atrium research

Research Note

ADF Group – Strong Q2 Results with Revenue Up 79% YoY

Nicholas Cortellucci, CFA | Equity Research Analyst | ncortellucci@atriumresearch.ca | 647-391-3314
Luca Perna | Equity Research Associate | lperna@atriumresearch.ca | 647-969-1027

Rating	**Target Price**
BUY	**$21.00**
Unchanged	*Unchanged*

September 10, 2026

Disseminated on Behalf of ADF Group

All figures in CAD unless otherwise stated

ADF Group Inc.	**DRX:TSX**
Rating	BUY
Target Price	$21.00
Return to Target	53%

Market Data	
Share Price	$13.75
Average Daily TSX Volume (K)	33.8
FD ITM Shares (M)	28.6
Market Cap ($M)	$392.6
Cash & Marketable Securities ($M)	$91.4
Debt ($M)	$38.8
Enterprise Value ($M)	$340.0

FYE Jan 31	**FY26A**	**FY27E**	**FY28E**
Sales ($M)	$258.7	$366.0	$451.1
Gross Margin (%)	23%	22%	26%
Adj. EBITDA ($M)	$43.5	$55.7	$93.8
Adj. EBITDA Margin (%)	17%	15%	21%
Net Income ($M)	$26.3	$32.8	$61.6
EPS (Basic & Diluted)	$0.93	$1.15	$2.17
FCFF ($M)	$42.0	($0.7)	$33.0

Valuation	**FY26A**	**FY27E**	**FY28E**
EV/EBITDA	7.8x	6.1x	3.6x
P/E	14.9x	12.0x	6.4x
FCF Yield (%)	12%	0%	10%
P/B	2.5x	2.1x	1.8x

Please refer to the applicable disclosures on the back page
Source: Atrium Research, CapitalIQ, Company Documents

ADF Group Inc. is a North American leader in the design and engineering of connections, fabrication, including the application of industrial coatings, and installation of complex steel structures, heavy steel built-up components, as well as in miscellaneous and architectural metals for the non-residential infrastructure sector.

What you need to know:

- ADF reported strong Q2 financial results including revenue of $95.0M (+79% YoY) vs. our estimate of $85.8M.
- EBITDA of $8.4M (+128% YoY, 9% margin), below our expectations due to $5.9M in DSU/PSU expense. Adjusting for this, EBITDA would have been in line with our forecast.
- The order backlog reached $693.7M (vs. $645.8M in Q1), including $243.3M from Groupe LAR.
- ADF ended the quarter with $91.4M in cash against $38.8M in debt, generating $30.5M in FCFF largely from A/R reduction.

This morning, ADF Group (DRX:TSX) reported Q2 financial results, with topline beating our expectations and profitability missing due to non-recurring factors explained below. Revenue growth of 79% was driven by LAR's contribution and the ramp of newly signed contracts, while EBITDA still outpaced revenue growth, being up 128% YoY. ADF is well positioned in our view, with the backlog growth supported by positive trends in its end markets. **We are maintaining our BUY rating and target price of $21.00/share on ADF Group.**

Key Highlights

- Revenue for Q2/27 came in at $95.0M (+79% YoY), well ahead of our estimate of $85.8M. LAR contributed $48.3M in the quarter including a $20.2M claim from a customer. 45% of revenue was realized in US dollars, down from 91% in Q2/26 on the LAR acquisition and the new contract mix in the backlog.
- The backlog came in at a record of $693.7M (vs. $645.8M in Q1) comprised of 51% fabrication hours and excluding long-term contracts. LAR's backlog was reported at $243.3M (35% of the total). ADF signed $127.0M in new contracts in June (read our note here).
- Gross margin for Q2 was 18.7% vs. our estimate of 23.0% and 20.7% in Q2 last year, with gross profit of $17.8M (+63% YoY). This was impacted by higher input costs (steel) and customs duties. LAR contributed $5.9M (12% margin), assisted by the settlement of a claim against a customer.
- Management specified that 13,000 fabrication and coating hours were spent at Terrebonne for LAR's new plant; as such, these hours did not generate revenue and were capitalized. Associated overhead costs for these hours were expensed, however, lowering gross profit.
- Q2 adjusted EBITDA came in at $8.4M (+128% YoY, 9% margin) compared to our estimate of $14.7M (17% margin) and $3.7M (7% margin) in Q2/26. If we adjust this for the DSU/PSU expense, adjusted EBITDA would have been $14.3M, aligning with our estimate.
- EPS in Q2 was $0.10 (or $3.0M in net income) compared to our estimate of $0.32/share (or $9.2M) and $0.03 last year. This was impacted by the DSUs and $2.3M in FX losses, and would have been in line otherwise.
- OCF before WC changes was $13.9M and after WC changes was $37.0M. ADF spent $6.4M on capex in Q2, translating to $30.5M in FCFF in Q2.
- The Company ended the quarter with $91.4M in cash and $38.8M in debt.

	Q2/27A	**Atrium Est.**	**YoY**
Revenue ($M)	**$95.0**	$85.8	+79%
Gross Margin (%)	**18.7%**	23.0%	-194 bps
Adj. EBITDA ($M)	**$8.4**	$14.7	+128%
Adj. EBITDA Margin (%)	**8.9%**	17.2%	+190 bps
EPS ($)	**$0.10**	$0.32	+233%

Figure 1: Q2 Financials Summary

Outlook

Management stated that it is continuing to focus on elements it can control such as liquidity management, backlog growth, and the integration of LAR including its expansion project. There remains uncertainty and risk regarding the U.S. tariffs, but ADF's strong balance sheet and diversified revenue base mitigates this. Over the six-month period, 66% of revenue came from three clients compared to 79% from two clients in the period last year, pointing to stronger diversification. As mentioned above, this combines with lower US revenue as the Company has shifted its focus to Canada.

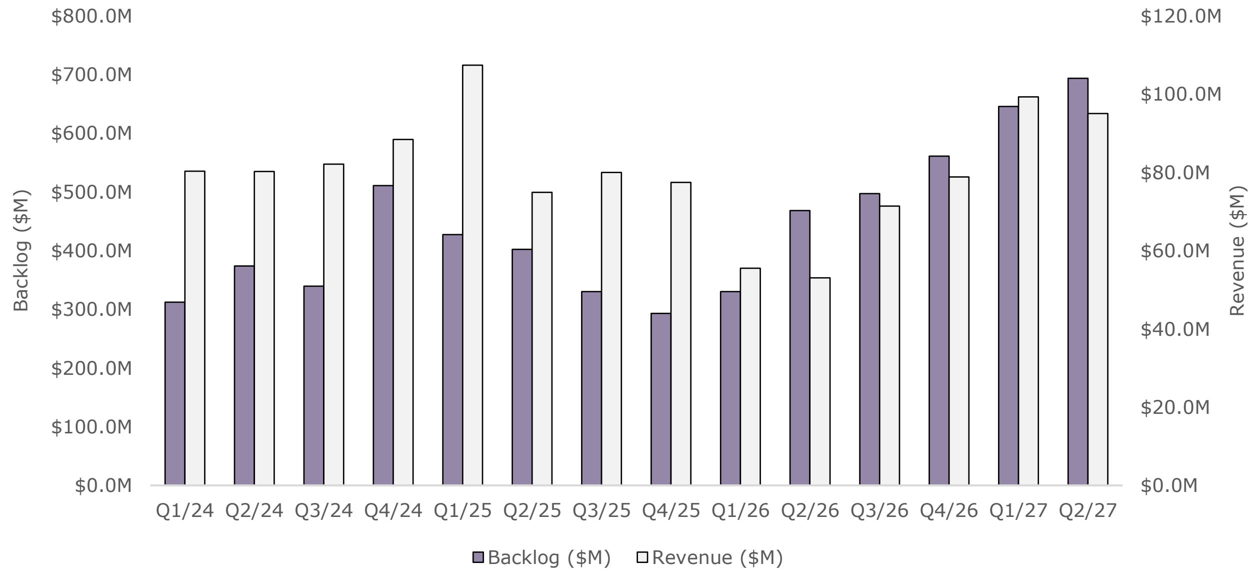

Figure 2: Quarterly Backlog & Revenue

Our Take

Q2 was solid despite some messiness from the aspects mentioned above. While Q2 revenue was just lower than the $99.3M reported in Q1, it is largely above the $50-80M range that ADF was reporting last year. Adjusting for the DSU expense, EBITDA margins were 15% which is roughly average for ADF. The caveat is that revenue had a $20.2M claim supporting it (and $5.3M in gross margin), making true operational metrics lower. As such, our estimates move slightly lower, being impacted by LAR's legacy projects, higher input costs, and slower negotiations due to tariff uncertainty.

We will reiterate that Canada is going through an infrastructure spending cycle (see section below on Churchill Falls and Gull Island) and ADF has plenty of excess capacity to service this across the many industries it services. We remain excited about the capex program at LAR and the opportunity for transformational growth; we remind readers of ADF's track record of successful capex programs. Our target price remains unchanged at $21/share, still based on 6.0x FY28E EBITDA.

Conference Call Takeaways

- Q2 is not representative of normalized gross margin. LAR legacy projects are pulling them down. Q3 and Q4 will improve but not too drastically. SG&A is stable (excluding the SBC movement).
- LAR expansion is on time and on budget. The structure is going up and the equipment has been ordered. ADF will spend US$10M in capex at Great Falls to increase capacity and improve efficiencies. Full year capex will be around C$40M and the financings are soon to be finalized.
- 64% of the backlog is from Canada, lower than Q1 from the new contracts.
- New US tariff proclamations from Tuesday do not impact ADF, but increase uncertainty in its negotiations.
- CFO hiring process is going well and an announcement will be coming soon. JF Boursier served as CFO for 16 years and will move to a strategic advisor role to ensure a smooth transition.

Proposed $10M IQ Financing for Métabetchouan Project

On July 2nd, ADF announced its intention to enter into an agreement with Investissement Québec (IQ) for a loan of up to $10.0M to finance capital expenditures related to the expansion of its subsidiary Groupe LAR Inc. in Métabetchouan. The Company also entered into agreements under the ESSOR program (governed by IQ on behalf of the Government of Quebec) for $4.0M interest-free for the Métabetchouan Project and $1.0M at a fixed rate of 4.1% for the Terrebonne Project. These financings are in addition to the previously announced $12.5M contribution agreement with the Government of Canada under the Strategic Response Fund and remain contingent upon the conclusion of the underlying agreements between the parties.

New Churchill Falls & Gull Island Deal

On August 17th, Prime Minister Carney, alongside Quebec Premier Christine Fréchette, Newfoundland and Labrador Premier Tony Wakeham, and the CEOs of Hydro-Quebec and Newfoundland and Labrador Hydro, announced an agreement to upgrade and expand the Churchill Falls Generating Station and develop the Gull Island project and related transmission. The federal government will provide $10B in financing toward the Churchill Falls upgrade and expansion, the Gull Island hydroelectricity project, co-investment with the Innu of Labrador in a new Labrador onshore wind project, and associated transmission lines. Collectively, the projects represent nearly $70B in investment and 14,000 MW of clean, renewable power, nearly tripling Churchill Falls' current generating capacity, and are expected to support 23,000 jobs and contribute $31B to Canada's GDP through the early 2040s.

Catalysts

- Quarterly Financial Results – Ongoing
- New Contract Announcements – Ongoing
- LAR Acquisition Integration & Capex Program – Ongoing

Why We Like ADF

- ADF has a solid track record of growing revenue through its history; however, we believe it has entered a multi-year growth phase given the tailwinds in its key markets and expanded facility capacity. While growth has been bumpy because of the U.S. tariffs, we believe there is still large growth ahead.
- The Company's topline growth is supported by significant tailwinds in government infrastructure spending and non-residential construction growth.
- ADF has acquired LAR Group, which has diversified its revenue further into Canada and into the growing hydroelectricity market.
- ADF has a clean balance sheet, with a cash position of $91.4M in Q2. This allows the Company to take on larger-scale projects and weather the tariff situation.
- ADF is a family-owned business with Jean, Pierre, and Marise Paschini holding 42% of the shares outstanding and >80% of the voting rights. As such, management is highly incentivized to optimize returns and not dilute shareholders.

Tear Sheet

Market Data	
Ticker	DRX:TSX
Stock Price	$13.75
Rating	BUY
Target Price	$21.00
Upside	53%
Market Cap ($M)	$392.6
Cash ($M)	$91.4
Debt ($M)	$38.8
EV ($M)	$340.0

Capital Structure	
Basic Shares Outstanding (M)	28.6
Warrants (M)	0.0
Options (M)	0.0
FD Shares (M)	28.6
FD ITM Shares (M)	28.6

Ownership	
Management & Board	42%
Marshall Barwick Inc.	6%
Retail & Institutions	52%

Financial Estimates	FY25A	Q1/26A	Q2/26A	Q3/26A	Q4/26A	FY26A	Q1/27A	Q2/27A	Q3/27E	Q4/27E	FY27E	FY28E
Revenue ($M)	**339.6**	**55.5**	**53.0**	**71.4**	**78.8**	**258.7**	**99.3**	**95.0**	**85.4**	**86.3**	**366.0**	**451.1**
% YoY	*3%*	*-48%*	*-29%*	*-11%*	*2%*	*-24%*	*79%*	*79%*	*20%*	*9%*	*41%*	*23%*
COGS ($M)	232.4	43.3	42.1	51.7	61.9	199.0	75.2	77.2	66.6	66.4	285.5	336.1
Gross Profit ($M)	**107.2**	**12.2**	**11.0**	**19.7**	**16.9**	**59.8**	**24.0**	**17.8**	**18.8**	**19.8**	**80.4**	**115.0**
Gross Margin	*32%*	*22%*	*21%*	*28%*	*21%*	*23%*	*24%*	*19%*	*22%*	*23%*	*22%*	*26%*
Adj. EBITDA ($M)	**91.3**	**10.4**	**3.7**	**18.4**	**11.1**	**43.5**	**18.5**	**8.4**	**13.8**	**14.9**	**55.7**	**93.8**
Adj. EBITDA Margin	*27%*	*19%*	*7%*	*26%*	*14%*	*17%*	*19%*	*9%*	*16%*	*17%*	*15%*	*21%*
Net Income ($M)	56.8	8.7	0.9	10.3	6.4	26.3	12.0	3.0	8.5	9.3	32.8	61.6
EPS (Basic)	1.84	0.30	0.03	0.36	0.22	0.93	0.42	0.10	0.30	0.32	1.15	2.17
FCFF ($M)	47.6	24.3	(18.8)	1.6	34.9	42.0	2.8	31.6	(31.9)	(3.2)	(0.7)	33.0

Figure 3: Tear Sheet

Estimate Revisions

	Q3/27E		Q4/27E		FY27E		FY28E	
	New	Previous	New	Previous	New	Previous	New	Previous
Revenue ($M)	**$85.4**	$87.1	**$86.3**	$89.0	**$366.0**	$361.2	**$451.1**	$452.3
Gross Margin (%)	**22.0%**	24.0%	**23.0%**	24.5%	**22.0%**	23.9%	**25.5%**	26.0%
Adj. EBITDA ($M)	**$13.8**	$15.8	**$14.9**	$16.6	**$55.7**	$65.7	**$93.8**	$96.2
EPS ($)	**$0.30**	$0.35	**$0.32**	$0.37	**$1.15**	$1.47	**$2.17**	$2.23

Figure 4: Estimate Revisions

Disclosures

Analyst Certification
Each authoring analyst of Atrium Research on this report certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated securities discussed (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research, (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer, (iv) the analyst does not own common shares, options, or warrants in the company under coverage, (v) the analysts adhere to the CFA Institute guidelines for analyst independence, and (vi) this report belongs to the CFA Institute.

Atrium Research Ratings System
BUY: The stock is expected to generate returns of over 20% over the next 24 months.
HOLD: The stock is expected to generate returns of 0-20% over the next 24 months.
SELL: The stock is expected to generate negative returns over the next 24 months.
NOT RATED (N/R): Atrium does not provide research coverage on the respective company.

COVERED COMPANIES
57

About Atrium Research
Atrium Research provides institutional quality company sponsored research on public equities in North America. Our investment philosophy takes a 3-5 year view on equities currently being overlooked by the market. Our research process emphasizes understanding the key performance metrics for each specific company, trustworthy management teams, and an in-depth valuation analysis. For further information on our team, please visit https://www.atriumresearch.ca/team.

General Information
Atrium Research Corporation (ARC) has created and distributed this report. This report is a general discussion of the merits and risks of a security or securities only, was prepared for general circulation, is not in any way meant to be tailored to the needs and circumstances of any recipient and does not provide investment recommendations specific to individual investors. As such, the securities discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation, utilizing their own financial advisors as they deem necessary.

This report is based on information we considered reliable; we have not been provided with any material non-public information by the company (or companies) discussed in this report. We do not represent that this report is accurate or complete and it should not be relied upon as such; further any information in this report is subject to change without any formal or type of notice provided. Investors should consider this report as only one factor in their investment decisions; this report is not intended as a replacement for investor's independent judgment.

ARC is not a CIRO registered dealer and does not offer investment-banking services to its clients. ARC (and its employees) do not own, trade or have a beneficial interest in the securities of the companies we provide research services for and does not serve as an officer or Director of the companies discussed in this report. ARC does not make a market in any securities. This report is not disseminated in connection with any distribution of securities and is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

ARC does not make any warranties, expressed or implied, as to the results to be obtained from using this information and makes no express of implied warranties for particular use. Anyone using this report assumes full responsibility for whatever results they obtain. This report does not constitute a personal recommendation or take into account any financial or investment objectives, portfolio holdings, strategy, financial situations or needs of individuals. This report has not been prepared for any particular individual or institution. As such, any advice or recommendation in this report may not be suitable for a particular recipient. ARC assumes recipients of this report are capable of evaluating the information contained herein and of exercising independent judgment. A recipient of this report should not make any investment decision without first considering whether any advice or recommendation in this report is suitable for the recipient based on the recipient's particular circumstances and, if appropriate or otherwise needed, seeking professional advice, including tax advice. ARC does not perform any suitability or other analysis to check whether an investment decision made by the recipient based on this report is consistent with a recipient's investment objectives, portfolio holdings, strategy, financial situation, or needs. Past performance is not an indication or guarantee of future results, future returns are not guaranteed, and loss of original capital may occur. By providing this report, ARC does not accept any authority, discretion, or control over the management of the recipient's assets. Any action taken by the recipient of this report, based on the information in the report, is at the recipient's sole judgment and risk. The recipient must perform his or her own independent review of any prospective investment. Neither ARC nor any person employed by ARC accepts any liability whatsoever for any direct or indirect loss resulting from any use of its research or the information it contains.

This report contains "forward-looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Such statements involve a number of risks and uncertainties such as competition, market demand, and the company's (and management's) ability to correctly forecast financial estimates. As a result, the actual results, events, performance or achievements of the financial product may be materially different from those expressed or implied in such statements. Please see the Company's MD&A "Risk Factors" Section for a more complete discussion of company specific risks for the company discussed in this report. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. ARC assumes no obligation to maintain or update this report based on subsequent information and events.

ARC is receiving a cash compensation from ADF Group Inc. for 24-months of research coverage. This report was disseminated on behalf of ADF Group Inc. ARC retains full editorial control over its research content. ARC does not have investment banking relationships and does not expect to receive any investment banking driven income. ARC reports are primarily disseminated electronically and, in some cases, printed form. Electronic reports are simultaneously available to all recipients in any form. This report or any portion hereof may not be copied, reprinted, sold, or redistributed or disclosed by the recipient or any third party, by content scraping or extraction, automated processing, or any other form or means, without the prior written consent of ARC. Any unauthorized use is prohibited. Neither ARC nor any of its respective directors, officers or employees is responsible for guaranteeing the financial success of any investment, or accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

To receive future reports on covered companies please visit https://www.atriumresearch.ca/research or subscribe on our website.

This report has been prepared independently of any issuer of securities mentioned herein and not as agent of any issuer of securities. No ARC personnel have authority whatsoever to make any representations or warranty on behalf of the Company. Any comments or statements made herein are those of ARC.

The information contained herein is not, and under no circumstances is to be construed as, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators, if applicable, and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon this research report, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.