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Operator: Good day and welcome to the Willdan Group First Quarter 2018 Conference call. Today's conference is being recorded. At this time, I would like to turn today's call over to Mr. Tony Rossi, with financial profile. Please go ahead.

Tony Rossi: Thank you Operator. Good afternoon everyone and thank you for joining us to discuss Willdan Group's financial results for the first quarter ended March 30, 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 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's important to note that the company's future results could differ materially from those in each such forward looking statements. 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 ended December 29, 2017 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 gap financial results, Willdan also provides non-gap financial measures that we believe enhance investors ability to analyze their business trends and performance. Our non-gap measures include net revenue and adjusted EBITDA. We believe net revenue allows for an improved measure of the revenue derived from the work performed by our employees. Adjusted EBITDA is a supplemental measure of operating performance which removes the impact of certain expense items from our operating results.

Gap reconciliations for both of these non-gap 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 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 first quarter of 2018 decreased 20.1% to $54.6 million dollars from $68.4 million dollars for the first quarter of 2017.

The decrease was primarily driven by the reduction in pasture equipment costs that we recognize as little to no margin. We are pleased to report that the percentage of sub-contractor and equipment pass through cost dropped sequentially again from 52% in Q4 2017 to 44% in Q1 2018. Entering 2018 we consolidated our reportable segments into two segments, energy and engineering and consulting.

The engineering and consulting segment includes public finance services and Homeland Security services, which were previously broken out as their own segments. However, with the faster growth we have experience in other areas of the company, they no longer met the criteria for separate segment reporting.

Net revenue defined as contract revenue minus sub-contractor services and other direct costs, was $30.5 million dollars, an increase of 7.3% from $28.5 million in the year ago quarter. The increase is due to growth in both of our segments.

Net revenue for our energy segment was $16.3 million dollars, an increase of 11% over the prior year. Net revenue for our engineering and consulting segment was $14.2 million dollars, an increase of 3% over the prior year.

Direct costs of contract revenue were $35.1 million dollars for the first quarter of 2018. A decrease of 30.8% from $50.7 million dollars in the same period last year. The decrease was primarily the result of lower pass through equipment costs related to our energy segment projects.

Our direct costs of contract revenue were 64.2% of our total contract revenue in the first quarter of 2018, down from 74.2% in the same period of the prior year. The decline was due to lower sub-contractor services and other direct costs which represented 44.1% of total contract revenue this quarter, down from 58.3% last year.

As I have explained in the previous two quarters, we expect this percentage to reduce into the low 40s in 2018. General and administrative expenses for the first quarter were $17.6 million dollars compared to $15.7 million dollars for the prior year period. The increase was due to higher pay roll taxes and stock-based compensation expense as well as increases in a number of miscellaneous expense items including insurance, facilities and accounting fees.

Compared to the fourth quarter of Fiscal 2017, our GNA expenses were relatively flat. As the percentage of net revenue, our GNA expenses were 57.5% up a bit from the 55.1% we had in the first quarter of 2017.

Operating income was $2 million dollars for the first quarter of 2018, an increase of a half percent over the first quarter of 2017. Adjusted EBITDA was $4.5 million dollars for the first quarter of 2018, compared with $3.6 million dollars for the first quarter of 2017. Adjusted EBITDA as a percentage of net revenue for the first quarter was 14.7%, up from 12.5% compared to the prior year period. This continues the trend of margin expansion we have seen over the last several quarters.

During the first quarter we recorded an income tax benefit of $242,000. This was attributable to significant tax deductions resulting from 179D, energy efficiency tax deductions that we were able to realize in the quarter.

In the first quarter of 2017 we had recorded a tax benefit of $673,000 as a result of tax deductions related to stock option exercises pursuant to new accounting rules that went into effect for the company in 2016.

Net income for the first quarter of 2018 was $2.2 million dollars or 24 cents for diluted share compared to net income of $2.6 million dollars or 30 cents per diluted share for the first quarter of 2017. The decline in net income was entirely attributable to the higher tax benefit recorded last year.

Adjusted diluted EPS for the quarter was 37 cents. Turning to the balance sheet, we had $5.4 million dollars in cash and cash equivalent at March 30, 2018 which was a decrease of $9.1 million dollars since the end of the previous fiscal year. The decrease was primarily due to bonuses paid and payments for our contingent consideration and notes payable related to our prior acquisitions.

Our DSO was 82 days at March 30th. We expect to see stronger cash flow from operations as we move through the year due in part to the cash flow characteristics of certain projects. As of March 30, 2018, we had $2.5 million dollars in outstanding borrowings under our revolving line of credit.

Turning to our outlook for the remainder of 2018, we have not changed our financial targets. We continue to expect our net revenue to range from $130 to $140 million dollars and adjusted diluted earnings per share to range from $1.95 to $2.05. We continue to expect our diluted share count to be 9.3 million shares, depreciation to be $2 million dollars and amortization expense to be $3 million dollars.

For 2018 we expect our effective tax rate to be 23%. I'd now like to turn the call over to Tom.

Thomas Brisbin: Thanks Stacy and good afternoon everyone. Our operating performance was right in line with our expectations. As Stacy mentioned, we now have reportable segments, energy and engineering and consulting. Also, these segments had growth in that revenue. Energy had 14% organic growth and engineering and consulting had 3% in the quarter.

Over the rest of 2018 we anticipate that engineering and consulting with make a nice contribution to our overall performance. The City of Englewood has just awarded us a traffic management plan for the new Los Angeles football stadium. We also see the continuing economic growth in California.

Our energy segment continues to perform well. We are ramping up new programs focused on data centers and small public section facilities for comment in Illinois. And the small business direct install program for Potomac Edison in Maryland. We have also received our third task order under the $120 million five-year California Department of General Services program that we were awarded last year.

This program covers energy efficiency and water conservation upgrades to state facilities. We're doing the preliminary auditing and engineering work on the first three task orders and they should result in more meaningful revenue later in 2018 as we move into the later stages of these projects.

In terms of recent program awards, we were awarded Puget Sound Energies small business direct install program for the fourth consecutive time. And our role is one of the engineering companies on public service enterprise group, hospital efficiency program in New Jersey, which we have held since 2012, was extended through 2020. These two awards demonstrate an important point about the energy efficiency program that we implement for utilities. If we execute well and deliver the targeted level of savings, these programs turn into long-term stable sources of revenue and earnings. And can frequently be expanded in scope.

In the case of Puget Sound, it has been expanded to also include lodging and small agricultural facilities. Furthermore, if you demonstrate the ability to deliver on one program, it enhances your ability to win additional programs from the same utilities.

In the case of New Jersey, public service enterprise, our successful efforts on the hospital efficiency program as well as our track record executing on direct install helped us win their direct install program focused on government, non-profit and small business facilities. It's another example of the success we have had in expanding our relationship with utilities after delivering on an initial assignment.

We were just awarded a $14 million-dollar performance contract by the Pueblo County School District in Colorado to do energy efficient facility improvements on 23 buildings. This contract is similar to the work we are doing for the City of Lawrence, Kansas. This is the most meaningful work we have won to date in Colorado and serves as a great foundation for building our office and growing our revenue.

Overall, we are seeing very positive trends in the energy efficiency services market. The incentive programs for utilities are being changed in many states to reward utilities for minimizing capital expenditures and increasing energy efficiency among their customer base.

The reward systems being set up for utilities will only serve to increase demand for energy efficiency services and makes us increasingly optimistic about the long-term growth opportunities for Willdan. Our integral analytic acquisition is doing well and proceeding with their work for Hawaiian Electric, the adoption of IA software for Hawaiian Electric is significant because they have the largest solar rate of adoption in the country. It’s distributed energy resources such as solar, wind, battery, demand response and energy efficiency become more prevalent.

Utilities are turning to IA software for planning the future, distribute energy resource disruptions to their grid. Currently more than twenty utilities have adopted IA software. As you saw earlier this week, we announced another acquisition that will further enhance our ability to capitalize on these long-term opportunities.

We acquired Newcome, Anderson McCormick or NAM, a California based firm that fills the need we had for mechanical engineering expertise on the West Coast. NAM has very similar capabilities as Genesis Engineering, which has been a very successful acquisition that accelerated growth of our performance contract work on the East Coast.

NAM does a lot of energy efficiency projects for Pacific Gas and Electric and the City of San Francisco. And like Genesis, has a great deal of experience working for colleges and universities, which are constantly looking to make energy efficient upgrades to their facilities. We believe the addition of NAM’s mechanical engineering expertise will significantly enhance our technical capabilities in California.

Now to give a quick update on the California procurements, the process continues to advance and the business plans for the utilities have been approved, which is a key interim milestone leading up to the procurements. Although there have been no definitive announcements at this point, based on information we are gathering, we continue to believe that we will see the first (Aura P) opportunities by the end of this year.

In summary, our overall business is tracking according to our expectations, our pipeline of opportunities looks good, particularly in California and we expect to deliver another positive year for our shareholders. With that, I would now like to turn the call back to the Operator for questions.

Operator: Thank you. If you would like to ask a question please signal by pressing star 1 on your telephone keypad now, if you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question, we'll pause for just a moment to allow everyone an opportunity to signal for questions. Thank you, our first question will be from (Mashay Touchrey) with Webb Bush Securities.

(Mashay Touchrey): Hey guys, thanks. Just wanted to talk a bit about visibility for the year. Has that changed in any way versus, you know, I would say same time last year and then looking at your revenue guidance, is that already factored the acquisition that you announced last week?

Thomas Brisbin: Visibility is about like last year, it's continued to improve throughout the year so, I think it looks pretty good for 2018, just as it did for 2017. The acquisition has about $7 million dollars of annual revenue and about $4 million dollars of annual net revenue, it's within the guidance range so, we didn't update the guidance range for this particular acquisition.

(Marshay Touchrey): Okay, that's fine, and then I think that you've also mentioned that energy and consulting which grew about 3% during the quarter, as I understand, I think you said it should improve? I'm assuming that's what you said, maybe that's what you alluded to, maybe you can talk about some of the comfort that you have that you're going to do better then 3% this year because we have a pretty big catch up to get to that revenue guidance that we have for the year, right?

Thomas Brisbin: We're deciding how to answer that, so, hang on a second.

Mike Bieber: I think we're on track for revenue for the year (Marshay).

(Crosstalk)

Thomas Brisbin: And that's first quarter topped with a big number and the first quarter of 17, but engineering is still ticking along at 10-11%, it's just a bad count from the first quarter of 17 which we had a big Arizona job which was a casino that pumped the first quarter in 17 up so, I don't think you should look at 3% as the future going forward, I think.

(Marshay Touchrey): Okay, that's helpful. So, what should we expect in our numbers, what should we embed in our expectations for engineering and consulting for the year in terms of growth?

Thomas Brisbin: 9-10, pretty much where we've been.

(Marshay Touchrey): Okay, that's helpful, that's good. And then, what about margins for the year? You have any sort of range that we should look for?

Thomas Brisbin: EBITDA margin is a percent of new revenue, it's continued to trend up over the last couple of year. It was 17.9% last year, it will continue that trend. We're marching towards 20% this year, adjusted EBITDA is a percent in net revenue, we should be around that mark.

(Marshay Touchrey): So, this is going to be an exit rate or this is going to be for the year?

Thomas Brisbin: For the year overall.

(Marshay Touchrey): Okay, that's pretty impressive.

(Crosstalk)

(Marshay Touchrey): Thanks.

Operator: Thank you. And again, to ask a question that's star 1 on your telephone key pad. And our next question will be from (Chip Moore) with Cancor.

(Chip Moore): Yes, hey guys, thanks. Maybe on NAM we can talk a little bit more about cross- selling potential, does that – where do you see that $4 million in net revenue, you know, to get into next year, how do we think about accretion on that deal?

Thomas Brisbin: Yes, we think they have a lot of room for expansion, I mean, they are a key player in Northern California, PGE territory, they are a key player in the Cal State UC system and those procurements and the amount of work headed to Northern California will be growing and we're very, very happy to have NAM with us.

(Chip Moore): Yes, okay, that's helpful. And then on some of your key programs, you know, the local capacity program in California, how are those ramping and any changes in the cadence this year into next?

Thomas Brisbin: Mike will talk about LCR.

Mike Bieber: We're doing very well in LCR. We exceeded our goal by 30% last year and we're looking to exceed our goal again this year. First quarter looked great and so, we're actually a little ahead of plan on that program, looks good.

Thomas Brisbin: That's an increase last year was one megawatt, this year is four megawatts, so, to give you an idea it should go up by a factor of 4 in 18.

(Chip Moore): Yes, okay, great.

Mike Bieber: At least.

(Chip Moore): Maybe just one last one for me on balance sheet, you know, with this latest deal I'm assuming it wasn't big but how are you thinking about capacity for future deals and how is that pipeline looking? Thanks guys.

Thomas Brisbin: Yes (Chip), we've got just a little bit of debt now for the first time in a little bit, so, we'll exercise our credit facility a little bit. The pipeline looks good, we've got plenty of capacity to do additional deals this year, we've got almost all of the full revolver plus the accordion and the pipeline for new deals even this year later looks very good right now, both in California and we're talking with some national players as well. So, that looks good.

(Chip Moore): Okay, great, thanks very much.

Operator: Thank you. Our next question will be from (Wyatt Carr) with Western International Advisors.

(Wyatt Carr): Hi guys, I guess this would be for Mike, but can you give us any kind of idea of what kind of, you know, margins the NAM acquisition had, what kind of EBITDA, I'm sure that you're looking at an accretive acquisition so.

Mike Bieber: Yes, correct (Wyatt), it's about on par with the rest of the energy segment that EBITDA is a percent of net revenue. So, it's right on par with the rest of the energy segment, it shouldn't change our margin profile overall and you're right, if you model that out it should be accretive on a fully gap basis in the first twelve-months. We didn't update guidance because it will be a small amount for the remainder of 2018, but it will be accretive on a gap basis this year.

(Wyatt Carr): Okay, great, thanks for the guidance on that. And then the balance sheet does not reflect the $2.5 million that was taken out outstanding on the credit line, is that already on – as of the end of March or is that – was there more taken out after the quarter was over?

Stacy McLaughlin: That was included in the Q1 results on the balance sheet, it is on there and we have not drawn anymore since then.

(Wyatt Carr): Great, and the cash, the ending cash balance did that include or was that pre the acquisition of NAM?

Stacy McLaughlin: The entire balance sheet is prior to the acquisition.

(Wyatt Carr): Okay, that's helpful, thank you.

Stacy McLaughlin: Yes.

(Wyatt Carr): Thanks a lot, those are the questions I had.

Thomas Brisbin: Any further questions?

(Crosstalk)

Operator: We have another question from (Marshay Touchrey) with Webb Bush Securities.

(Marshay Touchrey): Hey, just a follow up, any update on some of the cross-selling efforts that we discussed a couple of months ago related to integral analytics?

Thomas Brisbin: Updates that I can talk about, I'm trying to think.

(Crosstalk)

Thomas Brisbin: It's working well, we like it, they have helped us. The last one we talked about publically was CommMet, and we have two more in the proposal presentation stage going on right now, so, I can't really say much more then that (Marshay) because I can't tell you if we're going to win but we are doing, we're mixing even financial services which does the back end of utilities with what IA does and we're in a situation right now where we're competing for a major job in the south, it's something we've never done before, it's kind of like LCR three years ago, we had never done that before we cross-sold between Willdan and Abacus. So, we're exploring that opportunity right now to improve the growth of financial services.

(Marshay Touchrey): And these should be better margin deals relative to the business?

Thomas Brisbin: They should be, I mean, financial services does what, around 10%? I don't know what we'll be negotiating if we were to win I don't want to put that on the phone but I hope, we're not there yet.

(Marshay Touchrey): Alright, thanks.

Operator: Thank you. Our next question will be from (Greg Kit) with Pinnacle Funds.

(Greg Kit): Hi Mike, Tom and Stacy, thanks for taking my question. I actually have two questions for you, how much did Integral Analytics contribute in the quarter, and the second question is has there been any changes to the State of California PUC outsourcing and contractor consolidation mandates?

Thomas Brisbin: You want to do California first?

Mike Bieber: Yes, go ahead.

Thomas Brisbin: While you think about the other one?

Mike Bieber: Yes.

Thomas Brisbin: There's I think (Kit) it's moving forward, I had said the business plans are approved, the utilities are actually talking about RFP in July or August. In the comments I stated, I said in 18 because I put a safety factor in there, but we've had initial talks of seeing something in July-August. The amount over the next 18-24 months is, you know, in excess of a billion dollars. So, they are marching forward and nothing has changed in terms of the rate of what they're going to outsource in terms of the regulations, the 20-60-80-100 over four or five years. So, I am more confident today then the last time we spoke on this phone that we are moving forward. I don't see any roadblocks, no one is throwing up red flags.

Mike Bieber: (Greg), on Integral Analytics, it was less than a million dollars in Q1, as you remember, the new recognition standard makes recognizing revenue for software a little lumpy. So, it was less than a million dollars that we booked in year one or at quarter one, and that will obviously increase in the next couple of quarters.

(Greg Kit): Thank you.

Thomas Brisbin: Sorry (Greg), I thought I was still talking to (Marshay).

Operator: Thank you. Showing no further questions in the queue at this time. I now would like to turn the call back over to management for closing remarks.

Tony Rossi: Okay, well thank you, all of you for participating in our call today and for your continued interest in Willdan and have a great day.

Operator: Thank you ladies and gentlemen, this concludes today's teleconference. You may now disconnect.