Company: **Willdan Group, Inc.**

Conference Title: **Willdan Group Fourth Quarter 2016**

Moderator: **Tony Rossi**

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Operator: Good day and welcome to the Willdan Group Fourth Quarter 2016 Conference Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Tony Rossi, Investor Relations for Willdan Group. Please go ahead sir.

Tony Rossi: Thank you Melissa. Good afternoon everyone and thank you for joining us to discuss Willdan Group's Financial Results for the Fourth Quarter, ended 30th December 2016. With us today from management are Chairman and Chief Executive Officer, Thomas Brisbin; Chief Financial Officer, Stacy McLaughlin; and Mike Bieber, President of Willdan Group. Management will review prepared remarks and we'll then open up the call to your questions.

Statements made in the course of today's conference call, which are not purely historical, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements involve certain risks and uncertainties, and it is important to note that the company's future results could differ materially from those in any such forward-looking statements. Factors that could cause actual results to differ materially, and other risk factors, are listed from time to time in the company's SEC reports, including, but not limited to, the Form 10-K for the year ended 30th December 2016, 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 measures that we believe enhance investor's ability to analyze our business trends and performance. Our non-GAAP measures include revenue, net of subcontractor costs, and EBITDA. We believe revenue, net of subcontractor costs, allows for an improved measure of the revenue derived from the work performed by our employees. EBITDA is the supplemental measure of operating performance, which removes the impact of certain non-recurring income and expense line items from our operating results. GAAP reconciliations for both of these non-GAAP measures are included at the end of the earnings release we issue today.

With that, I will now turn the call 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 fourth quarter of 2016 increased 82% to $57.4 million from $31.5 million for the fourth quarter of 2015. Genesys Engineering, the firm we acquired in March 2016, contributed $13.1 million in contract revenue for the fourth quarter of 2016. By segment, including both organic and acquisitive revenue, energy efficiency services increased 141% to $38.3 million; engineering services contract revenue increased 27.5% to $15.4 million; revenue from public finance services increased 10.6% to $32 million; and homeland security services revenue decreased 25.4% to $502,000 for the quarter.

For the purposes of calculating our organic growth in the quarter, we are including the revenue generated by Genesys Engineering that exceeds the revenue recorded in the same period of the prior year. In the fourth quarter of 2015, Genesys generated $11.7 million in total contract revenue. The year-over-year difference of $50.7 million is used for the calculation of our organic growth, which we calculate to be 33.5% in fiscal year 2016. Since the acquisition, we have won joint programs where all of the revenue is being reported under the Genesys legal entity. Thus, the growth in Genesys revenue is reflective of our organic business development efforts, and is counted in our organic revenue growth.

Net revenue, defined as contract revenue minus subcontractor services and other direct costs, was $28.4 million, an increase of 34.8% from $21 million in the year ago quarter. Direct costs of contract revenue were $39.3 million for the fourth quarter of 2016, compared with $18.4 million in the same period last year. Genesys Engineering accounted for $11.3 million of the direct cost in the fourth quarter of 2016. Excluding the impact of Genesys, the direct cost of contract revenue increased by approximately $9.6 million, primarily as a result of the growth in total contract revenue in the energy efficiency services segment, and the corresponding increase in subcontractor services and other direct costs. Our direct cost of contract revenue were 68.5% of our total contract revenue in the fourth quarter of 2016, down from 72.5% in the third quarter of 2016.

General and administrative expenses for the fourth quarter were $15.4 million, compared to $12.7 million for the prior year period. As a percentage of total contract revenue, our G&A expenses were 26.8%, compared with 40.3% in the fourth quarter of 2015. The improvement in this ratio was primarily driven by increased efficiencies and greater operating leverage, as we scaled the company. G&A grew 22% quarter-over-quarter, while revenue grew 82% over the same time period, indicating that our back office costs are growing at a far slower rate than revenue.

Operating income was $2.7 million for the fourth quarter of 2016, compared with $456,000 generated in the fourth quarter of 2015. EBITDA was $3.7 million for the fourth quarter of 2016, compared with $1.8 million for the fourth quarter of 2015. EBITDA margin for the fourth quarter was 6.4%, an increase of 70 basis points for the same period in the prior year.

Income tax expense was $1.1 million in the fourth quarter of 2016, compared with $210,000 in the same period last year. Our effective tax rate in the fourth quarter of 2016 was 40.7%, compared with 35.6% last year. The tax expense recorded in the fourth quarter of 2016 brought us to an effective tax rate of 27% for fiscal 2016, which was essentially in line with our guidance.

For fiscal 2017, we are expecting an effective tax rate of approximately 38%. As of now, the 179D energy efficiency tax deduction that we utilized in 2015 and 2016 has not yet been approved by Congress for 2017. Accordingly, we have not imbedded this into our assumption for the effective tax rate in 2017, although there is still the possibility that it could be approved. The 38% effective tax rate we are projecting would still be lower than our historical tax rate, due to our use of other tax reduction strategies, including R&D tax credits, and California state tax planning.

Net income for the fourth quarter of 2016 was $1.6 million or $0.18 per diluted share, compared to net income of $380,000 or $0.05 per diluted share for the fourth quarter of 2015. We continue to see a significant improvement in our cash flow generation due to the combination of our higher income and lower tax rate. In fiscal 2016, we generated $21.6 million in cash flow from operations, up from $8.1 million last year.

Turning to the balance sheet; with our strong cash flow, we have seen a steady build up in our cash and cash equivalents. We finished the fiscal year with $22.7 million in cash and cash equivalents, an increase of more than $4 million during the fourth quarter, and more than $6 million from the yearend of the last fiscal year, despite the use of nearly $9 million for our acquisition activity earlier in the year. The improvement we have made in our collection efforts and cash conversion cycle is resulting in DSOs more consistently in the mid-sixties. At the end of the fiscal year, we had DSO of 65 days.

As of 30th December 2016, we have no outstanding borrowings under our revolving line of credit, and approximately $1.5 million in loans outstanding under the term loan facility. In January, we negotiated an expansion of our credit facility with BMO Harris Bank. Our new credit agreement consists of a $35 million three year revolving line of credit. Subject to satisfying certain conditions described in the agreement, we also have the ability to request that BMO increase the aggregate amount under the revolving line of credit by up to $25 million, although BMO is not obligated to do so. This would increase our total facility size to $60 million.

Turning to our outlook for fiscal 2017, we are expecting a full year of revenue to range from $230 million to $245 million, and our diluted earnings per share to range between $1.05 and $1.20. I will note that our diluted EPS forecast is being significantly affected by a higher tax rate and a higher share count in 2017. Our effective tax rate increase from 27% in 2016 to an estimated 38% in 2017, due to the lack of 179D deductions that I've already described, negatively impacts EPS by approximately $0.20 in 2017. Likewise, our weighted average diluted share count is expected to rise from $8.6 million in 2016 to $9 million in 2017, driven primarily by the rise in the stock price that has occurred over the last 12 months. This share count increase negatively impacts diluted EPS by approximately $0.05. Without these two non-operational effects, our diluted EPS would be approximately $0.25 higher in 2017.

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

Thomas Brisbin: Thanks Stacy, and good afternoon everyone. We are pleased with our fourth quarter performance. We delivered another quarter of significant year-over-year growth in revenue, earnings per share and EBITDA. We are consistently executing well on our current programs by delivering strong energy savings for our customers. We are also ramping up on new programs that will make larger contributions in the coming years. With the people, processes and controls we have put in place, we are optimistic about our ability to sustain this level of performance and effectively manage our growth in the future. For the full year 2016, we delivered total revenue growth of 55% and organic revenue growth of 34%. As we have discussed in the past, we are targeting both organic and acquisitive revenue growth of greater than 10%, resulting in total revenue growth of greater than 20% per year. We clearly achieved this target in fiscal 2016, and we are pleased with the resulting impact on our level of profitability.

Moving to the performance of our individual segments, I will start with energy efficiency. On a year-over-year basis, energy efficiency revenue was up 141%. Although the fourth quarter tends to be a seasonally slower period, the overall growth we are seeing from new programs helped to offset the impact of seasonality. Similar to last quarter, the largest contributions – the largest contributors to our revenue were major utilities; Con Edison, San Diego Gas and Electric, Southern California Edison, Puget[?] Sound and universities. Some of the new programs that also started to make contributions in the fourth quarter were the multi-family program for Con Ed and the New York City Housing Authority (NYCHA). We have a new contract with Constellation Energy that addresses Energy Savings for NYCHA. Our first task order is to address energy reduction, using LED lighting at approximately 18 developments or groups of buildings throughout the city.

We are also seeing more activity in newer states for Willdan, including New Jersey, Connecticut, Colorado, Missouri, Nebraska and Utah, where we just executed on a $1 million performance contract for a major hospital network in the fourth quarter. Across the board, we are seeing positive results from collaboration, cross-selling and sharing of best practices, and institutional knowledge among our various offices around the country and integrating more performance contracting into our customer relationships. With the skills and experience we have added through our recent acquisitions, performance contracting is now a core competency of the firm, and having a positive impact on our ability to expand relationships with existing customers and win programs from new customers. Please note our press release today about Lawrence, Kansas. We expect to see this across many of our cities.

Turning to the engineering segment, revenue was up 27.3% over last year. This caps the strongest performance for our engineering segment since 2006. We are seeing strong demand for services in our California and Arizona cities. Our combination of experience and capabilities resulted in our engineering segment winning approximately 70% of the proposals we submitted in 2016. As long as the economy remains healthy in the Western states and construction trends remain positive, we should continue to see steady growth in our engineering services revenue.

In public finance, our revenue was up 10.3% from last year. We are seeing good synergies with our other businesses, as approximately one-third of our public finance services revenue in fiscal 2016 came from utility–related projects. And finally, homeland, we continue to execute on long-term contracts to provide training and exercise services to the cities of Chicago and Santa Ana, as well as implementing the FEMA national exercise program in the western United States.

Looking at our expectations for 2017, we are well positioned to deliver another year of profitable growth. We are seeing positive market trends with the funding for many of our existing programs being increased, and more utilities across the country being mandated to increase their energy savings goals. We are continually evaluating the changing landscape in our markets, and identifying areas of opportunity to strengthen our ability to continue winning new business. We recently invested in new talent that will help us in two key areas: (1) adding more regulatory expertise so that we make sure we understand what the utilities need to do in order to comply with new mandates from the policymakers; and (2) improving our ability to compete for community solar projects. Our existing LCR program with San Diego Gas and Electric, the largest ever awarded, is moving forward, and we expect to get a notice to proceed sometime this spring. We expect this program to start to contribute later this year, with a larger impact in 2018 and beyond.

Our priority in 2017 is delivering outstanding results on our current programs and winning larger jobs with our existing customers, as new programs evolve and get bigger, especially in California as the utilities move forward on their mandate to increase the amount of energy efficiency programs that are outsourced from 20% to 60%. We have a stable base of existing programs upon which to build. Earlier this year, we signed a new three-year contract with Con Ed to continue with our largest existing program and expanding its target end users to include larger commercial customers. The contract size we announced reflects just the baseline amount. But we are currently negotiating additional modifications similar to the projects that increased the scope of the contract in previous years. We started at 74 MWh and we have already received increases to 81 million MWh – excuse me, 81,000 – let's just make it 81 million – sorry about that – roughly greater than a 12% increase. I've got too many zeros I'm looking at here.

To wrap up, 2016 was a strong year. It represented the type of performance that we have been building towards. With this stability we have in existing programs and a pipeline of new programs ramping up. We believe we are well positioned to sustain our momentum, continuing generating profitable growth and creating additional 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 would like to ask a question, please signal by pressing star one 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, if you have a question at this time, please press star one. We'll first go to Al Keshock with Wedbush Securities.

Al Keshock: Hey, good afternoon and congrats on a great year.

Thomas Brisbin: Thanks Al.

Al Keshock: I wanted to understand, the strong top line performance in the fourth quarter was a bit much – a couple $12 million more than what we were modeling. And I don't know if there was an acquisition or a new start of a contract. I heard you say the Genesys piece, but there's something else in there that helped. And I was just wondering if you could articulate that, even if it was relative to your own plans.

Michael Bieber: This is Mike. It was actually broad based. While Genesys contributed strongly, we saw good growth from 360. We had the Pacific Core contract start up across our energy efficiency programs. They had strong performance. And engineering was particularly strong. So it wasn't from any one place, Al.

Al Keshock: Okay. Did you have any – I mean, I would have thought that with the weather, we always hear about slow down. People didn't take vacations this year or you didn't have any much of an impact. Like you said, it was just much broader based and from a lot of different places?

Michael Bieber: Any slowdown was obviously immaterial to us.

Al Keshock: Yeah. Okay. Fair enough. Tom, you commented that larger contracts with existing customers. I'm just wondering what that means in terms of the organization. What other – is it skillsets that you need? Is it some of the investments you've made in people already? What's necessary, as the organization now is clicking well above $200 million in annual revenue?

Thomas Brisbin: I don't think we need to add all that much. There are a few areas in our pipeline of acquisitions that would make key discriminators, but in terms of performing the work we've won, the work that's growing, we have it in-house. What we're looking at is in California, the work that we've been doing is going to go anywhere from 3X to 5X larger –that's the 20% to 60%. California put out a number, 100% has to be outsourced. In Illinois, we had proposals in that have just been withdrawn. They're going to come out with a new RFP because they just went 2X, 3X, maybe 4X, larger after the RFPs went out. New York is looking to scale up anywhere from 50% to 200% over the next two years. So, our focus is trying to win as much of the work that we've been doing with our customers, as they expand.

Al Keshock: Yeah. You mentioned the utilities, I believe, and then some solar projects that are working the way through. Can you talk a little bit about that? I think solar was maybe a newer revenue stream than I've heard in the past.

Thomas Brisbin: Yeah. We've made a key hire, Dave Buemi, which we announced in a press release about 60 days ago, for community solar, where more and more communities are going to get together and put in solar, combined with storage, to provide their power. So it's a very large untapped market, which we'll see growing over the next five to ten years. Where historically solar's been by almost utility providers, this is going to be by communities now.

Al Keshock: Yeah. And then finally on the guidance, which looks fairly strong, I heard you about the tax rate, so things will be even better. Is there marginal revenue here that's at a better margin, or is it just absolute flowing in the work that you've won and announced into the guidance? In other words, is there anything in the $230 million, the $245 million guide, that you have to win yet, or is this – a lot of this already sealed and ready to be worked on?

Thomas Brisbin: There is nothing that we have to win yet.

Al Keshock: Okay, so that's all about execution. Very good. That's all I have.

Thomas Brisbin: Execution, ramping up, yeah.

Al Keshock: Okay. Thank you.

Thomas Brisbin: There's nothing in that guidance. Let's put it that way.

Al Keshock: Okay. Okay.

Operator: Thank you. We'll next go to Ryan Cassil with Seaport Global.

Ryan Cassil: Good afternoon, everyone.

Stacy McLaughlin: Hi Ryan.

Ryan Cassil: Tom, you'd mentioned California, the 20% to 60% increase, and even a discussion of going 100% outsourced. And we've heard this in the past. Could you talk about, I guess, just the driver behind that and any sense on timing or, you know, urgency to ramp that, would be helpful?

Thomas Brisbin: I'll talk. Southern California Edison is supposed to come out first in June. And the mandate that the PUC threw out – just kind of as a number, they threw out 100% has to be outsourced. And utilities came back and with, well, let's start at 60%. So we expect an RFP in June. SCE, we believe will be first, then either STG&E or PGE. And then at the time those come out in June to probably a year later, we expect to see that three-fold increase in the size of awards{?].

Ryan Cassil: So all that's incremental, I guess?

Thomas Brisbin: That's all incremental to what's out there now, yes.

Ryan Cassil: Okay, in your guide. Okay. And you mentioned also Illinois. I just wanted to be clear, you guys are rebidding that because things – the scope of work is getting larger, or I just kind of missed what you're saying.

Thomas Brisbin: Con Ed came out with an RFP which we responded to. We currently do data centers for them. And they came out with seven programs – I think it was seven – six in addition to data centers. We bit on about four of them. The proposals were in, and they cancelled them all because the Illinois Commerce Commission and Con Ed came back with goals three times greater than what they were talking about, you know, four months ago. So they're going to reprocure in about 60 days for larger contracts.

Ryan Cassil: Okay. And the nature of your –

Thomas Brisbin: Is that clear Ryan?

Ryan Cassil: Yeah. No, that's helpful. Can you just talk –

Thomas Brisbin: Right now, we're an incumbent – we're an incumbent on data centers right now.

Ryan Cassil: Okay. And then, I guess, just thinking – I mean, it sounds like you guys have a lot of positive drivers going on, you know, with existing customers. You mentioned new states. You know, where do you see the bigger growth opportunity, I guess, for incremental upside here in 2017, 2018? Is it from new states ramping, or is it these new programs? I guess, which would come first? Or could they come simultaneously?

Thomas Brisbin: I'd say the likelihood of the bigger amount would be California, New York, Illinois. Then you could take a mix of several other states that are coming online with programs, like New Jersey, which we're selected in, Connecticut, which we've just been selected in. I think we're trying to get into Massachusetts. We're looking at Wisconsin. Those other states are starting to come on, so I would say it's better to probably ramp up and win more, be incremental in the states you have. So, I'd split it about 70/30.

Ryan Cassil: Okay.

Thomas Brisbin: Because at 2X or 3X the stuff we have, and win new for about 30%.

Ryan Cassil: Great. And did you say San Diego Gas and Electric had not started yet? So that was not part of the Q4 ramp, I presume [inaudible] that's kind of all still in front of you.

Thomas Brisbin: Correct. I did say that.

Ryan Cassil: Okay. All right. Sounds good. And then, as I think about just your guidance and really just about margins going forward, subcontractor costs, I think, were about 50% this year. How do I think about that number going forward? Are you modeling that that is down as sort of percent of gross revenue in 2017? I'm just trying to kind of get a feel for where the leverage is in the model, based on how you guys see it?

Thomas Brisbin: Subcontractor costs, we believe as a percent of revenue, will go down. I'm looking at Mike. He's shaking his head. That's okay. He's the modeler. Want to add to that, Mike? Does that answer your question, Ryan?

Ryan Cassil: Yeah. If you guys want to throw a number out there, I would – as a percentage –

Thomas Brisbin: Mike, you want to throw a number out there? He's shaking his head, no.

Ryan Cassil: Okay. But presumably –

Thomas Brisbin: You'll have to try again later.

Ryan Cassil: Presumably though, do you also see, you know, the leverage on sort of salaries and wages and facilities and related expenses? Or should we see those staying flat as you sort of build out infrastructure for new contracts, new states, etc.? Any color there would be helpful just on how you're positioning yourselves for what sounds like stronger growth. And, you know, do any of those investments maybe offset some of the sort of volume leverage in your outlook.

Stacy McLaughlin: As a percentage of revenue, we would expect salaries to decrease. As for facilities' expenses and things along those lines, you know, we don't open an office until we have a project in that area. So until we need an office, we would not increase those expenses for those areas.

Ryan Cassil: Okay. Okay. Sounds good. And then just I guess moving to acquisitions, in the past you talked kind of about 10% organic growth target, 10% acquisitive target. I don't know if we're still sort of sticking with that here. But I've heard you guys talk about sort of focus on technology investments, whether it be algorithms to help smooth the load for customers in terms of their energy consumption. You've also talked increasingly about kind of tapping into the water market and the amount of energy that's consumed there. But if you could just touch on, you know, what you're seeing and where your focuses are, that'd be great.

Thomas Brisbin: Sure. We would like to improve our data analytics capabilities. We think that can be a technology discriminator going forward, and so we're looking at a few acquisitions in that area. We're excited about that. Secondly, water is probably a longer–term strategy for us. There is a nexus between energy and water, but that'll probably be a longer–term strategy. Electrical engineering is still an area that we would like to add over the next couple of years, though.

Ryan Cassil: Okay. Okay. Sounds good. Sounds like kind of near–term focus is the technology, electrical engineering, and then water is further out. Okay. Great. And maybe a last one for me, if I could slip it in, you mentioned, Tom, acquiring the regulatory expertise to kind of understand the mandates policymakers are making for you. Could you just explain a little bit, or expand on, what exactly that means? Are things getting more complex within your contracts or within your obligations to customers? Or is it just kind of the general evolution of the business? Any kind of color there would be great.

Thomas Brisbin: Okay. Regulatory policy at the state level, such as New York Rev or the California or Illinois ICC, as they adopt regulations, the one we're looking for, and how it rolls out, is how utilities will be paid more for saving more energy. We need to understand that so that when we propose on these things and do an energy efficiency, we understand, (a) that they're getting paid for this now. And the second part is, can they get paid more by delivering in areas such as load pockets? You've probably heard me speak about the Brooklyn Queens Demand side management job in New York. I mean, when they talk about New York Rev, they talk about BQDM – Brooklyn Queens Demand Management – where they went out and I think they publicly say they saved 52 MW through energy efficiency and other measures, to offset a $1 billion plus infrastructure spend. It was a substation in Brooklyn Queens, would have had to have been renewed or rebuilt. But by reducing the power by 52 MW, they didn't have to spend $1 billion. So they saved $800 million plus.

So the question is in energy efficiency, how do utilities get paid different from what they got before. Where they would have gotten 16%,17%,18% for that $1 billion infrastructure upgrade, they might have only spent $200 million on energy efficiency to defer it or get rid of it. How do they get the big dollars? That's all coming from policy. It's happening in New York. It's happening in California and Illinois. So we have a policy group led by Dr. Eric Woychik – I hope I said that right – and he is on the cutting edge. He's working on policy for California and Illinois and New York, so that we, when we as the implementers deliver, we know what the utility's looking for, as well as the Public Service Commissions. Does that help you Ryan? Or is that too complicated?

Ryan Cassil: No. That's good. I have a very simple brain, but that's good. And I guess the last thing kind of tying on to that, I mean, is there anything at the sort of national level? You hear all these things about the new administration, their plans. Anything that would be a potential risk to you guys from a policy perspective at the Federal level? Or is that not really an issue at this point?

Thomas Brisbin: Without being political, let's see how can I answer that question? I can say no, and I can give you proof. I think solar created 500,000 jobs; coal, 50,000. Solar on steroids, which we're talking about here, going future, would create 500,000+ new jobs. Energy efficiency – when it comes to greenhouse gas, California is digging in their heels deeper. Without becoming political, every time people try to take stuff away, it seems like states dig in and make the regulations tougher. So we see no change on the downside and an upside, if there is change.

Ryan Cassil: Okay. Great.

Thomas Brisbin: Now you can maybe help me with that – you can help me with that, Stacy, 179 tax issue if you want, politically?

Ryan Cassil: We'll leave that as upside. All right, thanks so much. Appreciate it.

Thomas Brisbin: All right. Leave it as upside. Yeah.

Operator: And again, that is star oneif you have a question. We'll take a question from Wyatt Carr with Western International Securities.

Wyatt Carr: Tom and Stacy and Mike, congratulations. Great year. Question: on the share count going forward, were most of the earn–outs in the share counts in the projections you gave? I think you're going from $8.5 million to $9 million. Does that include most of the earn–outs and everything?

Stacy McLaughlin: The earn–outs that we have left, we actually only have one remaining. It is all cash earn–out.

Wyatt Carr: That would –

Stacy McLaughlin: So the shares that were given for the acquisitions were at the beginning of 2016, and then again at the beginning of 2015, so they've already been included.

Wyatt Carr: Okay. Great. It sounds – and Tom you made the comment that in your projection or your guidance that these are contracts that are already in hand, they're done. But do you have any others that are like the New York Housing or university where – you know, that is a very sizeable contract but you get that in increments. And how much of that have you included in the guidance?

Thomas Brisbin: For the New York City Housing Authority –

Wyatt Carr: Right.

Thomas Brisbin: – we've got zero in there for guidance.

Wyatt Carr: Okay. So that could be quite accretive if – to that guidance?

Thomas Brisbin: If we do any more work for them, yes.

Wyatt Carr: Okay. And university housing?

Thomas Brisbin: Universities is – university housing, if we got 10% growth.

Wyatt Carr: Okay. The solar, you talked about new hires and some expertise in areas and the ability to compete in solar. Can you go into that a little bit ,and also what the hiring market is like? Are you experiencing shortages?

Thomas Brisbin: We're not experiencing shortages, okay? What's going on, there's a little bit more to it is that it's called community choice aggregation. Communities are getting together to figure out what their alternative is to buying power from – or buying all their power from the utility they always deal with. Communities also are getting together to figure out how they can generate, and store, and be just like a solar developer. So instead of primarily historically, whatever, it's been large investors or utilities developing solar, now communities are looking into develop solar. So that's called community solar. That's called community choice aggregation, which is where they group together to figure out how to generate their own electricity.

Wyatt Carr: Okay. There was an article recently by San Diego Gas and Electric that they put in one of the biggest storage units in record time in the San Diego County. Is that all figured into the solar picture that you're talking about?

Thomas Brisbin: Yeah, I mean, the problem with solar has always been, you know, it's only on during the day. So the problem has been – and it's starting to get solved – is the cost of battery storage. If they can store it for the night and it's economical, it's going to solve a lot of problems.

Wyatt Carr: Okay.

Thomas Brisbin: To this point, it has not been economical. It's all incentive driven – subsidy driven, whatever word you want to use.

Wyatt Carr: Okay. Do you have any kind of EBITDA margin goal? I mean, you increased your EBITDA margin by 70 basis points up to 6.4%. It has been higher. It's been lower. Is there a target that you'd like to kind of try for?

Thomas Brisbin: It's been higher because we had fewer pass–through for the construction costs. When we acquired Genesys, we had a lot more pass–through of equipment and construction, buying boilers and chillers. We were doing that primarily for DASNY, and that's the Dormitory Authority of New York, which did not allow for a markup on pass–through. So that capability was very important to us. We knew it was going to hurt our margin because of no markup on the pass-through. And we did it anyway. So that's why it went down.

Going forward we see margin improving again, because we're not – we have enough capabilities through Genesys, 360 and Abacus across the country that we don't have to necessarily build on that type of professional services. I mean, these guys will continue to grow and they'll grow in their space, but it won't come in and hit us as hard. Is that fair Mike? You want to add to that? Do you understand, Wyatt? Did I make it clear?

Wyatt Carr: Yes you did. And also, Ryan's question regarding the subcontracting amount which you indicated will go down, that also has a favorable impact too.

Thomas Brisbin: Do we have that in the forecast Mike, subcontracting going down? Ryan didn't get an answer, and so Wyatt's trying to get an answer. These guys are working together.

Michael Bieber: It may go down modestly, but it'll be of similar proportion to 2016, Wyatt.

Wyatt Carr: Okay.

Thomas Brisbin: That's a pretty good answer. Ryan, if you're still on, I hope you got that.

Wyatt Carr: And the last question is just kind of a housekeeping. You guys have indicated that you were going to – the segment reporting, which you did this quarter, that you're going to condense some of the groups. Is that coming? Or is that – or how would that evolve?

Stacy McLaughlin: Currently, that analysis is still undergoing, so we don't have the results of that yet.

Wyatt Carr: Okay. But, I mean, it could be instead of four reporting groups, you might be looking at two or three?

Stacy McLaughlin: We're looking at fewer than we have now, and we expect to have that for 2017.

Thomas Brisbin: We're looking two or one.

Wyatt Carr: Sounds good.

Thomas Brisbin: I'll say it. I can say that.

Wyatt Carr: All right. Sounds like there's a lot out there and that – oh, the one question I had is what – on 179D, what do you rate the chances that that'll come back in?

Stacy McLaughlin: I think our best guess is 50/50 at this point. We just don't know now whether or not that will be approved by Congress with the new administration.

Wyatt Carr: All right, but it's not in – you're not including it, obviously, in the rates you're using?

Stacy McLaughlin: Correct.

Wyatt Carr: Okay.

Thomas Brisbin: Wyatt, it's always been delayed. It's always been passed. It's similar to – solar was delayed, where[?] we're still going to give incentives, tax incentives, to solar. And they just were re-opted[?] about end of 2016, middle of 2016, for five more years. Now Mike's – we were discussing this before the call. Mike says that everybody's waiting to see what Trump does. If he reduces corporate tax to 15% to 20%, this is one of the things that might get killed. But if we get reduced to 15% to 20%, we'll still be in pretty good shape.

Wyatt Carr: Yeah, if you can come down from 38% to 20%, that would help a lot.

Thomas Brisbin: Yeah, we won't notice 179D, or whatever.

Wyatt Carr: Okay.

Thomas Brisbin: That's kind of how it's – that's what's holding it back, we think.

Wyatt Carr: Got it. Thank you very much, and congratulations. Great year.

Stacy McLaughlin: Thanks, Wyatt.

Operator: That concludes today's question and answer session. And we'll turn the conference back to Tom Brisbin for any additional or closing remarks.

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

Operator: That concludes today's conference and thank you for your participation.