# Willdan Group
# First Quarter 2022 Earnings
# May 5, 2022

**Presenters**
**Al Kaschalk – Vice President-Investor Relations**
**Tom Brisbin – Chairman and Chief Executive Officer**
**Kim Early – Chief Financial Officer**

**Q&A Participants**
**Craig Irwin – Roth Capital Partners**
**Marc Riddick – Sidoti and Company, LLC**

**Operator**
Ladies and gentlemen, welcome to the Willdan Group first quarter 2022 earnings conference call. Our host for today is Al Kaschalk, VP of Investor Relations. Mr. Kaschalk, please go ahead.

**Al Kaschalk**
Thank you, Mary. Good afternoon, everyone, and welcome to Willdan Group's first-quarter fiscal 2022 earnings call. Joining our call today are Tom Brisbin, Chairman of the Board and Chief Executive Officer; Kim Early, Chief Financial Officer; and Mike Bieber, President.

The call today builds on our earnings release we issued after the market closed today. You may find the earnings release and the Willdan investor report that accompanies today's call in the Press Release and Stock Information section of our Investor Relations website found at ir.willdan.com. Management will review prepared remarks, and we will then open the call up to your questions.

Statements made in the course of today's conference call, including answers to your questions, 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 annual report on form 10-K for the year ended December 31, 2021. The company cautions investors not to place undue reliance on the forward-looking statements made during the course of this conference call. Willdan disclaims any obligation and does not undertake to update or revise any forward-looking statements made today.

In addition to GAAP results, Willdan also provides non-GAAP financial measures that we believe enhance investors' ability to analyze the business trends and performance. Our non-GAAP measures include net revenue, adjusted EBITDA, and adjusted EPS.

Tom, I will now turn the call over to you.

**Tom Brisbin**
Thanks, Al, and good day, everyone. We spoke just 60 days ago, and the burning question then was, when do we return to pre-COVID results? First-quarter is on our plan, which reflects lower profitability, but it is what we projected. We ramped up heavily for the California programs, and our revenue in those programs is not covering our costs yet. We reaffirmed our guidance in both our press release and Kim's financial script that you'll hear soon. We expect the second half to accelerate and get us at pre-COVID results.

California programs are new for our customers and us. This outsourcing of their programs is taking extensive resources because processes and procedures are changing. The two programs with Pacific Gas & Electric, three with Southern California Edison, one with Southern California Gas Company and one with San Diego Gas & Electric, and one with Los Angeles Department of Water and Power, are all at different states of either new ramp-ups or post-COVID restarts.

It is a challenge, but our team is experienced, capable, and up to the challenge. We all know we must accelerate each week with sales, engineering submission, and getting projects to the point of revenue recognition. These are five-year programs, and individual projects take time. Revenue recognition has contractually changed a bit for milestone payments to project completion. Thus, we are investing extensively in the start-up phase.

We are confident in sticking with our forecast for the year. Beyond the California IOUs, we see a nice ramp-up in the Los Angeles Department of Water and Power program. We are awaiting new measures such as refrigeration to put in the program. This would give our salespeople much more to sell rather than just lighting.

We also see our software business with Integral Analytics doing well both in delivery and pipeline. Our New York City Housing Authority, NYCHA project, Performance Engineering, and our policy consulting group are all doing well.

New business includes a win on a re-compete for multifamily in New York and Ohio and in Ohio utility for IA software. Our Performance Engineering group has won two new jobs with California cities. We always thought Willdan's long history with California cities would be synergistic with a clean energy economy. That day is here, and we will grow with time.

On that note, our civil engineering business is doing very well. It is one of those times when building is booming, meaning everyone wants to get their projects done because significant headwinds occur, and that's just speculation only. The limitation for civil engineering today is growing faster--excuse me, the limitation for civil engineering growing faster is qualified people, same for our policy group.

Our program has not been immune to the disruption in the supply chain and overall cost inflation. In terms of supply chain, the biggest challenge remains the delivery of material and equipment at job sites where there's more complex equipment. While delivery schedule headwinds remain, cost escalation has not been as significant. We continue to collaborate with our customers and work with our suppliers to manage this environment.

From a labor perspective, we are essentially at full strength to execute the work for 2022 growth. This includes the 150 people we're carrying(sp) to operate the California utility programs.

In closing, our focus now is on execution. We have the work. The market is good. Now, we need to grow or ramp our revenue to cover the costs we have invested in the start-up of new contracts and restarting due to the COVID impacts. We are confident that second half of this year will show our return to pre-COVID profitability. Kim?

**Kim Early**
Thanks, Tom, and good afternoon, everyone. Gross revenue for the first quarter increased by 16.1% to $91.8 million, while net revenue net of subcontractors, materials, and other direct costs increased 4.6% to $50.2 million for the first quarter. The increased revenue was derived primarily from the resumption of a COVID suspended program and increased construction management activities, partially offset by lower software licensing due to a particularly strong period a year ago.

Gross profit of $31.4 million for Q1 of 2022 was down slightly from $32.1 million a year ago, primarily due to the lower software revenues and California IOU start-up costs in the current year. These were the primary factors behind the reduction in gross profit margins from 40.6% to 34.1% in Q1 of 2022.

G&A costs for Q1 of 2022 were $37.0 million, an increase of $647,000 or about 1.8% higher than a year ago. This was driven primarily by higher professional service and recruiting costs, partially offset by lower stock compensation and facility-related expenses. Interest expense was $313,000 lower than a year ago due to lower average borrowing levels during the quarter, resulting in a loss before income taxes of $6.2 million in Q1 of 2022 compared to a loss of $5.2 million in Q1 of 2021.

The income tax benefit for Q1 of 2022 was $2.4 million compared to a tax benefit of $1.5 million for 2021. The higher benefit was primarily attributable to additional facility energy efficiency deductions derived from projects completed in prior years. As a result, the net loss of $3.8 million in Q1 of 2022 was consistent with the $3.8 million loss reported a year ago.

Adjusted EBITDA was $2.3 million or 4.7% of net revenue compared to $4.7 million or 9.7% of net revenue a year ago, reflecting the change in the mix of revenues and the start-up costs for the new California IOU programs.

Our adjusted earnings per share were $0.07 per share for Q1 of 2022 compared to $0.22 per share in 2021. The impact of the start-up phase of the California IOU program was to reduce the adjusted EBITDA for the current quarter by $2.1 million and the adjusted earnings per share by $0.12 per share.

On the balance sheet, reductions in receivables and liabilities since year-end reflect a changing mix of revenues combined with the increased demand for working capital related to the resumption of our utility programs that were suspended and the start-up costs associated with the California IOU programs.

Cash used in operations was $7.8 million for the quarter, while capital expenditures were $2.1 million, primarily for software development and IT-related equipment. Scheduled principal payments on our term loans and earn-out payments resulting from successful acquisition performance used approximately $14.2 million in cash.

In Q1, and as previously disclosed, we amended our credit agreement with our five-bank consortium to better match our expected cash flows and related covenant metrics with our expected growth-related working capital needs in 2022. Looking ahead, we continue to expect net revenue and adjusted earnings per share to grow by approximately 20% over 2021 and adjusted EBITDA to grow by about 50%. We estimate our effective tax rate will be approximately 25% for the year, and weighted average shares outstanding will be approximately $13.4 million.

We expect Q2 to begin to show a significant increase in revenue and earnings over Q1 and for those increases to continue in each subsequent quarter as we ramp up the new utility programs and expand construction management activities.

Operator, we're now prepared to answer questions.

**Operator**
Great. Ladies and gentlemen, if you'd like to answer a question please press "*" "1". Again, to get in line to ask a question, please press "*" "1". One moment while we wait for questions.

And our first question is coming from Craig Irwin.

**Craig Irwin**
Good evening and thanks for taking my questions. So, I wanted to start with the California energy efficiency contracts. Can you maybe update us on the number of employees that you have in place that are doing the early work for these projects? How does this compare to, I guess, the 150 more or less that you had at the end of last quarter?

And can you approximate the expense burden in the quarter? So, if we were to maybe take that out, what this would look like? And do you expect to grow the number of employees here over the course of 2022 before they get productive in the back end of the year?

**Tom Brisbin**
We're still at 150, Craig. Expense was $0.12. Do you want to convert it to EBITDA?

**Kim Early**

$2.1 million.

**Tom Brisbin**
$2.1 million for the quarter, Craig. And I wouldn't expect a whole lot of growth in the headcount between now and the end of the year.

**Craig Irwin**
Excellent, excellent. So then $0.07 would have really been comparable to about '19, pre-COVID. Is that a fair sort of assessment?

**Kim Early**
That's correct, Craig.

**Operator**
All right. Once again, if you have a question, just press "*" "1," and we do have a question now. This is coming from Marc Riddick. Go ahead.

**Marc Riddick**
Hi, good evening. So, I wanted to go over the commentary that you had earlier around the updates around the credit facility and sort of how everything sort of lines up with the visibility, especially following when we last spoke, as you mentioned about a couple of months ago. Certainly, there was a greater expectation as far as your own internal ability to sort of have that visibility on the timing and having the matching of financing needs.

It certainly seems as though that it appears to be in place, and the commentary in the press release talked about a 12-month time frame. I was wondering if you could talk about maybe how much wiggle room you might have there? And if there's any situation that we should be thinking about that could sort of throw that off a little bit?

**Kim Early**
I assume you're talking about wiggle room within the covenants within the agreements. Is that what you mean?

**Marc Riddick**
Correct, correct.

**Kim Early**
No, we've got a pretty significant margin that should be comfortable for us. We certainly don't have any expectation of violating those numbers. The revised covenants under the agreement are based on leverage ratios, and they change with each quarter and also a minimum EBITDA number, both of which we should comfortably be able to remain in place.

And in fact, that was part of the reason for making the amendment was just to adapt to the timing and make sure that we had plenty of wiggle room, as you call it, under those agreements.

**Marc Riddick**

Okay, great. And then switching gears--

**Kim Early**
Again, just as a reminder, we do have the $50 million. Part of the reason that we restructured it the way we did was to make sure we had $50 million worth of that full line of credit available to us, so.

**Marc Riddick**
Okay. Excellent. Thank you. I wanted to talk a little bit about as far as if you did need to add heads, are there any particular areas that you think you might need to add? Or do you feel as though you're kind of where you want to be by sort of specialization? Or should we expect to see maybe more of a pickup in certain areas later in the year?

**Tom Brisbin**
He's talking about M&A.

**Kim Early**
Are you talking about headcount or M&A specifically?

**Marc Riddick**
Was talking specifically about headcount.

**Kim Early**
Okay. We're where we need to be right now and probably for the next two quarters on an average basis. In Q4, we will need to resume hiring again to continue the ramp-up into 2023 for the California programs as well as some early work that we're being very successful at in construction management and performance engineering going into 2023, but we should be good for the next six months.

**Tom Brisbin**
But revenue in that fourth quarter will cover expense for the new hires.

**Kim Early**
Sure. Yes, revenue is also expected to be up quite a bit in the fourth quarter. That's when we'll start recognizing the revenue from the work that we're doing now actually in the California IOU program. So profitability should be good in the fourth quarter. We won't see that phenomenon that happened this quarter where we don't have revenue to cover the headcount costs.

**Operator**
All right. We have a follow-up question now from Craig Irwin.

**Craig Irwin**
Yes, was a little aggressive getting cut off before. Thank you. The second part of my original question was, I just wanted to confirm that there was no energy efficiency revenue from the California IOUs in the quarter. You have talked about roughly $50 million this year. Is that still the expectation since your guidance is reiterated?

**Kim Early**
We had less than $1 million in revenue for the quarter, about $800,000 for the quarter so de minimis. And yes, some number around $50 million is a good number, Craig.

**Craig Irwin**
Perfect. Perfect. So second thing I wanted to ask about is LADWP. So I know that COVID has been a real headache for everyone, but it has left some money that I believe is available in the LADWP budget where they might be able to move sort of faster on some of the energy efficiency opportunities that they've been considering.

Can you talk about LADWP and the unused funds? What is the potential maybe to pull that down this year? And how do you see overall productivity shaping back up at LADWP? Is this still like could it be a key profit driver for you in '22?

**Tom Brisbin**
So first, the contract has been very good thus far this year. The team has done a very good job of ramping up thus far into the year. We are still in discussions with the client about what we call new measures, or I'll just say additional scope to the contract. So I don't have the conclusion of those negotiations right now for you, Craig, but we're in back and forth discussions about what they would like to add to the program, what that means for the program, and how we would roll that out. So hopefully, we'll have something more for you on the next call.

**Craig Irwin**
Understood. Understood. Can you maybe update us on National Grid? You guys have been winning some interesting contracts across the country over the last couple of quarters, not just in California.

How is National Grid starting to take shape? Does that have some of the same issues of supply chain and contracting that you've seen in California? Or maybe are the dynamics a little different? And do you see similar opportunities potentially materializing over the next couple of quarters?

**Tom Brisbin**
So that is a small energy efficiency contract that we are just starting up. I just happened to get an update yesterday about it. The contract is ramping up, but it's very small in comparison to the California IOU contracts. We have been very successful in the State of New York with that work. And so that is another utility we've added, and it's going well. Contract is going well.

**Craig Irwin**
Excellent. Excellent. And then I know you guys are always a little bit shy in answering this question, but there is another phase of work beyond the California energy efficiency contracts that have been awarded.

Can you maybe just give a little color on what you think would need to happen to see those come to light as far as the potential contracting? I know there is a regulatory timeline, but those aren't always followed. What should we look for as external observers for the key items for that to potentially come to the table?

**Tom Brisbin**
You want to answer? We're looking at each other. Do any of us know what the PUC is going to do?

**Craig Irwin**
I'm asking you to break out the crystal ball, Tom. I know. I know it's hard.

**Tom Brisbin**
Okay. So wild guess is I don't know. I guess if every contract was maxed out in five years, or it looks like it's going to be maxed up probably around 2023, 2024 to me they might expand it. There's more market, but this is bigger than ever. So I don't think they're going to make that decision until '23, '24. That's just a wild guess.

**Craig Irwin**
That makes quite a lot of sense. That does make quite a lot of sense. So then another general question. How would you say your visibility has taken shape on the overall level of activity in the space?

I mean, your stock has been sort of on a decline over the last few months, but I would expect with COVID sunsetting and your customers getting back to work, the visibility for you is actually improving, particularly given that you're in your customers' offices and seeing them regularly. What can you share with us? I don't know if there are any metrics or details that would help with the investor confidence in your visibility that is most likely this disconnect versus your stock?

**Tom Brisbin**
We mentioned last quarter that we now have about $1.2 billion in backlog. The way we measure backlog is that if you have an MSA that you've had for 30 years, you only record a year of revenue. So we think that's reasonably representative of our business. Of course $1.2 billion is significantly larger than our run rate so it's a couple of years of work that we're looking at right now.

In addition to that, a lot of that is utility work, but it has been robust in the Civil Engineering business and in the Performance Engineering business, where we go into primarily the (inaudible) market and perform work for municipalities. That business has been strong. We have, you know in that business alone, this year, we will do probably over $150 million in revenue. So visibility has never been better for Willdan. We've never been in this situation before. You're right, Craig; there is a disconnect.

**Craig Irwin**
And then last question, if I may. Integral Analytics, your software business, you bought this, and you've continued to invest in this because of a very close relationship with the commissions out there and the solution that IA brings to your partners, to your customers.

Can you maybe talk a little bit about what you're learning organically from that business that helps inform the energy efficiency and engineering side of the business? And if there is a little bit of a spending cycle on a recovery, how would you expect that to impact the release rate of contracts, given that there is potential for a number of fairly large infrastructure projects to be greenlighted over the next year or so?

**Tom Brisbin**
Well, if you look across the country, there's EVs and the concept of electrification. So the utilities are faced with load growth. Predictions, we've had, what, anywhere from 1%, 2%, or 3% for many years. They're looking 3% to 5% or more. And that growth rate of--they can't handle, I think it was last number I saw like by 2030 or was it 2040. So the impact on the grid is just going to get worse. They need more power to service the EVs and electrification.

So where are you going to go, more solar or wind or use less? So those are your options. Or more nuke but we haven't got there yet. What do you think, Craig? Is that what you're seeing?

**Craig Irwin**
Greenest megawatt is the one never used, right? That's what Jim Rogers from Duke used to say.

**Tom Brisbin**
Yes.

**Craig Irwin**
And I've always agreed with him, right? That's why I was so eager to cover you guys a few years ago, and it's been tremendous; the awards and the commitment from the utility industry, it's just COVID has been a frustration for all of us. So (inaudible) pretty clear.

**Tom Brisbin**
Yes. But the load growth, I mean, are you seeing with the EVs and electrification? I know you cover EVs.

**Craig Irwin**
The EV market is growing faster than expected here in the U.S., not as fast as Europe. And it brings a whole host of problems to the infrastructure that people don't anticipate. So your customers, I can imagine, would have a greater need for solutions like IA and your services to plan around that.

And I was kind of hoping, I had my fingers crossed that you would say that it's cheaper to plan properly using a package like IA than it is to spend on these $1 billion or sometimes multibillion-dollar projects. And that's going to be a pretty favorable proposition to some of these commissioners.

**Tom Brisbin**
Well, Craig, I forgot that part of your question. I got so caught up in thinking about how the utilities are looking at that. That's exactly what's going on in IA. I mean, today, tomorrow, and

the next day, they're getting those type of questions in their planning side of the IA software. So sorry about that. I talked more about load growth and just kind of assumed that they're going to have more need for planning, but that is the answer.

**Operator**
And we have a question now with from Marc Riddick. Go ahead, Marc.

**Marc Riddick**
Hi, there again. So thank you. I just wanted to--some of my questions were covered there. I just wanted to follow up on one of the things that took place during the pandemic was the direct install impact wasn't, of course, just in California, but also in New York.

I was wondering if you could talk a little bit about how that ended up evolving coming out? Because in the case of New York, things opened up faster than it did in California, right? And so I want to sort of talk about maybe what you're seeing direct install in New York since that opened and maybe what that pacing has been like? And is it sort of in line with what your expectations were?

And to a lesser extent, has that given any sort of greater visibility into what's taking place in LA? Thanks.

**Kim Early**
Yes, Marc. The Direct Install business in New York addresses the smallest of small businesses. So there was a grave concern that those businesses were more economically impacted during COVID. What actually happened was that the utilities reacted and typically increased their incentives to move energy efficiency projects forward in a poor economic situation.

So the net result to our business was much less impact to really almost no impact due to COVID because of the additional subsidies the utilities were willing to contribute. Now at this point, since we're mainly through COVID, the utilities are reducing those incentives, but we're seeing demand increase. And so the business has been pretty predictable in New York. There has not been much volatility due to the change in economic conditions.

**Marc Riddick**
Excellent. Thank you.

**Operator**
All right. We have no further questions at this time. I'll go ahead and turn the call over to Tom Brisbin.

**Tom Brisbin**
Well, I'd just like to thank everyone for joining us today, and we'll be talking to you in about another 90 days. Thanks a lot.

**Operator**
Ladies and gentlemen, thank you for joining us. You may now disconnect.