Company: **Willdan Group, Inc.**

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Moderator: **Tony Rossi**

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Operator: (Good day and welcome) to the Willdan Group First Quarter 2020 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Tony Rossi (with Financial Profile). Please go ahead.

Tony Rossi: Thank you, (Cathy). Good afternoon, everyone and thank you for joining us to discuss Willdan Group's financial results for the first quarter ended April 3, 2020. With us today from (management is) Tom Brisbin, Chairman and Chief Executive Officer, Stacy McLaughlin, Chief Financial Officer, and Mike Bieber, President ((inaudible)). Management will review prepared remarks and will then open up the call to your questions. Statements made during 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's important to note that the company's future results can differ materially from those in any ((inaudible)) statements. Factors that can cause actual results to differ materially ((inaudible)) 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 27th, 2019 and subsequent corrolaries ((inaudible)).

The company ((inaudible)) 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 revise any forward-looking statements made today. In addition to GAAP financial results, Willdan also provides non-GAAP financial measures that we believe will enhance investors' ability to analyze their business trends and performance. Our non-GAAP measures include net review, adjusted EPS and adjusted EBITDA.

We believe net revenue allows for an improved measure of the revenue ((inaudible)) and 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 financial officer Stacy McLaughlin. Stacy?

Stacy McLaughlin: Thanks, Tony. I'd like to ask ((inaudible)) who is joining us on today's call. I'll start with an overview of our (instance data) and then discuss our balance sheet. As we indicated in the press release ((inaudible)), our financial results have been impacted by the quarantines ((inaudible)) that has temporary suspended most of the work on our direct install programs in those states. Total contract revenues for the first quarter of 2020 increased 15-25% to $106 million from $91.8 million for the first quarter of 2019.

The increase was driven by growth in both the energy and engineering and people in segment. Net revenue declined the project revenue minus subcontractors' services and other direct costs was $49.6 million and the interest rate of 21.4% from $40.8 million in the year ago. ((Inaudible)) net revenues increased by 28.2% which was due to the contribution of our recent acquisition within ((inaudible)) and consulting segment net revenue increased 8.4% which was entirely attributable to our net growth.

Direct costs of contract revenue were $75.3 million for the first quarter of 2020 an increase of 14.4% from $65.9 million in the same period last year. The increase was primarily related to the growth in contract revenue resulting from both our organic growth and our recent acquisition. Our direct costs of contract revenue was 71% of our total contract revenue in the first quarter, up from 67% in the 4th Quarter of 2019 but down from 72% in the same period the prior year.

The difference in each period primarily request changes in the ((inaudible)) of work and the degree to (accept) contractors are utilized. General and administrative expenses for the first quarter were $39 million compared to $26.2 million the prior year period. The increase was primarily driven by ((inaudible)) personnel facilities and ((inaudible)) expense resulting from our recent acquisition and so now ((inaudible)) we have taken a number of actions to review prior success levels following revenues impacted by the COVID-19 pandemic.

These actions included facing approximately 300 employees on unpaid furlough, increasing all non-critical spending for travel ((inaudible)) expenditures and my business discretionary expenses. Temporarily reducing past ((inaudible)) for salaried employees and suspending product fees paid for our board of directors, these actions could result in a going level of general and administrative expenses in the 2nd Quarter of 2020. We generated an operating loss of $8.3 million for the first quarter of 2020 compared to an operating loss of $234,000 in the first quarter of 2019.

((Inaudible)) was $1.3 million for the current quarter of 2020 compared with $4.7 million for the first quarter of 2019. We incurred $1.5 million in net interest expense in the first quarter of 2020 compared to $1.1 million in the same period last year. The increase was due to the (WUI sistenia) for our recent acquisitions. During the quarter we recorded an income tax benefit of $1.6 million which was distributable to various tax deductions and credits.

We had a net loss in the first quarter of 2020 of $8.2 million or 71 cents per diluted share compared with a net loss of $417,000 or four cents per diluted share in the same period last year. On an adjusted basis, our net loss was $1.5 million or 13 cents per diluted share. The most significant adjustment from our GAAP net income was stock-based compensation and ((inaudible)) amortization which are both non-tax items. Turning to the balance sheet, impact flow from operation. We started the year with a heavy emphasis from past collection particularly from some of our large facility customers.

In the quarter these efforts were very successful. In April 3, 2020, ((inaudible)) in contract assets totaled $123.3 million, a decrease of $35.6 million or 22.4% from December 27th, 2019. In the first quarter we carried strong ((inaudible)) from operations. We had $16.5 million in capital from operations, an increase of 55% from the same period last year. As of April 3rd, 2020, we had $126.7 million outstanding on our total credit facility and $66 million remaining available within our credit facility.

On May 6, 2020, we finalized an amendment with our lending group that we feel provides enough financial ((inaudible)) for the next five months. The amendment temporarily changes the interest rates for borrowing under the company's credit facility, provides additional flexibility within our debt covenant and makes other temporary modifications. The terms of our credit facility ((inaudible)) will be provided in the same ((inaudible)). This will have the effect of increasing our interest expense to approximately $6 million for the year, up from our previous estimate of $4.5 million.

As of today, we have a ((inaudible)) balance of approximately $25 million. On April 16th, we went through our financial partners for Fiscal 2020 due to the uncertainty resulting from the COVID-19 pandemic. When the economy reopens and we have greater visibility on the resumption of activity on our direct ((inaudible)) program, we would love to resume a ((inaudible)). I'd now like to turn the call over to Tom.

Tom Brisbin: Thank you, Stacy and good afternoon, everyone. First I would like to thank all our employees. The COVID-19 pandemic has caused rapid change and financial sacrifice for all. For the first quarter all indicators were on target. We had a ((inaudible)) January. February was ramping quickly and the first weeks in March were added to a record quarter. The remainder of March fell-off drastically. Even with the work temporary suspended, we had 1% organic growth for the quarter.

Let's now get in more detail on the pandemic effects to our business. Willdan is fortunate that 60% of our work can be performed from home. Our ((inaudible)) business approximately 40% is temporarily impacted especially in the New York and California markets. This business requires direct interface with the customer primarily the small business customer. Looking at that sector, it's to protect the physical health of our employees and the financial health of the company through this pandemic.

We have taken many actions to balance revenue with cost. None of our work has been lost because of the pandemic. It has been (paused) and must still be completed within the framework of our long-term utility contract. In many states, work has continued at a reduced level. We are looking at restarts now, even in parts of New York and California. Now let's get a little bit more ((inaudible)) so our shareholders can understand where we are today.

Let's first address the revenue, lease and taxes. As you take it, 60% of our business is professional services, it can be done from home or has been ((inaudible)) because they're engineering or construction management. Of course there are interruptions in this revenue stream during the logistics and/or stops and starts. We estimate initially that this interruption was less than 20%. Today it is about 10% for 60% of our revenue.

For example initially we had major projects for the dormitory authorities for the State of New York stopped so within two weeks they retained a special because schools, hospitals, dormitories must operate or be repaired. Many school districts that were doing infrastructure and energy and upgrades had a very short ((inaudible)). In less than two weeks, it was rapidly decided now is an ideal time to do the upgrades because distraction will not interrupt empty schools or empty buildings in general.

Now let's turn to the most impacted part of the business which is a small to medium energy efficiency upgrade. This is where we make commercial buildings more energy efficient using lighting, heating and cooling technology. Generate the paybacks for less than two years and greatly help commercial businesses reduce their operating costs. This is a perfect time to reduce the operating costs but due to the shelter-in-place restriction, we cannot make sales or enter the facilities.

Therefore 40% of our revenue has been reduced by 80%. There is a (correction) of reactions from New York City, Washington State be the most impacted so that Chicago, ((inaudible)) and Utah where there was less change. Across the spectrum of (specs) we saw a very quick response to stopping work in about two weeks, about two weeks, within two weeks. Then there were workarounds, small at first such as virtual audits, owner signing releases to inspect utilities, and working open spaces.

Then two weeks ago more workaround comes in Los Angeles Unified School District, LAUSD, started operating the schools while empty. Los Angeles should be commended for working on their green health (capital) in a safe manner during this pandemic so last 2-4 weeks we have seen many small workarounds. L.A. is considered a major start. These workarounds are really everyone's efforts to go back to work. The suspension has gone from stop to work around. Today this ((inaudible)) is how do we start? The (land) varies from mid-May to early June. No predictions here, just cautious optimism.

As the economy looks to rebound from the effects of coronavirus, energy efficiency in general and energy efficiency for small businesses is critical as we've discussed in key component stories coverage strategies. Many utilities have already increased incentive. Some (assume) 100% of project cost in order to help restart the economy. This will take the payback under projects to zero. Further legislation under consideration includes multiple programs to assist states, multiple governments and utilities to respond to private energy efficiency recovery.

One program that provided much ((inaudible)) to offset the small business costs for participation. While COVID-19 has had a significant impact on our short-term revenue and earnings, it is important to reiterate that it does not impact the total amount of revenue that we will earn from our projects and programs, just the timing. We have had no program cancellations or changes in the scope of activities. ((Inaudible)) for this is we expect to ((inaudible)) and recognize all of the revenue we have under contract.

((Inaudible)) to later quarters. In addition we do not see any meaningful impacts on the fundings for our programs. 60% of our revenue comes from utility and there will be no impact to funding in this area. 10% of our revenue comes from commercial customers. At this point we are actually seeing more funding being allocated. Our largest commercial customer is AT&T and they are increasing their spend on energy efficiency programs.

30% or the remaining revenue comes from state and local government. During this period we saw an 8% organic growth in (of 10) our civil engineering segments which is primarily local government. Through the COVID-19 our cities outsourced more work. Despite the impact of the crisis, we continue to see a very healthy pipeline of new business markers running. It appears our customers are utilizing their time at home to work on getting their RFPs out and we have continued with new programs at a steady rate. We recently won $21 million in delivered design build projects in two school districts in Colorado.

These projects will make schools more energy efficient, upgrade the building infrastructure and enhance the educational environment with improved air and light quality and use of our classroom technology. We also ((inaudible)) from AT&T to make this 1700 central offices across the country more energy efficient and reliable. This project will help us build a track record in the industrial market, versus 30% larger than the commercial market and represents significant growth opportunities in the years ahead.

In terms of the cross-point procurement, the schedule for the award remains on track. CG San Diego Gas and Electric and Southern California Edison continue to be in active negotiations but we can't provide any more details other than that. The utilities are working towards meeting their deadline of making it work that will bring a level of output programs up to 25% by the end of June. Our ((inaudible)) our playbook for 2020 hasn't changed.

We're primarily focused on organic growth this year. Given the amount of work we have in the pipeline and the California procurement opportunities, we agree that's where our focus should be. In 2021 we'll look to resume our acquisition activity and take advantage of the problem of a new opportunity. While the current environment is currently lousy, we remain bullish about the long-term opportunities for Willdan.

Reducing operating costs, sustainability, resiliency, upgrading building infrastructure, reducing green healthcare will not be a casualty of the pandemic. The trend for ((inaudible)) continues and once the economy opens-up again, we believe that there will be even more demand for our services. With that we can take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star 1 to ask a question and we'll pause for just a moment. And we'll take our first question from (Dave) (Herman) with Rockcastle Partners.

(Dave Herman): Good evening and thanks for taking my question. I hope you're all well.

Tony Rossi: We are.

(Crosstalk)

Tony Rossi: Social distancing yes. It's a good thing we ((inaudible)) by ourselves. Lots of room for social distance.

(Dave Herman): As we look down the runway, right, 2020 is probably going to be a difficult year. This is, you know this wasn't even ((inaudible)) it wasn't that long ago that we were trading at between $35 and $40 a share, you know, in the low 20s, a lot of us were ready (to selected) but the real question is just how low do we go in the short term and how long for that backlog to even donate for a long time to really reconvert so can you help me understand, you know, your first quarter was obviously impacted by COVID but the impact in the 2nd Quarter is going to be more significant and then, you know, if we're believers in sort of the swish shape recovery where this first quarter is definitely going to have some questions and the 4th Quarter, you know may even be higher than the 1st, how do we factor this? I mean, is this consistent with your own thinking and any color you can provide to help us shake-out the impact on Willdan operation ((inaudible))?

Tony Rossi: (Inaudible, the call, of course, I give the - it appears if you look at how I - they're doing schools, they're doing community colleges, they're opening-up parks and rec, they're opening-up areas very rapidly. If we look at New York, all of New York City like upstate New York they're opening-up. Most of the country is opening-up so we're optimistic that by early June at the worst we will be going back out backlog is only growing because the work has to still be done. We have the long-term contracts that we still have to make goal on by the end so beyond all this, you know, what happens when we get another spike or the city needs to close-down longer, I don't know. We have some other questions in there. Did you stack the mic?

(Dave Herman): Just one other question was you know, how long with the trough whack us and especially the bottom of the trough has likely already occurred because programs have already started being started as Tom mentioned over the last few weeks, we've had a number of restarts and we'd expect more restart quite a few more actually net week so ((inaudible)) the trough was actually about a week or two ago and the revenue's been picking-up since then as we build-in projects.

Tony Rossi: Did ((inaudible)) have a question? Do you want to know the rate of recovery?

(Dave Herman):Well, I kind of person before the recovery you have to know how far down we go, ((inaudible)), right, maybe and you share with us approximately how much revenue was off in the month of April versus the average revenue for us in the first quarter. Were we talking about teens or maybe a 20 reduction or was it off more significantly given the way that COVID hits the brakes for everything and then we had to figure-out how to get people out there and working.

Tony Rossi: First one did direct it for the first quarter and we probably missed-out on around $10 million of gross revenue in the first quarter which impacted profit $4 to $5 million in the first quarter, okay? This quarter depending on when he ramped back up and how quickly things opened, we'll be losing you know, $25+ million of gross revenue that we would have recognized otherwise but the relative profit impact this quarter will be much less than it was last quarter because our ((inaudible)) have taken effect and we're already seeing that so I'm ((inaudible)) profit in this pocket for this quarter. We are starting to see acceleration of revenue over the past couple of weeks as I mentioned and, you know, (Gene) looks for the we've had a lot backlog so the question is how quickly can you ramp-up ((inaudible))?

(Dave Herman): Yes, it does, it actually you know, as a ((inaudible)) technical terms, ((inaudible)) compensation for a large part of the expense take so your actions there were pretty significant so I understand the relative impact of a settlement sent to investors. Changing the subject, everyone who wants to own this stock or the energy efficiency programs having done this in California. You know, the ((inaudible)) themselves of published numbers about, you know, where and when how much they expect to give out, you know, I'll be staring at negotiations of certain programs and can't say too much.

Besides, you know a couple of those programs are supposed to have rewards this summer now, you know, and others may need back in the summer and into the fall. Is it a fair assumption to say that these probably do ((inaudible)) where we're really looking, you know, more like the fall for activity, during this, you know, chasing timelines in the first place. Is that a fair expectation?

Tony Rossi: For the first time I would say (needs to leave there) right on schedule. Only on PG&E and STG are moving very quickly to make their deadlines. They are very happy with the back and forth with them, saw STE is coming along and as I said in the scripted remarks you know, this ((inaudible)) seems to be helping them. I mean, we've never been more on target (Craig).

(David Herman): That is fantastic news and consistent with something I think the Wall Street Journal reported not too long ago that all of us in this environment tend to be working 3 to 4 more hours a day than you would in a normal environment and you know, the facilities are obviously benefiting from that too so that's a very positive thing so on track for this summer, that's great so then to ((inaudible)) of magnitude of potential...

Tony Rossi: No wait (Craig), (Craig), before ((inaudible)) on revenue on track for contract awards by July 1. ((Inaudible)) approval and then we're expecting actually beginning work 4th Quarter.

(David Herman): Understood, understood.

Tony Rossi: Okay.

(David Herman): That makes sense because the magnitude of the scope that you're negotiating for or is there maybe at least permitted for where we could see the signature. Can you update us somewhat on what the current scope is you're looking at?

Tony Rossi: Not at this time. It's really a very sensitive time now because negotiations have started.

(David Herman): Okay so there are other contractors that are vying for this and even though you're the biggest and have the longest track record, others will aggressively pursue that vacancy. ((Inaudible)). This is just ((inaudible)) will be ((inaudible)).

Tony Rossi: That's what's going on.

(David Herman): Okay, okay. Opportunities outside of ((Inaudible)) come on to say will office able we'll ask a couple of quarters, you know, you for example expanded quite a bit for you and I know there was a potential opportunity in your state. Can you maybe update us on any potential elephants out there outside of California in the energy efficiency space, you know, maybe this efficiency at the assembly side don't mean the contact award process helps then with any project, I mean, what should we be thinking about potential opportunities?

Tony Rossi: In the engineering world, we're looking at finally cracking a code in New York or mention in New York City's ((inaudible)). That's more design and construction management work to redo how many buildings did they have? 10,000, I don't know. Some unbelievable number but it ((inaudible)) we were one of four selected and that's moving along which that's a whole new business order which is pretty exciting. Our e-trade group, I mean, they're really taking all parts of Willdan and they explain it they do the roadmap and then ((inaudible)) on the actual implementation of that roadmap for cities and they have a total service on the top strategic thinking all the way through implementation and paying dividends and you'll see that hopefully in the near future so the other thing elephant about is electrification. If our customers have ((inaudible)) natural gas and electrifies everything they do from hot water to heat, we're in a very good position to go from lighting to HVAC to all electrification in a customer base moving forward and non-utilities who are ((inaudible)) so I think those are some elephants.

(David Herman): In your prepared remarks you mentioned AKC how I would want to be a seller to ask them about AKC just this last week, can you maybe give a little bit of color about the point ((inaudible)) have you been seeing growth from AKC before the stress, before the situation was paralyzed?

(Craig): We expect now that accommodations are there to work on facilities in this environment even though, you know, social distancing is in effect that we can continue to see AT&T and customers like AT&T growth for Willdan in the next couple quarters.

Male: Hi (Craig). We've had a long-standing MSA with AT&T through our online Onsite acquisition. But the workflow had been relatively low since Onsite joined us and AT&T made it's first major award last week.

And we were one of just a couple contractors. It's going to be - the task force has already been issued. Going to be major growth over the next Q2, 3, and 4. You know we're looking at, I don't know, 5 plus million dollars of incremental revenue this year and, you know, maybe double that or more next year. There's a lot of work to be done with AT&T. And so we can see the ramp-up in the pro forma.

(Craig): Okay that (((inaudible))). Anything else you would call out for Onsite? Obviously that's a growth success to you right now. And any other customers you can talk about.

Male: No. That's on the American industrial side. And we're also doing very well on the utility side. They have a big (FDR) contract and that work has actually continued through the COVID crisis so we're doing well.

(Craig): Excellent. Well, congratulations on the progress. Everybody knows this environment is a challenge. And Willdan seems to be stepping right up to meet it head-on so, yes, thank you.

Male:Thanks (Craig).

Operator: As a reminder, to ask a question please press star 1. We will take our next question from Jed Dorsheimer with Canaccord Genuity.

Jed Dorsheimer: Hi. Thanks for taking my questions. I guess first one, you touched on a little bit but maybe just ask a different way. If I look at the load balancing or the need for load balance with respect to C&I versus residential load shift from this pandemic or potentially a shift from virtualization and kind of a work from home friend.

Is that - could you quantify or help frame what that does in terms of opportunity from a utility perspective?

Male: We're deciding who should answer that. I think Mike should.

Male: He didn't actually have his hand up.

Mike Bieber: Yes. Well, no one knows what the long-term effects will be and how long this will last. The short-term impact and what utilities are telling us right now is that they want to incentivize the C&I base as you describe as the small commercial customers immediately coming out of this pandemic, give them a restart. That what they've actually told us.

There may be a longer-term load shift away from C&I towards residential and that's under '22. But nonetheless, customers right now are focused on that. They're focused on restarting the commercial work in the short-term. And they're doing that to increase incentives to small businesses as (Tom) mentioned.

So any other longer-term shift would have to be a longer conversation of. And we hadn't heard that directly from the utilities yet. And it would be speculation.

Male: Yes. I mean their load problem is really load growth due to electrification and transportation. But I don't think they've really distributed amongst residential and commercial industrial. They have a 20% plus problem with load growth.

So energy efficiency and demand response is going to be more and more important to them and I don't think they care where they get it.

Jed Dorsheimer: Got it. That's helpful. And that's probably a good segue into my next question which you had mentioned the 10,000 buildings in New York and cracking that code. When I ran a division for a company that pulled into that market, I know LO88 was, you know, a pretty good opportunity but one that wasn't adhered to in terms of sub-metering.

So I'm curious. Has that shifted where there's enforcement of some of the local laws that are driving some of that opportunity for you or is it something else that's kind of driving the energy efficiency in New York and Manhattan in particular?

Male: Yes, there's - their overall LO - the new one is LO97 I believe to get New York compliant with the greenhouse gas which that's kind of what I was talking about where (E3) is critical because they are the ones that create the pathway for the State of New York and New York City and then the rest of Low Manhattan right down through the guys who are working on the actual engineering and construction. I've had NYCHA Housing they're the ones on the ground doing the engineering as well as the rest of Low Manhattan and New York doing the smaller buildings.

I mean New York right now is looking at their - all New York City owns 4000 buildings. How they get to be compliant with LO97.

So yes, I would say regulatory is driving it in states on greenhouse gas (load law).

Jed Dorsheimer: I got it. So New York is - so on the regulatory side there's a level of enforcement which would seem to be a shift from other local laws that has been put out there in the past. In the past, I know that most of the REITs and the property owners, you know, would look for compliance as a function of trying to sell the value prop to the tenants which was mixed at best.

But it sounds like there has been a shift in the New York area with respect to regulatory compliance.

Male: There's a shift in that they've put these goals out there. And they're really scratching their head on how they're going to meet them. So they are trying to figure it out.

Jed Dorsheimer: Great.

Male: Now as past experience shows they don't always get there.

Jed Dorsheimer: Yes. But either way, it sounds like that should be positive for your business.

Male: Well, yes. I mean we see - we have seen NYCHA moving. So yes.

Jed Dorsheimer: Great. I'll jump back in the queue. Thank you.

Operator: Once again if you would like to ask a question please press star 1.

Male: I don't think we have any more further questions so we'd like to thank you all today for participating. Have a safe, I would say day, week, hopefully, less than a month going forward, and thanks for an interest in Willdan.

Operator: And that concludes today's presentation. Thank you for your participation. You may now disconnect.