the second quarter of 2017 of \$117 million was \$103 million, or 47%, lower than the same period a year earlier. Most of the decrease was due to lower volume in the commodity mining sector (\$108 million), as a large site installation project achieved substantial completion in the second quarter of 2017. Revenue from civil and foundations work related to mining projects was also lower (\$5 million). Contract mining revenue was higher quarter-over-quarter (\$10 million) as traditional contract mining work increased compared to 2016 when operations were negatively impacted by the Alberta wildfires.

For the quarter ended June 30, 2017, operating profit in the Mining segment decreased by \$16.5 million, from operating profit of \$11.8 million in the second quarter of 2016 to an operating loss of \$4.7 million in 2017. The majority of the decrease was the result of lower volume and lower gross profit margin in the commodity mining sector (\$16.4 million), as well as from higher depreciation and increased equipment fleet maintenance costs in contract mining (\$1.9 million). Operating profit from civil and foundations projects increased due to higher gross profit margin on work in Ontario (\$1.8 million).

Backlog as at June 30, 2017 of \$63 million was \$165 million lower than at the same time last year. Backlog was lower in both the commodity mining (\$160 million), and contract mining (\$5 million) sectors, as the execution of existing work outpaced new awards in each area, while civil and foundations backlog was unchanged over the previous year. New contract awards of \$93 million in the second quarter of 2017, and \$178 million year-to-date 2017, respectively, were \$148 million and \$129 million lower than in the same periods in 2016.

CONCESSIONS SEGMENT

The Concessions segment includes the development, financing, design, construction and operation of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer and other Public-Private Partnership contract structures.

Financial Highlights

\$ millions	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$ 37.3	\$ 1.0	\$ 73.9	\$ 1.8

Gross profit	\$	12.4	\$	-	\$	13.6	\$	0.2
Income from projects accounted for using the equity method	\$	1.0	\$	0.2	\$	2.0	\$	0.6
Adjusted EBITDA	\$	15.4	\$	1.7	\$	19.1	\$	2.8
Operating profit (loss)	\$	4.4	\$	(0.7)	\$	3.7	\$	(1.4)
Backlog			\$	14	\$	-		

Aecon holds a 100% interest in Bermuda Skyport Corporation Limited ("Skyport"), the concessionaire responsible for the Bermuda airport's operations, maintenance and commercial functions, and the entity that will manage and coordinate the overall delivery of the redevelopment project over a 30-year concession term. Aecon's participation in Skyport is consolidated and as such is accounted for in the consolidated financial statements by reflecting, line by line, the assets, liabilities, revenue and expenses of Skyport. However, Aecon's participation in the Eglinton Crosstown Light Rail Transit ("LRT") and Waterloo LRT projects are joint ventures which are accounted for using the equity method.

Revenue in the Concessions segment for the second quarter was \$37 million, an increase of \$36 million compared to the same period in 2016. The higher revenue was driven primarily by Skyport, which was awarded the Bermuda International Airport Redevelopment Project in the first quarter of 2017. Included in Skyport's revenue for the second quarter was \$17 million of construction revenue that was eliminated on consolidation as inter-segment revenue.

For the three month period ended June 30, 2017, operating profit of \$4.4 million increased by \$5.1 million compared to the same period in 2016. The higher operating profit resulted from the Bermuda airport redevelopment project and LRT concession projects in Ontario.

Except for Operations and Maintenance ("O&M") activities under contract for the next five years, Aecon does not include in its reported backlog expected revenue from concession agreements. As such, while Aecon expects future revenue from its concession assets, no concession backlog, other than from O&M activities, is reported.

OUTLOOK

"Based on lower revenue in the first half of 2017, primarily driven by lower activity in our Mining segment, and an expectation for Mining revenue to be lower in the second half of 2017 when compared to the prior year, we expect lower overall revenue in 2017," said John M. Beck. "This lower volume is offset by continued expectations for Adjusted EBITDA margin improvement which will result in an overall improvement in Adjusted EBITDA for the year. The second half of 2017 is expected to be stronger than the first half of 2017 reflecting the typical seasonality of Aecon's work."

CONSOLIDATED RESULTS

The consolidated results for the three and six months ended June 30, 2017 and 2016 are available at the end of this news release.

BALANCE SHEET HIGHLIGHTS

\$ thousands (unaudited)	June 30	December 31
	2017	2016
Cash and cash equivalents and restricted cash	\$ 579,041	\$ 231,858
Other current assets	1,257,017	1,157,442
Property, plant and equipment	443,189	450,368
Other long-term assets	327,929	165,817
Total Assets	\$ 2,607,176	\$ 2,005,485
Current liabilities	\$ 1,020,705	\$ 864,764
Long-term debt	81,797	86,403
Non-recourse project debt	365,040	-
Convertible debentures (long term portion)	166,705	164,778
Other long-term liabilities	241,074	135,941
Equity	731,855	753,599
Total Liabilities and Equity	\$ 2,607,176	\$ 2,005,485

CONFERENCE CALL

A conference call has been scheduled for Friday, July 28, 2017 at 9:30 a.m. (ET) to discuss Aecon's second quarter 2017 financial results. Participants should dial 416-981-9073 or 1-800-676-6259 at least 10 minutes prior to the conference time. An accompanying presentation of the second quarter 2017 financial results is available at www.aecon.com/investing. For those unable to attend the call, a replay will be available after 12 p.m. at 1-800-558-5253 or 416-626-4100 until midnight on August 4, 2017. The reservation number is 21854746.

ABOUT AECON

Aecon Group Inc. (TSX: ARE) is a Canadian leader and partner-of-choice in construction and infrastructure development. Aecon provides integrated turnkey services to private and public sector clients in the Infrastructure, Energy and Mining sectors and provides project management, financing and development services through its Concessions segment. Aecon is also pleased to be consistently recognized as one of the *Best Employers in Canada*. For more information, please visit www.aecon.com and follow us on Twitter at [@AeconGroup](https://twitter.com/AeconGroup).

STATEMENT ON FORWARD-LOOKING INFORMATION

The information in this press release includes certain forward-looking statements. These forward-looking statements are based on currently available competitive, financial and economic data and operating plans but are subject to risks and uncertainties. In addition to events beyond Aecon's control, there are factors which could cause actual or future results, performance or achievements to differ materially from those expressed or inferred herein including, but not limited to: interest and foreign exchange rates, global equity and capital markets, business competition and operational and reputational risks, including Large Project Risk and Contractual Factors. Readers are referred to the specific risk factors relating to and affecting Aecon's business and operations as filed by Aecon pursuant to applicable securities laws. Forward-looking statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, ongoing objectives, strategies and outlook for Aecon. Forward-looking statements, may in some cases be identified by words such as "will," "plans," "believes," "expects," "anticipates," "estimates," "projects," "intends," "should" or the negative of these terms, or

similar expressions. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Aecon undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	For the three months ended		For the six months ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Revenue	\$ 686,164	\$ 839,314	\$ 1,361,030	\$ 1,530,013
Direct costs and expenses	(614,593)	(769,563)	(1,238,414)	(1,415,146)
Gross profit	71,571	69,751	122,616	114,867
Marketing, general and administrative expenses	(45,060)	(45,161)	(93,728)	(89,622)
Depreciation and amortization	(24,428)	(14,431)	(45,073)	(33,458)
Income from projects accounted for using the equity method	2,098	1,930	2,980	2,167
Other income	1,159	251	1,244	2,086
Operating profit (loss)	5,340	12,340	(11,961)	(3,960)
Finance income	143	26	448	74
Finance costs	(6,064)	(5,788)	(11,345)	(10,875)
Profit (loss) before income taxes	(581)	6,578	(22,858)	(14,761)
Income tax recovery	1,388	508	5,319	5,060
Profit (loss) for the period	\$ 807	\$ 7,086	\$ (17,539)	\$ (9,701)
Basic earnings (loss) per share	\$ 0.01	\$ 0.12	\$ (0.30)	\$ (0.17)
Diluted earnings (loss) per share	\$ 0.01	\$ 0.12	\$ (0.30)	\$ (0.17)

SOURCE Aecon Group Inc.

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