Company: **WILDAN GROUP, INC.**

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Moderator: **Tony Rossi**

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Operator: Good day and welcome to the Willdan Group Second Quarter 2018 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to (Tony Rossi) of Financial Profiles. Please go ahead.

Tony Rossi: Thank you. Good afternoon everyone and thank you for joining us to discuss Willdan Group's financial results for the second quarter ended June 29, 2018. With us today from management are Thomas Bresbin, Chairman and Chief Executive Officer, Stacy McLaughlin, Chief Financial Officer and Mike Beiber President of Willdan Group.

Management will review prepared remarks and we'll then open up the call to your questions. Statements made in the course of today's conference call which are not purely historical are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The forward looking statements involve certain risks and uncertainties and it is important to note that the company's future results could differ materially from those in any such forward looking statements. Factors that could cause actual results to differ materially and other risk factors are listed from time to time in the company's SEC reports including but not limited to the Form 10-K for the year ended December 29, 2017 and subsequent quarterly reports on Form 10-Q.

The company cautions investors not to place undue reliance on the forward looking statements made during the course of this conference call. Willdan Group disclaims any obligation and does not undertake to update or advise any forward looking statements made today. In addition to GAAP financial results, Willdan also provides non-GAAP financial measures that we believe enhance investor's ability to analyze their business trends and performance.

Our non-GAAP measures include net revenue, adjusted EPS and adjusted EBITDA. We believe net revenue allows for an improved measure of the revenue derived from the work performed by our employees. Adjusted EPS and adjusted EBITDA, are supplemental measures of operating performance which removes the impact of certain expense items from our operating results. GAAP reconciliations for all of these non-GAAP measures are included at the end of the earnings release we issued today.

With that I will now turn the call over to Chief Financial Officer Stacy McLaughlin. Stacy.

Stacy McLaughlin: Thanks Tony. I would like to add my welcome to those joining us on today's call. I'll start with an overview of our income statement, then our balance sheet and finally our guidance.

The total contract revenue for the second quarter of 2018 decreased 16.7% to $59.8 million from $71.8 million for the second quarter of 2017. The decrease was primarily driven by reduced pass-through subcontractor costs that we recognized at little to no margin. This has decreased the total amount of contract revenue running through our income statement.

Net revenue defined as contract revenue minus subcontractor services and other direct costs was $34.3 million, an increase of 13.7% from $30.2 million in the year ago quarter. Our energy segment increased net revenue by 21.8%, while our engineering and consulting segment increased by 3.8%.

Direct costs of contract revenue were $36.7 million for the second quarter of 2018. A decrease of 30.9% from $53 million in the same period last year. The decrease was primarily the result of lower pass-through subcontractor expenses resulting from our energy segment projects.

Our direct costs of contract revenue were 61.4% of our total contract revenue in the second quarter of 2018, down from 73.8% in the same period of the prior year. The decline was due to lower subcontractor services and other direct costs which represented 42.7% of total contract revenue this quarter down from 58% last year. This reduction in subcontractor costs was right in line with our expectations and consistent with the trend we have spoken about previously.

General and administrative expenses for the second quarter were $19 million compared to $14.2 million for the prior year period. The increase was primarily driven by the employees and offices added through our acquisitions of Integral Analytics and Newcomb Anderson McCormick over the past year.

We also had an increase in stock based compensation expense of $1 million due to an increase and the issuance of new stock awards. Looking ahead, we expect our expense levels to remain relatively stable with the second quarter level. Although our D&A expense will go up a bit due to the full quarter impact of the Newcomb Anderson McCormick acquisition.

Operating income was $4.2 million for the second quarter of 2018 compared to $4.6 million in the second quarter of 2017. Adjusted EBITDA was $7.3 million for the second quarter of 2018, an increase of 16.9% from $6.2 million for the second quarter of 2017.

Adjusted EBITDA as a percentage of net revenue for the second quarter were 21.3%, up from 20.7% in the prior year period. This is in line with our expectation of improving our adjusted

EBITDA margin. As a reminder, adjusted EBITDA is EBITDA less non-cash stock based compensation.

During the second quarter we recorded income tax expense of $869,000, representing an effective tax rate of 20.8%. Net income for the second quarter of 2018 was $3.3 million or 36 cents per diluted share which was equivalent to our net income and EPS in the same period last year. Higher operating performance was offset by higher non-cash stock compensation expense.

On an adjusted basis excluding stock based compensation, our net income increased 26.6% to $5 million while our adjusted EPS increased 22% to 50 cents per diluted share.

Turning to the balance sheet we had $11.2 million in cash and cash equivalents at June 29, 2018 which was an increase of $5.8 million from the end of the previous fiscal quarter. The increase was attributable to the cash generated from our operations.

We had record cash flow from operations of $10.8 million in the quarter compared to $8.5 million in the year ago quarter. We anticipate that our cash generation in the second half of the year will be even stronger than the first half.

During the second quarter, we paid down $500,000 on our revolving line of credit, leaving us with $2 million in outstanding borrowings on our revolver as of June 29, 2018.

Our balance sheet is in a strong position to support additional acquisitions as cash generation in the second quarter was more than the cost of the NAM acquisition.

Turning to our outlook for the remainder of fiscal 2018, I would like to provide an update on our financial targets for the full year. We are reaffirming our net revenue to range from $130 million to

$140 million. Adjusted diluted earnings per share to range from $1.95 to $2.05. Expected diluted share count of 9.3 million shares and depreciation of $2 million.

We are updating our amortization expense to $3.1 million. We expect our tax rate to 23% for the full year 2018. I'd now like to turn the call over to Tom.

Thomas Bresbin: Thanks Stacy and good afternoon everyone. We executed well in the second quarter delivering double-digit year-over-year growth in net revenue, adjusted EPS and adjusted EBITDA. We continued to see a steady contribution from our engineering and consulting segment of 4% and our energy segment up 22% reflects the ramp-up of new programs and a contributions of our recent acquisitions, Integral Analytics and Newcomb, Anderson, McCormick referred to as NAM.

Organic growth for the quarter was 8% for net revenue. We had good momentum with Integral Analytics and are seeing the revenue that we expected. We recently added a significant new customer in Entergy, one of the largest utilities in the Southeastern United States. As we continue to grow the customer base for IA, we expect to see a more positive impact from the higher margin revenue.

NAM has been a part of our company for three months. We are pleased with their performance and have already had some success in joint business development efforts. NAM has an excellent reputation that will be helpful in the upcoming California competitions.

Within the rest of our energy segment we continue to perform well on our major programs. We're seeing more work in Colorado, Maryland, Illinois, Ohio, Connecticut and Massachusetts. We are exceeding expectations on the (LCL) program for the San Diego Gas and Electric which is now known as the local capacity procurement program.

We are seeing other LCL program opportunities emerging in other states like New York and Washington and our strong performance on the largest program in the country for SDG&E puts us in a good position to win similar assignments nationwide.

We have worked in nearly 200 hospitals doing energy efficiency for utilities. Direct to customer work is growing in the hospital market. We are performing a major infrastructure and energy upgrade in one of the HCA hospitals in Texas and there are opportunities to do similar work around the country.

We are also winning more programs for micro good development and they are coming from a broad range of customers. We recently one (micro-good) programs for major cities, for an Indian tribe and for an international agency, USTDA in Turkey.

This underscores the level of interest that we are seeing in energy independence and resiliency from many different areas. Our pipeline of (micro-good) work is steadily building and we expect this area to become a more meaningful contributor to our revenue growth going forward.

Another emerging area for us is natural gas efficiency. Similar to the electrical grid, there are load pockets in natural gas distributions systems where demand exceeds supply. We are now seeing more utilities putting programs in place to address these load pockets. New York has $100 million per year program called none pipes that is being evaluated now.

We've already had a natural gas project added to our existing program in New York and we recently won a new program from a major gas utility in California. With these new emerging areas, our business development pipeline has never been larger or more diverse both geographically and by project type.

The broader set of opportunities that we are seeing reflects that larger trend toward electrification taking place across the globe. Electric vehicles are the most prominent contributor to this trend, but there are many more areas where this is taking place.

Utilities are starting to recognize this trend which will only put more stress on the existing grid increasing balance and creating more load pockets that will need to be addressed. Ultimately this will create more demand for our energy efficiency services.

Fuel cells is another area of innovation as a positive catalyst for low band. With the advancements in the commercial viability of this technology, we are seeing more projects where we are designing fuel cell solutions.

We were recently awarded an engineering contract for a large financial institution where 24/7 power reliability for their primary server room is of critical importance.

We have a strong understanding of the future direction of the energy market and we are building a company that will enable us to capitalize on these trends. This impacts both the investments that we are making in personnel, as well as the pipeline of acquisitions.

Our pipeline now encompasses a wider diversity of companies ranging from electrical engineering to policy consulting and software companies. Our vision is for Willdan to be recognized as a leader in management of electron from its generation to its final use.

As a final note, I want to provide a brief update on the California procurement opportunities. We expect the beginning request for abstracts in September. The total addressable market exceeds $500 million per year. We are currently doing about $20 million per year in California. We are well positioned to improve our position in the California market.

We are devoting significant resources to this competition and we are optimistic that our efforts will result in new program wins that will help drive growth in the years to come. With that, I would now like to turn it over to questions and hopefully we won't drop again during those questions. So are there any questions?

Operator: Ladies and gentlemen if you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again please press star 1 at this time. We'll pause just a moment to allow everyone an opportunity to signal.

And we'll go first to (Moshe Kati) with Webb Bush Securities.

(Moshe Kati): Hey thanks guys. Just FYI, you got cut off when you were talking towards the end when you were talking about the California procurement opportunity. I think you said that now it contributes about $20 million a year. And then you were going to talk a bit about what happens down the road in terms of potential expansion of that program and I don't know I you mentioned a date, but again you got cut off on that specific remark. Do you want to go back and repeat what you said?

Thomas Bresbin: Sure. We expect the beginnings of the opportunities to come out this September. They're going to add up to about - well it's probably closer to $800 million a year but the market that we can chase or what I called the addressable market will exceed about $500 million per year.

We are currently doing about $20 million per year in California right now. So in our view our position in California should expand tremendously.

(Moshe Kati): That's great and helpful.

Thomas Bresbin: Okay.

(Moshe Kati): And then you did provide guidance for the year, reiterated guidance, but then can you give us some more pointers about Q3 versus Q4? That would be helpful in terms of net revenues and some of the other metrics.

(Mike Bieber): Yes (Moshe), Q4 is normally seasonally slightly less than Q3 if you looked at those two and Q3 is normally significantly above Q2 - that's normal especially with the addition of IA which would be a little different from the seasonality you saw last year.

(Moshe Kati): Thanks.

Operator: And ladies and gentlemen as a reminder it is star 1 for questions. Again that is star 1 for questions. And as we have no further questions, I'd like to turn it back over to management for any further or closing remarks.

Tomas Bresbin: Okay. I would like to thank all of you for participating on our call today and for your continued interest in Willdan. Have a great day.

Operator: And ladies and gentlemen that does conclude today's conference. Thank you for your participation. You may now disconnect.