

Research Note

ADF Group – Largest Contract in its History for $602M; Increasing TP

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Rating	Target Price
BUY	**$31.00**
Unchanged	*Prev. $21.00*

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Disseminated on Behalf of ADF Group

All figures in CAD unless otherwise stated

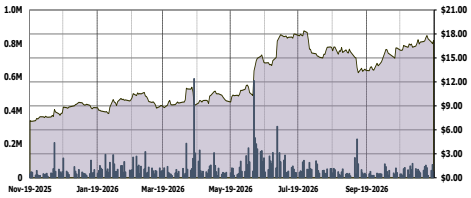
ADF Group Inc.	DRX:TSX
Rating	BUY
Target Price	$31.00
Return to Target	45%

Market Data	
Share Price	$21.42
Average Daily TSX Volume (K)	49.8
FD ITM Shares (M)	28.6
Market Cap ($M)	$611.6
Cash & Marketable Securities ($M)	$91.4
Debt ($M)	$38.8
Enterprise Value ($M)	$559.0

FYE Jan 31	FY26A	FY27E	FY28E
Sales ($M)	$258.7	$369.2	$747.8
Gross Margin (%)	23%	22%	23%
Adj. EBITDA ($M)	$43.5	$56.2	$130.2
Adj. EBITDA Margin (%)	17%	15%	17%
Net Income ($M)	$26.3	$33.1	$87.9
EPS (Basic & Diluted)	$0.93	$1.17	$3.09
FCFF ($M)	$42.0	($7.8)	$32.8

Valuation	FY26A	FY27E	FY28E
EV/EBITDA	12.8x	10.0x	4.3x
P/E	23.2x	18.5x	7.0x
FCF Yield (%)	8%	-1%	6%
P/B	3.9x	3.3x	2.8x

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 signed the largest contract in its history, totalling $602M. This compares to its prior PF backlog of $776M and market cap of $491M (based on yesterday's close).
- The contract is for a technology company, supporting a new mega manufacturing building in the northeastern U.S. This will be completed on a fast-tracked schedule over 18 months, beginning in a few weeks.
- We are largely increasing our estimates for FY28, resulting in an increased target price of $31.00/share.

This morning, ADF Group (DRX:TSX) announced the signing of the largest contract in its history, totalling $602M. This brings the backlog to over $1B, also an all-time high. This builds on the strong momentum ADF has been seeing in the business and supports rapid growth accelerating over the coming year. **We are maintaining our BUY rating and increasing our target price to $31.00/share (previously $21.00/share).**

The project is in the northeastern United States for a new mega manufacturing building in the information technology sector for an internationally renowned company. The work includes connection engineering, fabrication, and industrial coating. The project will be the largest of its kind in the sector and speaks to ADF's unique ability to work on large-scale and fast-tracked projects, a space in the industry that its peers cannot compete in.

Management stated that its teams are ready and mobilized, and it will make a $10M capital investment at the Terrebonne facility to support this contract. The project is on a fast-tracked schedule, beginning in the coming weeks in Terrebonne and extending just over 18 months.

Conference Call Takeaways

- PF backlog is just under $1.4B. Client could come back for more contracts; project is multi-phase.
- Standard margins on the project. Not complex engineering but has an aggressive schedule. Will utilize the robotics for ~70% of the project, increasing efficiency. No new capacity needed; other bays still operating as normal with room to grow.
- Tariffs will be absorbed by the client.
- Starting with the engineering and design process. Steel is procured by ADF and included in the $602M. Procuring the steel right away (as usual), the project will require 400 tonnes of steel at its peak
- Only 2 bids on this project. ADF was chosen due to experience, robotics, bonding capacity, balance sheet, and delivery schedule.
- Capex is for re-engineering a portion of storage area into production space. However, the project will be cashflow positive throughout.

Our Take

This contract is a major win for DRX and its shareholders, and to us, is reminiscent of the work ADF did for its Midwest pharma client (rumoured to be Eli Lilly) in FY25, yet this is even larger scale. That project was also completed on a fast-track schedule and resulted in the massive FY25 print of $339.6M in revenue and $91.3M in EBITDA. The stock went on a 700% run during this project execution (plus others) and traded at highs of >8x forward EBITDA (read note here).

Today's contract is the $602M spread across six quarters, for an incremental $100M of revenue per quarter; more than doubling ADF's current quarterly revenue of

~$80M. For our model, we assume a small contribution in Q4, before fully contributing to FY28. We are baking in some conservatism given we do not know the cadence of delivery and the fact that there are always potential for delays, now forecasting $748M in FY28 revenue vs. $451M prior (see Estimate Revisions below). We forecast lower gross margins than in our last note due to the scale of the project, but still higher than this year's levels. We are now assuming $130M in EBITDA and $88M in earnings in FY28. Going forward, we are watching for quarterly execution on deliveries and repeatability of orders in the technology sector to reaffirm long-term growth.

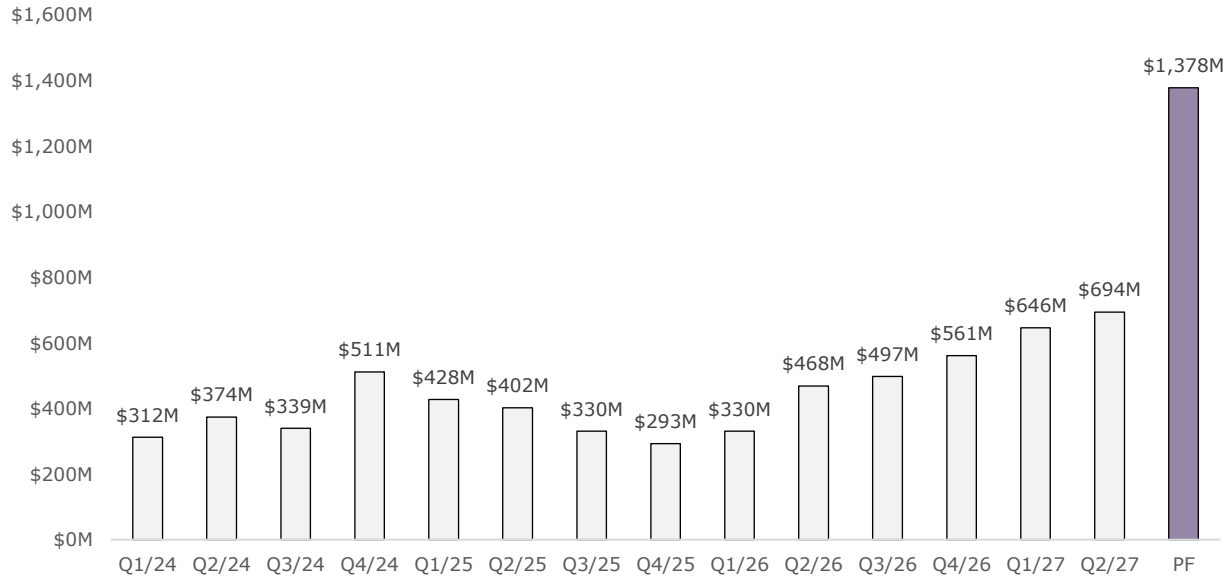


Figure 1: Backlog Growth

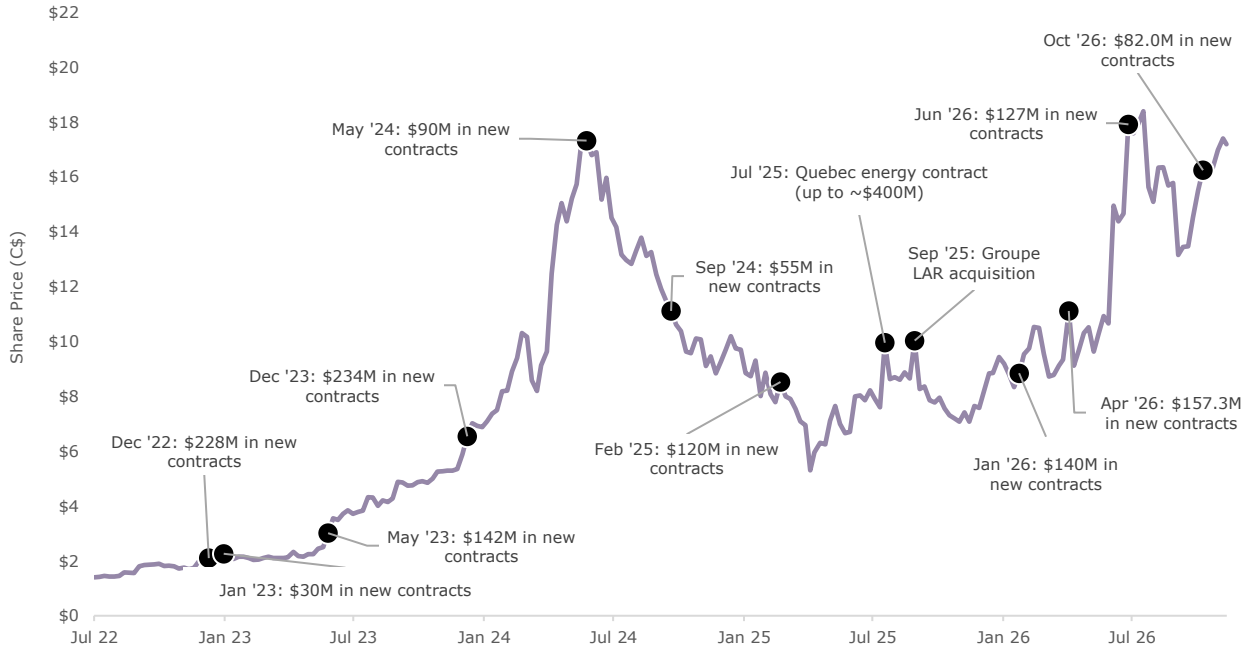


Figure 2: Stock Price History

Valuation

Our FY28 EBITDA estimate moves up from $93.8M to $130.2M, which is a 17% EBITDA margin (similar to FY26, with upside to outperform). We are also increasing our target multiple from 6.0x to 6.5x, reflecting the strong execution from management and tailwinds now working in ADF's favour. As such, our target price increases to $31.00/share (previously $21.00/share). The new target price is equivalent to 9.5x FY28 earnings.

Taken at face value, the contract adds $400M in FY28 revenue ($100M per quarter, not baking in any conservatism), and if we assume the 15% EBITDA margin from FY27, this adds $60M in EBITDA to FY28. Applying the 4.0x FY28 EBITDA that ADF was traded at prior to today, the contract should add $240M in equity value or ~$8/share. This compares to the $4/share rise in the stock price as of writing this report. Margins are the swing factor in this math, since we have seen quarterly EBITDA margins of over 30% reported by ADF in the past. Our model uses higher margins and a higher multiple for reference.

EBITDA Multiple Valuation	
FY28E EBITDA ($M)	$130.2
EV/EBITDA Multiple	6.5x
Enterprise Value	$846.6
(+) Cash	$91.4
(-) Debt	$38.8
Equity Value	$899.2
Target Price (Rounded)	**$31.00**
Upside	*45%*

Figure 3: Valuation Summary

Q3 Preview

DRX is expected to report Q3/27 financials (ending October 31st) in December. Our estimates for the quarter are found below:

- Revenue of $84.1M (+18% YoY)
- Gross margin of 22% vs. 28% in Q3/26
- Adjusted EBITDA of $13.6M (16% margin)
- Net income of $8.4M or $0.29/share, vs. $10.3M in Q3/26

Federal–Ontario Steel and Industry Package

On October 21st, Prime Minister Carney and Premier Ford announced an $8.7B package to support Ontario's steel, auto, and critical minerals sectors. It includes $5B for a new Joint Steel Action Fund to upgrade Ontario steel mills, $2.5B to help the auto industry pivot to EV production, and $1B for roads to the Ring of Fire. The goal of the steel fund is for Canada to become its own best customer, as the country imports over 6.5M tonnes of steel a year, often because domestic mills don't make the products Canadian companies need.

We view this as a positive for ADF, with Carney pointing to pipes, rail, ports, and defence as growing sources of steel demand. The Ring of Fire roads also add to the Ontario transmission buildout we highlighted back in June. U.S. tariff risk remains, with Trump threatening to raise steel and auto tariffs to 50% on January 1st, 2027. This reinforces the value of ADF's pivot toward Canadian work.

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.

Catalysts

- Quarterly Financial Results Including $602M Contract Delivery – Ongoing
- New Contract Announcements – Ongoing
- LAR Acquisition Integration & Capex Program – Ongoing

Tear Sheet

Market Data	
Ticker	DRX:TSX
Stock Price	$21.42
Rating	BUY
Target Price	$31.00
Upside	45%
Market Cap ($M)	$611.6
Cash ($M)	$91.4
Debt ($M)	$38.8
EV ($M)	$559.0

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 ($M)	**339.6**	**55.5**	**53.0**	**71.4**	**78.8**	**258.7**	**99.3**	**95.0**	**84.1**	**90.8**	**369.2**	**747.8**
% YoY	*3%*	*-48%*	*-29%*	*-11%*	*2%*	*-24%*	*79%*	*79%*	*18%*	*15%*	*43%*	*103%*
COGS ($M)	232.4	43.3	42.1	51.7	61.9	199.0	75.2	77.2	65.6	69.9	288.0	572.8
Gross Profit ($M)	**107.2**	**12.2**	**11.0**	**19.7**	**16.9**	**59.8**	**24.0**	**17.8**	**18.5**	**20.9**	**81.2**	**175.0**
Gross Margin	*32%*	*22%*	*21%*	*28%*	*21%*	*23%*	*24%*	*19%*	*22%*	*23%*	*22%*	*23%*
Adj. EBITDA ($M)	**91.3**	**10.4**	**3.7**	**18.4**	**11.1**	**43.5**	**18.5**	**8.4**	**13.6**	**15.6**	**56.2**	**130.2**
Adj. EBITDA Margin	*27%*	*19%*	*7%*	*26%*	*14%*	*17%*	*19%*	*9%*	*16%*	*17%*	*15%*	*17%*
Net Income ($M)	56.8	8.7	0.9	10.3	6.4	26.3	12.0	3.0	8.4	9.8	33.1	87.9
EPS (Basic)	1.84	0.30	0.03	0.36	0.22	0.93	0.42	0.10	0.29	0.34	1.17	3.09
FCFF ($M)	47.6	24.3	(18.8)	1.6	34.9	42.0	2.8	31.6	(31.3)	(10.9)	(7.8)	32.8

Figure 4: Tear Sheet

Estimate Revisions

	Q3/27E		Q4/27E		FY27E		FY28E	
	New	Previous	New	Previous	New	Previous	New	Previous
Revenue ($M)	**$84.1**	$85.4	**$90.8**	$86.3	**$369.2**	**$366.0**	**$747.8**	$451.1
Gross Margin (%)	**22.0%**	22.0%	**23.0%**	23.0%	**22.0%**	**22.0%**	**23.4%**	25.5%
Adj. EBITDA ($M)	**$13.6**	$13.8	**$15.6**	$14.9	**$56.2**	**$55.7**	**$130.2**	$93.8
EPS ($)	**$0.29**	$0.30	**$0.34**	$0.32	**$1.17**	**$1.15**	**$3.09**	$2.17

Figure 5: Estimate Revisions

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