

The quarter I flagged as the test just delivered, revenue up 79%, a record \$645.8M backlog, and the stock up ~30% on the print. Here's what actually drove it, what the numbers are quietly telling you, and where I stand now.

In my pre-earnings update I said the easy valuation gap had closed and DRX was now an execution story, that the June print was the line in the sand, and I wanted to see the rebuilt backlog converting into revenue with margins holding. The quarter answered the question. Revenue rose 78.8% to \$99.3M, net income climbed to \$12.0M (\$0.42/share versus \$0.30 a year ago), and the order backlog hit an all-time high of \$645.8M. The market's ~30% reaction is the verdict. But the move from "this worked" to "should you still own it:" requires getting under the headline, so let's do that honestly.

What drove the quarter

The revenue surge is real but has three distinct sources, and separating them matters. Of the \$43.7M in added revenue, roughly \$18.1M came from Groupe LAR, the acquisition that closed in September 2025, so a meaningful chunk of the "79% growth" is acquired, not organic. Strip LAR out and revenue still grew about 46% organically to \$81M, which is strong as well, but it's not 79%. The second driver is a real ramp in underlying activity, especially in Canada, where revenue exploded from \$7.5M to \$29.2M as the new contract base began converting. The third factor is a headwind, not a tailwind: FX actually cost about \$4.0M of revenue this quarter as the Canadian dollar strengthened, so the growth came despite currency, not because of it.

The margin story is the part I'd point to as the real signal. Gross margin expanded to 24.2% from 22.0%, and gross margin dollars nearly doubled to \$24.0M, driven by better fixed-cost absorption as volume ran through the plants. That's exactly the operating leverage the thesis was waiting on: as the backlog converts, the fixed cost base gets spread over more revenue and margins lift. Adjusted EBITDA rose to \$18.5M from \$10.4M. This is the quarter where you can see the model working as designed.

The things the headline doesn't tell you

Three nuances I'd want a reader to understand, because they're where the honest analysis lives.

First, net margin actually fell, from 15.8% to 12.1%, even as the business grew. It's the absence of a one-time benefit. Last year's Q1 was flattered by a \$2.9M foreign exchange gain that didn't repeat (this year's FX gain was just \$0.4M). So the prior-year net income was inflated by currency, which makes the year-over-year EPS jump look smaller than the operational improvement actually was. Operationally, this quarter was stronger than the +40% EPS suggests.

Second, cash flow from operations dropped to \$10.1M from \$25.3M, and that will catch a careless reader's eye. But it's not a red flag; it's working capital. Underlying cash generation actually improved sharply (net income adjusted for non-cash items rose to \$20.2M from \$7.1M), but \$10.1M got tied up in working capital as receivables and contract assets built with the higher activity level. That's what growth looks like on the cash flow statement, you fund the work before you collect. Worth watching, not worrying about, as long as it converts.

Third, client concentration remains high, 70% of revenue came from three clients, two of them in the U.S. It's actually improved from last year (when 75% came from a single client), so the diversification is moving the right way, but this is still a lumpy, project-driven business where a few contracts swing the quarter. That lumpiness cuts both ways and is part of why the stock moves the way it does.

The backlog — The headline number

The order backlog reached an all-time high of \$645.8M, up from \$561.1M just one quarter earlier and roughly double the \$330.4M a year ago. That's the single most important figure in the release, because it's forward revenue visibility, and it directly addresses the bear case from my last update, which was whether ADF could replace the work it was burning through. It has, and then some. A few things give it quality: it's 72% Canadian (less exposed to U.S. tariff and FX noise), it includes \$266.5M from Groupe LAR (the hydroelectric expansion), and it doesn't even include the five-year extension option on the July 2025 master contract. Most of it executes by end of fiscal 2028, so this is multi-year visibility.

Valuation — where it sits now

Trailing-twelve-month net income is ~\$29.6M, or about \$1.03 in TTM EPS across ~28.55M shares. At a stock price in the ~\$13–14 range after a 30% pop, that's roughly 13–14x trailing earnings, no longer the ~5x obviously cheap name I initiated. The re-rate has happened. The market has repriced it from “ignored value” to “recognized growth,” which is precisely what the +30% is. So the question is no longer “is it cheap” — it's “is the growth durable enough to justify paying up.” The backlog says the next 18–24 months of revenue is largely visible, which supports the case, but you're now paying a fair multiple for it, not a bargain one.

A couple of quieter positives worth noting: the balance sheet is in good shape, \$62.1M cash, a 2.20:1 working capital ratio, undrawn credit facility, all covenants met, and management is investing into the growth, guiding to ~\$35M of capex this fiscal year (Terrebonne, Great Falls, the LAR expansion, an ERP revamp), partly de-risked by the \$12.5M federal SRF financing agreement signed in May. The one soft spot on governance is the CFO retirement at year-end after 16 years, though it's being managed with a long transition.

Where I stand

The thesis I laid out played out. I flagged this quarter as the execution test, the execution showed up, and the stock re-rated accordingly. The honest read now: the easy money, the move from a 5x mispricing to a fair multiple, has largely been made, and that's exactly what just happened in a single day. From here, DRX is no longer a value call; it's a growth-execution call, and you're paying a fair-to-full price for a record backlog that has to convert cleanly into earnings over the next two years.

I'm moving my stance from the post-initiation "constructive but the gap is closing" to: the backlog and margin trajectory justify continuing to hold and watch, but the asymmetry that made this a layup is gone. I'd want to see the next one or two quarters confirm that organic margins hold as LAR integrates and the working capital converts to cash before chasing it higher here. The smart move was owning it before the print, not after. For new capital, I'd be patient and let the post-earnings excitement settle rather than buy the 30% spike.

The call worked. The discipline now is to recognize that the market has caught up — and to not confuse a great quarter with a great entry price.

Not investment advice.