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Moderator: **Tony Rossi**

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Operator: Good day and welcome to the Willdan Group Third Quarter 2019 conference call. Today's conference is being recorded. And at this time I would like to turn the conference over to Tony Rossi. Please - of financial profiles. Please go ahead.

Tony Rossi: Thank you (Eduardo). Good afternoon everyone and thank you for joining us to discuss Willdan Group's financial results for the third quarter ended September 27, 2019. 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 we will 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 10K for the year December 28, 2018 and subsequent quarterly reports on Form 10Q.

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'd now like to turn the call over to Chief Financial Officer, Stacy McLaughlin. Stacy?

Stacy McLaughlin: Thanks Tony. I'd 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. Total contract revenue for the third quarter of 2019 increased 65% to $117.5 million from $71.4 million for the third quarter of 2018. The increase was driven by growth in our Energy segment, primarily related to the contributions from our recent acquisitions.

Net revenue, defined as contract revenue minus subcontractor services and other direct costs, was $50.8 million, an increase of 47.1% from $34.5 million in the year ago quarter. Within the Energy segment, net revenue increased by 81%. Within the Engineering Consulting segment, net revenue was consistent with the same period last year. Direct costs of contract revenue were $82.8 million for the third quarter of 2019, an increase of 72.3% from $48.1 million in the same period last year.

Our direct costs of contract revenue were 70% of our total contract revenue in the third quarter of 2019, compared with 67% in the same period of the prior year. The increase was primarily attributable to the impact of our recent acquisitions, which have programs that utilize a higher percentage of subcontractors and include a significant amount of material and equipment costs that are passed through.

General and administrative expenses for the third quarter were $33.4 million, compared to $18.4 million for the prior year period. The increase is primarily driven by higher salaries and wages, related to the personnel added through the last four acquisitions and the investment we are making in the California investor-owned utility procurement. The next most significant change was an increase of $4.7 million in amortization expense, largely due to the increase in intangible assets resulting from our acquisitions. We also had an increase in stock based compensation expense of approximately $2.4 million. Our third quarter results in 2019 included approximately $225,000 in acquisition costs.

We generated operating income of $1.3 million for the third quarter of 2019, compared to operating income of $4.9 million in the third quarter of 2018. We incurred $1.3 million in interest expense in the third quarter of 2019 compared to $22,000 in the same period last year. The increase is due to the debt utilized to finance our recent acquisitions. During the third quarter we recorded an income tax benefit of approximately $400,000.

Net income for the third quarter of 2019 was $400,000 or 4 cents per diluted share. On an adjusted basis, our net income was $7.6 million or 65 cents per diluted share. The most significant adjustments from GAAP, were stock based compensation of $3.2 million and intangible amortization of $3.8 million both net of tax. Both of these items are non-cash and are not a result of the increased performance within the operating segments. Adjusted EBITDA was $11.6 million for the third quarter of 2019, an increase of 63.3% from $7.1 million for the third quarter of 2018.

Turning to the balance sheet - we had $52 million in accounts receivable net at September 27, 2019 as compared to $61.3 million at December 28, 2018. Our cash flow from operations was $8.3 million in the first nine months of the year. As of September 27, 2019, we had a $97.5

million term loan outstanding and $5 million on our revolving credit facility outstanding, but no amount outstanding on our $50 million delayed draw term loan.

Turning to our outlook, I would like to update our financial targets for fiscal 2019. For the full year we now expect net revenue to range between $185 million and $285 million; adjusted diluted EPS to range between $2.10 and $2.25. We are reducing the bottom end of this range by 30 cents and the top end by 25 cents because of the slower earnings ramp that we have experienced for the first three quarters of 2019. We anticipate that we will continue to ramp earnings in the fourth quarter. Tom will discuss this in further detail.

We also expect an effective tax rate of approximately 24%; a diluted share count of 11.9 shares; depreciation of approximately $3.7 million; amortization of approximately $12 million; stock based compensation of approximately $11.9 million; and interest expense of approximately $5.1 million.

I'd now like to turn the call over to Tom.

Thomas Brisbin: Thanks, Stacy and good afternoon everyone. We delivered a strong quarter of earnings but did not meet expectations. We ramped up program expansions with a number of our larger clients. Compared to the first half of the year we saw significant increases in our work for Con Ed New York, LADWP, Duke and the Dormitory Authority for the State of New York.

Since finalizing the scope and funding for these program expansions, we have seen steady improvement in profitability. One area that we were disappointed with was organic growth. Organic growth was minus 11% for the quarter. Four percent was due to a reduction in software sales through IA, interval analytics. Software has a strong - has a growing pipeline, but the sales cycle is providing to be longer than expected. Six percent was due to our California investor owned utilities, IOUs, (going) down due to the expectations for new contracts. We had been caught in this process before. We expect California to start in 2020 and our organic growth rates to return to greater than 10%.

Looking at this from a dollar perspective, on $51 million for the quarter we missed $2 million in sales from IA and $3.5 million in sales from the California IOUs. We are fortunate that we have the broad national presence and diversity that can sustain our earnings growth much better than our previous positions when concentrated only in California. I am sure you want an update on California given the prior discussion.

As we mentioned before, we have been shortlisted for all 11 programs that we submitted abstracts on. We are now in the full proposal submission phase. Seven proposals have been submitted to PG&E and San Diego Gas & Electric. We are waiting on SCE, Southern California Edison. We do not expect any announcements until 2020, however negotiations could start in the fourth quarter.

We're also having success in expanding the scope of our work with other customers around the country. We were recently awarded Puget Sound Energy small business direct install program for the fifth consecutive time. It's a two-year contract with a value of $10 million, which is a $4 million increase from the prior contract. In addition to offering up previous energy efficient services, the scope of the program has been expanded to include services relating to HVAC and controls.

This is representative of a larger trend that we're seeing across our energy efficiency programs. We refer to it as Beyond Lighting. This is a very positive development for Willdan's capabilities and creates opportunities or organic growth in the future. We also received our first task orders for the Port Authority of New York. This is reflective of the growing momentum we have in our New York operations. In general, our business development activity continues to increase.

Since acquiring The Weidt Group and Onsite Energy earlier this year, we have begun joint business development efforts with each firm, and we have a good pipeline. Onsite Energy is building a great relationship with AT&T. The Weidt group is expanding to California. Turning to the acquisition that we announced today, we have always said that a policy consulting firm was one of our top priorities. With today's announcement of Energy and Environmental Economics or E3 as they're called, we have been able to fulfill our goal. E3 is one of the top firms in the country; in our opinion, the top firm.

E3 was founded in 1991 by Dr. Ren Orans. Four years later Mr. Brian Horii transitioned from PG&E. Mr. Snuller Price, a young graduate student from Stanford, was their first new hire. The fourth senior partner, Mr. Arne Olson joined in 1999 from Washington State Energy Office. Today E3 is 70 professionals strong. The professionals are subject matter experts in their respective fields. E3 has a portfolio of 250 projects that are the most impactful in the energy industry.

They have worked on their - they have worked on the Paris Climate Accord, which led to how countries create their sustainable policies. They work on the most progressive states - New York, California and Hawaii, on their clean energy policies, again creating a path forward for other states to enact sustainability goals. E3 has been growing at a very fast rate and we expect that trend to continue. Beyond the economic value of its own performance, E3 will provide strategic value to Willdan by providing us with visibility or a roadmap into the future. We believe this will enhance our strategic planning efforts, enable us to effectively position the company to serve the needs of our customers.

Now I want to wrap up with a few comments about our outlook. Since June, we have been seeing a higher profit generation each month. The programs that we have finalized are multiyear programs so we now have better visibility on organic growth based on program budgets. Any additional program wins through the California procurements or other business development efforts, would be additive to our already strong backlog. We have reduced guidance based on what we have delivered through the third quarter. We expect our ramp up to continue and there is a possibility for incremental awards that cause us to perform higher than this revised guidance. Informing our investors with the most current information is what we want to maintain.

With that I would now like to turn the call back to the operator for questions and answers.

Operator: Of course. 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 sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to pose a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take our first question from Chip Moore at Canaccord. Please go ahead.

Chip Moore: Yes. Hey Tom, Stacy and Mike. How is it going?

Stacy McLaughlin: Hello.

Chip Moore: I'm wondering if you can talk a bit more about - on the ramp of new projects, what specifically held things back in the quarter and now that we've got one quarter left, you know, what are we thinking about for sort of the low end and the high end of that outlook?

Thomas Brisbin: Yes Chip. Well we revised guidance. We took the bottom end of the EPS guidance down 30 cents and the top end down 25 cents as Stacy mentioned. That's basically what we were short this quarter. So we do expect the ramp to continue into next quarter and you can calculate the implied EPS from that. What's ramping specifically is Con Edison, number one, has more budget than our incremental goal. So if we can do more energy efficiency, we have budget for that in the Con Ed program.

A similar phenomenon is happening in both Duke and LADWP in that the customers have more budget for us if we're able to execute the work. But we're going to have to continue to ramp up throughout the fourth quarter, to hit those. So that's why we brought down guidance; that's what's driving it. And it's really due to the performance we've had year to date, because we do issue only annual guidance, not quarterly guidance.

Chip Moore: Got it. That makes sense. That's helpful. And Tom, you talked about organic, right? Now, you know, three quarters in a row on the net side down - is something still - you're still confident in that 10% goal? You know, do we really need to see California get going to get back to that; or perhaps some lumpier IA deals? Or how should we think about that?

Thomas Brisbin: A little bit of both. Lumpier IA deals and California getting going. But there are other things in the pipeline that will help. So we're not too concerned about it. I mean I know it looks like a bad quarter number/bad year number but we're in a big wait and see. So overall…

Chip Moore: Yes. No that - that makes sense.

Thomas Brisbin: Overall we're not concerned.

Chip Moore: That's good to hear. And then E3 maybe, you know, talk a bit more about how long you've known them; what they bring; and then is that $16 million net; and what are we thinking about in terms of contributions from that business?

Thomas Brisbin: We've known of their reputation for as long as we've been doing the business. E3 is a pretty common name in the business. They have a great reputation. We've gotten to know them over the last 2-1/2 years. We've worked jointly on projects; we've won projects together already. I can't speak to them because they haven't been announced. But I think the synergy with E3 and Willdan will be fantastic. We are very excited about it.

With regards to the other part of the question, the net revenue, I think most of it is net revenue. They don't have - they have very little pass-through. Is that fair?

Mike Bieber: Correct.

Chip Moore: Yes.

Thomas Brisbin: Does that answer all of your questions? There was a net revenue and synergy type and how well was it…

Chip Moore: Yes. No, that's good. Yes. I'll hop back into the queue and let others hop on here. Thanks guys.

Operator: If you find your question has been answered you may remove yourself from the queue by pressing star 2. We'll now take the next question from Craig Irwin at ROTH Capital. Please go ahead.

Craig Irwin: Hi. Good evening and thanks for taking my questions. So the first thing I wanted to ask about is the $4.9 million intangible amortization expense that you called out as an adverse impact in the quarter. Can you discuss the accounting for this and what drove this expense?

Stacy McLaughlin: Yes. Hi Craig. The - it's related to the purchase price allocation from acquisition. So when the purchase price is first recorded it is then adjusted via working with our auditors as well as valuation specialists. So it was an adjustment to the intangibles. So it was an increase in intangibles which brought in an increase in the expense side.

Craig Irwin: So then why didn't you pull it out of your adjusted EPS you included in the release? I mean traditionally most companies will actually pull that out which means you had a fantastic quarter on an earnings standpoint, of 80 cents. I mean is - can you maybe share with us the logic of how you evaluate it in versus out?

Stacy McLaughlin: Yes. We do pull out intangible amortization when calculating our adjusted EPS. So it is pulled out. And if you go to page 11 on the press release, the detail is there.

Craig Irwin: So this is not a separate charge, this is just bundled in your standard amortization?

Stacy McLaughlin: Correct.

Craig Irwin: Okay. Okay. Yes, no, the way it was called out in the press release I thought it was a charge. So okay, so then ((inaudible)) Lime right, can you maybe update on what Lime did in revenue for the quarter; what the - what's the growth trajectory is with Lime right now? You know, sometimes integrations take a little bit of time to gain traction. Can you maybe ((inaudible)). Is Lime likely to exceed your 10% growth target in '20? And how do you feel about them capturing additional business beyond California?

Mike Bieber: Yes Craig, this is Mike. I don't have the quarterly numbers for Lime but I know exactly what the annual numbers look like. So last year Lime did $150 million in gross revenue and about $12 million in EBITDA. And this year they're on a trajectory and we're expecting them to do $162 million to $165 million in gross revenue and maybe $14 million in EBITDA. So they are on that - right on that 10%, 11% growth trajectory that we talked about when we acquired the company. We thought that they had the ability to maybe even do better than that and they do have funding from their customers that would support a higher number. But they have to get that worked done; ramped up. So I think it's more like a 10% growth number for this year.

Thomas Brisbin: And to the second half of that question…

Craig Irwin: Okay. That's fair. Good (attribution) in the first year for any acquisition. So then one of the key questions that's coming up with investors is probable execution, you know, if and when we do see these California materialize, right? So Duke and LADWP were a little bit slow this year, you know, but seem to have rectified, you know, been rectified through the actions you've taken. You know, you've had the slowness with the IOUs in the quarter.

Can you talk a little bit about your level of preparation or readiness to execute some of these contracts that are in late stage negotiation? Are these contracts that could, you know, realistically take six to nine months of planning and preparation to start seeing significant revenue generation? Or are some of these contracts really more related to just direct hiring and capacity in existing offices with existing expertise?

Thomas Brisbin: Craig, to your first part, hiring - you've got to keep in mind we are the incumbent or a large incumbent at all three of the IOUs. So we have people in place; we have the program managers, the staff in place; we have acquisitions that have been made in Northern California and Southern California, that have been working on these contracts. Without telling you too much about what we're doing, I could tell you that not only we are an incumbent but the way we structured this to use the people who are already doing the work, are part of our (teaming) efforts.

So there's a large incumbency in our plan. There's an idea of a ramp up, not so much? It's more of a consolidation by the utility into smaller - fewer contracts. So we have consolidated the industry to deliver that. Does that make sense to you?

Craig Irwin: Yes. That's perfectly clear. That's very helpful. Moving onto integral analytics - $2 million revenue shortfall, you know, that's obviously very high margin revenue when it materializes. So I'm sad to not see that in the quarter. But this is not the first quarter where customers have been particularly sticky for IA. Can you maybe share with us what you think is causing the stickiness of final customer decisions? Is IA potentially losing business to other vendors? Or is this really just a budgeting and extended purchase cycle issue with your utility customers?

Male: Yes Craig. We're not aware of a single instance where IA has been beat by another company or a customer who is evaluating IA software chosen other solution. What we have seen though is a very slow change at the utility level towards more advanced planning tools, which we offer. They really crawl along. And we've had opportunities in the pipeline where we've made technical presentations to utilities for, you know, periods upwards of two years. So the sales pipeline for IA is slower than we originally thought I would say two years ago.

Having said all of that, they do have a strong pipeline. There are a number of larger contracts out there, some of which we think we're pretty close to, but it's not done until it's done. So because you really can't predict the timing of those events, we have been and are going to continue to be, pretty cautious on forecasting IA activity until it happens. When it does happen though, we'll update you. To the extent we can we'll press release it and it would have potentially a significant impact to earnings.

Craig Irwin: Yes. That's good to hear. So then the next question is cash, right? In the quarter you used what, $27-1/2 million in cash. You know, I know there were some investments as far as the acquisition (and) $25 million more or less. But can you share with us sort of where you want to manage your balance sheet to, as far as leverage? What do you see is a fair leverage ratio for the company? And, you know, is cash generation a priority for you over the next, you know, over the next year, or are you prioritizing acquisitions and accretive growth opportunities as more of an important item for the company to pursue?

Stacy McLaughlin: Cash is an important item for us, most definitely. Our credit agreement allows us to go up to 3.5 times leverage. We're currently about 3 and that's where we - we don't want to go above that. So we don't - we still have some flexibility there even though we aren't comfortable in the 3 to 3.5 range.

Male: In terms of future investment, you know, we do expect that number will come down. It's probably at a peak right now. And that number is actually after E3, so it's not reflected in our current balance sheet that you're looking at. But after E3 we're at about 3 right now; it'll come down. We've looked at it pretty closely. And the priority will be to generate cash such that we could keep up this type of investment pace. I think, you know, on a more steady state business the ideal leverage is probably 2 to 2-1/2 turns of EBITDA.

Craig Irwin: Got it. Got it. And then the last question - E3 - you've got 63 days left in the quarter after you closed it. What kind of revenue expectations do you have for the fourth quarter? Is this really just likely a (stub) period where there's limited revenue that's actually booked given the integration and then, you know, the disruption to operations that always happens in any acquisition? You know, how should we look at the impact for the fourth quarter?

Mike Bieber: Yes. On E3 it really is de minimus. We have something like 60 days left on a run rate of, you know, call it $16 million in revenue. So it was so small. We (billed) to the end; we looked at it and said we're not going to change anything because of this. In terms of disruption though, this is not one that will be highly disruptive maybe like Lime was. This is a company as Tom mentioned, we're working very closely with. And in the dating process we actually were awarded two major contracts with them. So we're already working with E3 right now.

The relationship is very good. Sometimes you don't get that kind of pull through with acquisitions, but this has been a very good process with E3 so I would expect no disruption with working with them. We're already doing that.

Craig Irwin: And I'm just curious, maybe you can answer this, where the contracts you are referring to may be related to the California Energy Efficiency Procurements or are these, you know, other national contracts?

Mike Bieber: Because they have not been announced publicly, I'm not going to talk about the client because the - I don't believe the client's announced that.

Thomas Brisbin: We can give you an idea though. Take someplace in the Midwest who wants to turn in let's say two blocks into a smart city. They want to be state of the art on everything from using the least amount of energy to controlling the load as well as using renewables. We partnered with E3 and I can give you a pretty high confidence that partnership allowed us to win that job. So we will be building something comparable to what's at - in Chicago at the IIT campus for Commonwealth Edison, a very smart campus. This will be a very smart two blocks in the Midwest.

Craig Irwin: Excellent. Last question if I may - are there any contracts in the California (EE) procurements where you have been notified that you are selected as the winner of the contract but are in negotiation of terms and conditions for execution of a final contract? I understand that happens fairly often in this kind of procurement - I mean I'm not asking you to disclose the names but do you have indications of an award where you're really just ironing out details with your customers?

Thomas Brisbin: The next step for the next utility will be to make that decision. That's all I can tell you. And they have not made it.

Craig Irwin: Great. Well congratulations on the progress. You know, we look forward to hopefully a smoother IOU and IA quarter in the fourth quarter. Thank you.

Thomas Brisbin: Thanks Craig.

Operator: Once again, if you'd like to ask a question please press star 1. We'll now take our next question from (Robert Hillhauer) at KC Capital. Please go ahead.

(Robert Hillhauer): Hey everyone. Thanks for taking my question. I'm just looking for a little more information on how we should think about kind of the margin ramp going forward. I know in the press release you guys added a comment about, you know, the industry evolving from lighting toward HVAC. And I'm curious, you know, can you just kind of walk us through kind of the, you know, how we should juxtapose the kind of short term maybe ramp in costs as those programs increase like you've seen over the last couple of quarters, versus the long term kind of growth in that sector and kind of like the tail growth that you could see over the long term? And thank you very much for taking my question.

Mike Bieber: Yes. This is Mike. If you look in the quarter, our EBITDA as a percent of net revenue is about 22% margin. We had predicted that margin would improve and it did in Q3. And it'll be, you know, up around there; maybe even higher on - in Q4. The evolution from lighting towards more complex measures, has not had an effect on that margin profile, even if you go back over the last year or two years. That transition is a gradual one at the IOUs and has not had an impact on the margin thus far.

The pricing for more complex measures, we think over time, as they become more complex, may improve. But that hasn't happened. It's still early in that most of our IOU projects have somewhere between 10% and 30% more complex measures compared to the more - the simpler lighting measures. So it's still a slow and gradual change.

(Robert Hillhauer): Okay. Got it. Thank you.

Operator: It appears there are no further questions at this time. I'd like to turn the conference back to management for any additional or closing remarks.

Thomas Brisbin: Okay, thank you. 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.

Operator: That concludes today's call. Thank you for your participation. You may now disconnect.