Company: **WILLDAN GROUP, INC.**

Conference Title: **Willdan Group Fourth Quarter 2018 Conference Call**

Conference ID: **7731627**

Moderator: **Tony Rossi**

Date: **March 7, 2019**

Operator: Please stand by we're about to begin. Good day and welcome to the Willdan Group Fourth Quarter 2018 Conference Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Mr. Tony Rossi. Please go ahead, sir.

Tony Rossi: Thank you (Dee Dee). Good afternoon everyone and thank you for joining us to discuss Willdan Group's financial results for the fourth quarter ended December 28, 2018.

With us today from management are Thomas Brisbin, Chairman and Chief Executive Officer; Stacy McLaughlin, Chief Financial Officer; and Mike Bieber, President of Willdan Group. Management will review prepared remarks and will then open up the call to your questions.

Statements made in accordance with 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 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 28, 2018 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 revise any forward-looking statements made today.

In addition to GAAP financial results, Willdan also provides non-GAAP financial measures that we believe enhance investors' ability to analyze our 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'd like to have 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.

Total contract revenue for the fourth quarter of 2018 increased 34.7% to $86.4 million from $64.2 million for the fourth quarter of 2017. The increase was driven by growth in our energy segment, primarily related to the contributions from our recent acquisitions, Lime Energy and NAM, as well as an increase in data analytics from Integral Analytics.

These increases were partially offset by the impact of reduced pass-through subcontractor costs in our Energy segment that we've 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 $40.2 million, an increase of 29.2% from $31.1 million in the year ago quarter. In the quarter, net revenue was slightly above our guidance range.

Within the energy segment, net revenue increased by 43.3%. Within engineering and consulting segment, net revenue increased by 10.2%. Net revenue organic growth was 6% in the fourth quarter.

Direct costs of contract revenue were $59.5 million for the fourth quarter of 2018, an increase of 34.6% from $44.2 million in the same period last year. The increase was primarily related to the growth in contract revenue resulting from the Lime Energy and NAM acquisitions.

This offsets the lower pass-through subcontractor expenses we saw in certain Energy segment projects. Our direct costs of contract revenue were 68.8% of our total contract revenue in the fourth quarter of 2018, roughly equivalent to the same period of the prior year.

General and administrative expenses for the fourth quarter were $25.3 million compared to $17 million for the prior year period. The increase was primarily driven by higher salaries and wages, payroll taxes and employee benefits largely related to the personnel added through the acquisitions of Lime Energy and NAM.

Additionally, intangible amortization also increased by $1.7 million. We had an increase in stock-based compensation expense of $1 million. Our fourth quarter expenses also included approximately $900,000 in transaction costs associated with the Lime Energy acquisition.

Operating income was $1.7 million for the fourth quarter of 2018 compared to $3 million in the fourth quarter of 2017. We incurred $625,000 in interest expense in the fourth quarter of 2018 compared to $23,000 in the same period last year. The increase was due to the debt utilized to finance the acquisition of Lime Energy.

During the fourth quarter, we've recorded an income tax benefit of $93,000. The income tax benefit was attributable to increased deductions for stock options and disqualifying dispositions and an additional energy efficient commercial building deduction recognized in the fourth quarter of 2018.

Net income for the fourth quarter of 2018 was $1.2 million or 11 cents per diluted share compared with $3.3 million or 36 cents per diluted share in the same period last year. On an adjusted basis, excluding stock-based compensation, intangible amortization and transaction costs, our adjusted net income increased 31.3% to $6.3 million or 61 cents per diluted share from $4.8 million or 53 cents per diluted share in the same period last year.

Adjusted EBITDA was $6.6 million for the fourth quarter of 2018, an increase of 23.2% from $5.3 million for the fourth quarter of 2017. For the seven weeks following the Lime acquisition, Lime met all their financial targets. The financial integration of Lime is going well and that process is expected to be complete later this year.

Turning to the balance sheet, we had $15.3 million in cash and cash equivalents at December 28, 2018, which was a bit down from end of the previous fiscal quarter. As of December 28, 2018, we had $70 million outstanding under the delayed draw term loan, which was utilized to finance the Lime Energy acquisition.

For the full-year of 2018, adjusted diluted EPS was $2.07 per share, above our 2018 guidance of $1.98 to $2.03 per share. Turning to our outlook, I would like to provide our financial targets for fiscal 2019.

For the full year, we expect net revenue to range between $180 million and $200 million, adjusted diluted EPS to range between $2.35 and $2.45, an effective tax rate of approximately 24%, a diluted share count of 11.7 million shares, depreciation of approximately $4.5 million, amortization of approximately $7.6 million, and stock-based compensation of approximately $11.9 million.

These financial targets do not include the effect of any transaction that has not been completed as of today. I'd now like to turn the call over to Tom.

Thomas Brisbin: Thanks Stacy and good afternoon everyone. We completed fiscal year 2018 with another good quarter. From an operating standpoint, our revenue, earnings and EBITDA exceeded expectations. On a net revenue basis, both segments were up double digits compared to the fourth quarter of last year. Engineering and consulting was up 10% while energy was up 43%.

Net revenue for the quarter was up 29%. The strong growth in Energy reflects the ramp up of new programs and the contribution of our recent acquisitions. Organic growth in net revenue was 8% for the full year.

The most significant event in the quarter was the completion of the Lime Energy acquisition. The integration has gone very smoothly and the teams are effectively working together on re-compete efforts in both California and New York.

We believe that the additional skill sets and experience that Lime provides will be very beneficial to our efforts on these California and New York opportunities. In addition, Lime Energy is the LADWP, Los Angeles Department of Water and Power, incumbent and the contract is expected to increase, so that's a good sign for potential organic revenue growth.

There are approximately 3,000 municipal utilities across the country. Lime has an outstanding track record with both municipal and IOUs. When combined with our large geographic footprint, we have competitive advantages that will help us capture more municipal opportunities in the years ahead. The Willdan team currently serves 18 of the Top 25 IOUs in the nation.

Our marketing and new business development efforts continue to produce good results. I want to highlight a few of our most recent program wins. We recently won a SoCalGas Direct Install Program on public and private schools. This is a gas efficiency program. We are seeing more gas programs emerging, because the overall push to electrification. Electrification will put greater demand for electrical energy efficiency.

In New York, gas efficiency is growing because of their switching from fuel oil to natural gas. Manhattan is anticipating concerns with natural gas by 2023 due to pipeline capacity on the coldest days of the year.

Another recent win was a multifamily energy efficiency program for a major California utility. This is our first multifamily program on the West Coast and we were able to effectively leverage our success with a similar program we implement for Con Ed in New York City.

We won a $7.5 million project to implement central plant upgrades for our New York multifamily cooperative. This project capitalizes on the strong performance contracting capabilities that Genesys added to the company over the past few years.

We continue to have good results in adding more private sector clients. Along these lines, we've recently won a multi-million dollar project to implement a heating system upgrade for a major healthcare system in Texas.

And, finally, we were selected by Culver City to conduct a micro grid development feasibility assessment at two of the municipal sites - at two of their municipal sites. While the addressable market for micro grid-related service remains relatively small at this point, there is a general consensus that this will be a significant area of growth in the future.

We also continue to devote a great deal of resources to the new opportunities in California. You should recall that California will outsource 60% of their energy efficiency programs. This process has finally begun. Approximately 50% of the programs that we are addressing have issued their request for abstracts.

The next step will be proposals due this summer and, hopefully, awards by the end of this year. We believe that the combined strength of Willdan and Lime puts us in a very strong position to compete for these new programs. We currently have about $70 million per year of the California's utility programs. We believe this is a competitive advantage.

I should also mention a few words about PG&E. The Bankruptcy Court has decided that all energy efficiency programs will proceed as planned and the vendors will continue to be paid. PG&E is current on all their outstanding invoices with us.

As you saw last week, we signed an LOI to acquire The Weidt Group. They are an energy consulting and software development firm based in Minneapolis. The Weidt Group specializes in working on behalf of utilities to optimize the energy efficiency of new and existing buildings.

We believe The Weidt Group is an excellent sit with Willdan for a number of reasons. First, they have long-standing relationships with utilities in Midwestern states like Minnesota and Indiana where we don't currently have a presence. This helps fill in our geographic footprint.

Second, the expanse of software development and services business that we entered into last year with our acquisition of Integral Analytics. And, third, The Weidt Group brings an important new service offering and their consulting work on new construction projects. Historically, we've had a great deal of success cross-selling the services of our acquisitions. We anticipate closing this acquisition later this month and we expect it to be accretive to earnings this year.

Turning to 2019, we expect to deliver another strong year of profitable growth. Our new business pipeline is very strong and we continue to see a greater diversity of project types. We see meaningful growth coming from several areas due to the positive impact of Lime, The Weidt Group, as well as the California opportunities.

In addition, we expect to see growth in our New York utility programs, also New Jersey continues to be a very large potential market for us as this date increases of funding for energy efficiency programs. With our work for both the state and the utilities in New Jersey, we think we are very well positioned to win new programs that come up for a bit.

Longer term, we continue to build a company designed to serve the various needs of utilities, municipalities, public sector facilities and private sector enterprises looking for solutions using less energy and generate less greenhouse gas emissions.

We are broadening our service offerings, our expertise and our geographic footprint in order to capitalize on the growing demand for electrification and distributed energy resources. This will drive increased demand for electricity, which bodes well for the need for energy efficiency programs as utilities will need to meet this demand, while limiting investment in new generation.

We believe the company is in a good position to capitalize on both near and long-term trends. This should enable us to have greater opportunities to generate profitable growth and create value for our shareholders in the years ahead.

With that, I would now like to turn the call back to the operator for Q&A.

Operator: Thank you. If you'd like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone please make you're - your mute function is turned off to allow your signal to reach our equipment. Again, that's star 1 to ask a question.

We'll take our first question from Moshe Katri with Wedbush Securities.

Moshe Katri: Thanks. ((Inaudible)). First, I want to talk a bit about - maybe go over about ((inaudible)) calendar year 2019 guidance. A couple of things here. First, the net revenue growth here, the way I see it, it seems pretty conservative, below the historical growth rates, organic growth rates for both Willdan and Lime. Maybe you can talk a bit about that.

And then, does the net revenue guidance include the revenue contribution from The Weidt acquisition? And then maybe also talk about the non-GAAP EBITDA margin assumptions for the year.

Michael Bieber: Sure. Moshe this is Mike. I'll take those, I think, in the order that you asked them. Number one, you're right. Organic growth based on the midpoint of our guidance is in the mid-single digits right now. We typically start out the year with, what I'll call, appropriately conservative guidance.

And if we do a little better than that, so be it, we'll raise guidance throughout the year if that happens. So that's where the midpoint of guidance is. It also assumes no new California procurements that are contributing new revenue in 2019.

On the next piece, our revenue guidance does not include any contribution from The Weidt Group, that's true of both revenue and EPS. We'll update guidance next quarter, assuming that closes in the next month. So, that's not included in guidance.

Moshe Katri: ((Inaudible)).

(Crosstalk)

Michael Bieber: And our margin. EBITDA margin assumption. Just as I believe we talked with you last time, we believe EBITDA margins will continue to improve in 2019 into the low-20s. I think you're modeling around 21% right now, as I remember. Something like that is reasonable assumption.

Moshe Katri: Okay. That’s great. And then also a couple of follow-ups on guidance. So, remind us which part of the net revenue guidance for the year is already booked. If I remember correctly, visibility is pretty high, so that number should be, you know, pretty high.

And then maybe you can also give us some assumptions for Q1 that's coming up, net revenues, EPS. And what should we look for in terms of the margins?

Michael Bieber:: For Q1, we have modest expectations just because we are ramping up two of our largest programs, LADWP and Duke Power. They were relatively slow in January and February and are ramping up very quickly in March. So we've got pretty modest expectations for Q1 and we'll have a very strong Q2, it looks like.

So that's EPS and expectations for Q1. What was your other question, Moshe?

(Crosstalk)

Moshe Katri: Well, if you can talk a bit about -- if you can give us some sort of a range for net revenues, that’d be helpful for Q1. Obviously, you know, it’d be good to get some feel on that. And then also talk about visibility in terms of how much of your -- looking at your net revenue guidance for the year is already booked.

Michael Bieber: Yes. We have not historically given quarterly guidance. And so, I don't want to step out of what we've normally done and give you a range for Q1 on net revenue. But I can tell you that in any given year, and that's true, this year we have about 10 months of funded and authorized work and that's true again this year.

So, we're walking into the year with a very strong pipeline and a very strong book of already contracted work.

Moshe Katri: Okay. So just to follow-up, you're talking about a strong pipeline and obviously you don't provide a number in terms of bookings. Are we - can you just give us a kind of a description in terms of looking at your pipeline today versus a year ago?

Is it up substantially? Is there anything unusual about the pipeline in terms of growth? And then maybe you can talk a bit about the nature of the pipeline in terms of some of the nature of the work, the new work that's coming ((inaudible)).

Thomas Brisbin: So, California is finally moving, Moshe. We submitted, I believe, it's 11, they're called abstracts. So the addressable market for us in California is probably about $700 million per year. We've probably addressed about $350 million per year with these submittals or the 11 abstracts. We still have a few more to go.

They are now considering who they invite back to write a proposal. And we're very confident that we will be writing proposals for the next four months and then we will know what happened by the end of the year. So far, staying on schedule.

Moshe Katri: Okay.

(Crosstalk)

Thomas Brisbin: We have heard the San Diego Gas & Electric and all is good. So, California is the big mover, right now. Then we go to New York and New York's -- Mike said some about the pipeline looks good as we see a lot of pressure on the New York to double the amount of energy efficiency they do where we are an incumbent under a recompete, which we feel good about.

So, we expect those goals to go up. So between California, New York and if New Jersey get started by the end of the year, first of next year, that pipeline is really, really big. I mean, these numbers of 5%, 6% organic growth will be taken care of for years to come.

(Crosstalk)

Moshe Katri: Understood. And so if California is about $700 million, how much can you quantify New York and New Jersey in total?

Thomas Brisbin: New York - New Jersey would be probably, these are just guess numbers, because now we're talking to the whole world, but probably around $250 million a year. New York would increase by $50 million a year.

Moshe Katri: Okay. All right. Thanks.

Operator: And our next question comes from Chip Moore with Canaccord.

Chip Moore: Maybe you can start with The Weidt Group, maybe you talked about some of the things they bring in terms of new services and software capabilities, maybe you can expand on that. And then in terms of accretion targets, does that include any cross-selling? How are we thinking about that?

Thomas Brisbin: Well, I'll address some and then Mike can address some. We're really new to these guys. I mean, they were here this week. They presented to the operations and the board. They worked for about 10 utilities in the Midwest and they do new construction. So, they help people before they build, do it right, which is a whole new program for everything we do across the nation.

So Weidt Group is really excited about selling their service to the other 70 utilities we work for across the nation. Where here in California, for example, there is an entire program called New Construction Statewide. We would have not submitted on this probably $5 million to $8 million per year procurement without The Weidt Group.

This would have not even been on our list to consider. So there’s an example of an opportunity that's about six months ahead of us in California. The other thing they do is they have software. The one that we're pretty excited about is a better ways to do energy audits and they call it virtual audit, it's a software program that they've been using.

So we think we can incorporate that into our utility programs across the nation also to make us more competitive against other people doing this. Did I miss anything, Mike?

Michael Bieber: You asked about accretive synergy and we never put synergy into our accretion or our forecasts. So the things that Tom mentioned are upside in case we can cross-sell those programs.

Chip Moore: Got it. That’s helpful. And is there a sense of there sort of organic CAGR over recent history?

Michael Bieber: They've been upper single digits for each of the last five years. I think their exact number is about 7% over the last five years organic growth.

Chip Moore: Okay. Thanks Mike. And I think you called out higher sales for Integral in the quarter. I know it's a little bit lumpier and a longer sales cycle, but maybe you can talk about what drove that and the pipeline and outlook for that piece of the business.

Michael Bieber: Yes. Integral Analytics had a good fourth quarter. They increased their revenue, I think, more than 50% year-over-year. The pipeline looks very good coming into 2019. They have some major contract opportunities, which are even far larger than the largest contracts we looked at last year in their pipeline for 2019. So, it looks good and they're very busy.

Chip Moore: That's good to hear. Maybe one last one for me. Good to hear that PG&E business is moving forward. Can you talk about any potential impact to the larger RFPs from PG&E? Is that a potential for a little push out? I mean, I know we're talking 2020 anyways, but how should we think about that? Thanks, guys.

Thomas Brisbin: So we've been waiting seven years for this process to begin and now there's bankruptcy in front of them, so I wouldn't be at all surprised if they get a few months behind. That's a little sarcastic, so yes, I would expect PG&E to probably fall two to four months behind.

Chip Moore: Got it. Okay. Thanks a lot. I'll hop back in queue.

Operator: And as a reminder that's star 1 on your telephone keypad to signal for questions. Next, we'll go to Craig Irwin with ROTH Capital Partners.

Craig Irwin: Good evening and thanks for taking my questions. First one, Tom, is actually a clarification on Chip's last question. So, previously, PG&E seem to be quite far ahead of their peers in California as far as getting the RFPs out there.

Can you maybe share with us if the two to four months behind means that we have a shift to two to four months or that that early start that they had is eaten up and then we end up two to four months behind the actual schedule where they're supposed to be making their selections?

Thomas Brisbin: Well, what actually happened was in the state, San Diego Gas & Electric came up first, Southern California Edison came up second, and PG&E's was third. So they actually went in the latest. They were due - they went in around January 15, where San Diego Gas & Electric went in November.

So, if wherever you read, they - we're going to be out first, they came out latest. And then, with regards to where the delay sits in their printed schedule, I was referring to, maybe two to four months. San Diego Gas & Electric just printed their schedule for proposals and awards staying on schedule.

We hope to see the same for SCE soon. That's why I'm booting PG&E maybe two to fourth months, because of bankruptcy. Does that help you, Craig?

Craig Irwin: Maybe, because …

(Crosstalk)

Thomas Brisbin: Yes, what do you want to know specifically?

Craig Irwin: No, no. It's - in the working groups, obviously all of my clients know that I've been participating in the California Energy Efficiency working groups. They did discuss PG&E being very early. I think we're probably just looking at a definitional difference as far as where they were in the process.

I think a lot of the documentation they got out was early, but maybe some of the final documents they got to you are on a different timeline. It doesn't really matter, because everybody is expecting the utilities to be late, because all utilities pretty much always are. But this is not material to the story, so we can actually move on.

The probably more relevant question, more pertinent question is, you know, love this Weidt Group acquisition. Can you maybe talk to us a little bit about the cash flow generation expectations for Willdan with Lime in 2019? How do you see the capacity to be able to do additional acquisitions like The Weidt Group? And how many other companies like this with these fantastic customer lists, you know, interesting geographies, differentiated services that are potential targets for you over the next couple of years?

Thomas Brisbin: Mike and Stacy are discussing that answer, I think you're right on documentation. I think PG&E did say they come up first. I'm just telling you what actually happened.

Craig Irwin: Got it.

Thomas Brisbin: Back to the procurement. So I believe your - I think you summarized that nicely. So, Mike?

Michael Bieber: Craig, I'll answer your question in terms of leverage ratio, because that's the way the banks look at it. We came out of the Lime transaction with a leverage ratio of less than 2.,5 and we get to pro forma new acquisitions who are profitable and successful like The Weidt Group into those.

So from a leverage ratio standpoint, we're going to stay around that 2-1/2 number and then come down by the end of the year. So, to go straight to your question, can we do more acquisitions like this? Yes, absolutely. The banks are very supportive of that and so as our expanded credit facility. So …

Craig Irwin: Yes. Excellent, excellent. Then if we can touch on a question that people had been concerned about, particularly in December, the overall market conditions in California seem to be seeing a little bit of turbulence, particularly on the municipal and sort of local government side.

You know, you have had growth in the engineering consulting business, it seems that you are looking at some modest growth in that this year. Can you maybe talk about the puts and takes for growth in that business in '19? Do you expect this to be a driver or all of us that are focused on really the energy efficiency side, should we just stay focused there and expect this business just to make money but not drive the model going forward?

Thomas Brisbin: I think engineering with the cities has potential to increase above their growth rate. I'll give you some examples that really -- so for Santa Monica, we just signed the design and installation of 70 charging stations. So they're actually cross-selling from us, from the Energy Group, not from us but from the Energy Group their services.

That was true for Culver City's micro grid as well, which include a lot more than charging stations. And we're seeing this in street lights and other things. So, as long as the housing and building market stay the same, we would expect them to stay the same or increase a little bit. But we're getting closer to adding in an extra service into what they do for cities.

So, I can't quite quantify it yet, but we don't expect them to go down, we don't expect them to improve immensely. But we could find an opportunity that could improve them all from -- where are they now, 5%, 6% organic growth?

Michael Bieber: Yes, low single digits.

Thomas Brisbin: We could probably add 3%, 4% on there if we could start to sell a new service to them.

Craig Irwin: Does having LADWP as a customer now add to your ability to capture on the traditional engineering side?

Thomas Brisbin: We work for most of the cities in LADWP. In LA County, engineering, I think there’s 77 cities in LA County and Willdan Engineering works for 70 of them. So you would think between what we're doing on energy efficiency, and I should also point out, there's a about - in LADWP, under SCPPA, there's about 13 other municipal utilities we could work for.

So we're trying to get our hands around that to see how that all works together. But, we have LA County cover rather well both on the civil engineering side and the energy efficiency side. How do we make it work better is our challenge.

Craig Irwin: And can you possibly list for us 2019 RFPs where you think that individual project awards could be maybe north of $25 million or $30 million? I mean, are there several of those that you can point to in ‘19 or is it a fairly select list?

Thomas Brisbin: Do you think any of our competitors are listening?

Craig Irwin: Yes. Of course, they are. But they all know the list too, right? It's just …

Thomas Brisbin: So I'll just name a few. San Diego Gas & Electric has a commercial program, both small and large. Southern California Edison has a commercial program. They have an industrial program. They got a public sector program. PG&E has commercial, industrial, public sector, multifamily.

Those are all add up to a lot of money. You go to New York, non-pipes, non-wires. You go to New Jersey, direct install. Where else …

(Crosstalk)

Craig Irwin: Got it. Lots of good stuff. So then last question, if I may. It seems like a pretty exciting time to be in energy efficiency. The technology is being adopted, you've mentioned charging stations, micro grids you're obviously a leader in at least implementing projects where others are falling down.

Where do you see the most interesting novel activity happening for you? Are you seeing a greater technology content on projects? Do you feel now there is a widening gap between the leaders in the market and the smaller competitors that want to serve this market that maybe do so in a much more focused geographic manner?

Thomas Brisbin: I think, let's look at the State of California and we could look at New Jersey, we could look at New York. Historically, there were 130 contracts, maybe 80 smaller contractors just in California. We're seeing consolidation where they're bigger contracts and they want one contractor to team with the others to provide the service to the utility.

Utilities have to downsize the number of employees, so they can't be managing a 130 contracts. So that trend is very big. Right now for Con Ed, New York I would say that exist. If we manage about 70% of the portfolio, Con Ed manages other 30%.

New Jersey’s also going in that direction. I can say for some of our competitors. I won't mention their names or where they work, they also have large administration programs. So I think consolidation is a big factor.

With regards to your question on technology, we are preparing for a technology move where we believe all the engineering capabilities and software capabilities that we are putting together will benefit us as utilities migrate and need their customers to become more energy efficient.

They need their customers to get to zero net energy over the next 10 years, maybe 15. As you know, Craig, California came out and said no greenhouse gas by 2045. When we have meetings with our customers, they go, "What do you mean there's gonna be no combustion, no greenhouse gas?" Nobody believes it.

Then New York came out and they lowered about five years and set by 2040, that's only 20 years away, where we have to be off of combustion. If you factor in electrifying everything we use natural gas for and you factor in transportation and you factor in get rid of nukes and coal, my god, I mean, that's a lot of energy efficiency work. That's …

(Crosstalk)

Craig Irwin: As I said, an exciting time to be in energy efficiency so, congratulations on the strong quarter. We look forward to continued solid execution. Thanks.

Operator: And as a final reminder that's star 1 on your telephone keypad to signal for questions. And now we have a follow-up from Moshe Katri with Wedbush Securities.

Moshe Katri: Hi, thanks. I actually I have two follow-ups. , just I'll take another try on looking at Q1 and the actual guidance. Maybe directionally you can help us. Do you think net revenues will be down sequentially? That's number one. And then number two, you mentioned ongoing efforts on the integration side with Lime, maybe talk a bit about where do you see the opportunities for the integration or getting some sort of a cost synergy here.

And then when do we see or when do we expect Lime to get our centeral financial system? Thanks.

Michael Bieber: Yes. I can take it in order of what you asked. Yes, I think that sequentially from Q4 to Q1, we'll probably see a decline in net revenue. I think that's logical.

In terms of Lime cost synergy, we can buy benefits and insurance more cheaply than they could under their prior ownership. So, you're seeing that in part of our 2019 guidance. Those are relatively small numbers, the bigger number is in ability to cross-sell with Lime.

And Tom mentioned California is right on the horizon. We think that we can capture some of that upside in 2020. In terms of Lime on our accounting system, we are actually having ongoing meetings with them now. We've transferred some of the data onto our ERP system and that'll probably happen in Q3 or Q4 in this year in terms of completing that process, but we've already begun the process at this point.

Moshe Katri: Understood. Thanks.

Operator: And as there are no further questions, I'll turn the call back over to our speakers for closing comments.

Thomas Brisbin: I'd like to thank all of you for participating on our call today and for your continued interest in Willdan, and have a great day. Thanks a lot.

Operator: And that concludes today's conference call. We thank you for joining.