

Willdan Group
Fourth Quarter and Full Year 2023 Financial Results
March 8, 2024

Presenters

Al Kaschalk, Vice President

Mike Bieber, President and Chief Executive Officer

Kim Early, Executive Vice President and Chief Financial Officer

Q&A Participants

Moshe Katri - Wedbush Securities

Craig Irwin - ROTH MKM

Richard Eisenberg - Private Investor

Greg Kitt - Pinnacle Family Office

Operator

Hello, and welcome to the Willdan Group Fourth Quarter and Full Year 2023 Financial Results Conference Call.

If anyone should require operator assistance, please press “*”, “0” on your telephone keypad. A question-and-answer session will follow the formal presentation. You may be placed in the question queue, at any time, by pressing “*”, “1” on your telephone keypad. At this time, I'd like to turn the call over to Al Kaschalk. Please go ahead, Al.

Al Kaschalk, Vice President

Thank you, Kevin. Good afternoon, everyone, and welcome to Willdan Group's fourth quarter and full year fiscal 2023 earnings call.

Joining our call, today, are Mike Bieber, President and Chief Executive Officer, and Kim Early, Executive Vice President and Chief Financial Officer.

The call today builds on our earnings release we issued after market close, today. You may find the earnings release and the Willdan investor report that accompanies today's call and press release in the Stock Information section of our Investor Relations website. In addition, we have prepared a slide presentation to go along with today's financial results conference call. The presentation is available under the Events section of the Investor website. 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. 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. 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 the investors' ability to analyze the business trends and performance. Our non-GAAP measures include net revenue, adjusted EBITDA and adjusted EPS. I'll now turn the call over to Mike Bieber, Willdan's President and CEO.

Mike Bieber, President and Chief Executive Officer

Thanks, AI, and good afternoon to everyone. Let's begin on Slide 2. We had an exceptional fourth quarter. Revenue, profitability and cash flow were above our expectations and the analyst expectations, aided by end-of-year program expansions. Strong performance throughout Willdan capped a record year and with an expanding backlog, positions us for another strong year in 2024.

I want to take a minute and talk about Willdan and our market positioning. Willdan transitions communities to clean energy and a sustainable future. Today, our revenue is 84% energy-focused and 16% civil engineering-focused.

In 2023, Willdan net revenue grew organically by 19%, overall. We delivered 20% organic growth in energy and 16% organic growth in civil engineering. By customer type, 47% of our work is from state and local government. We don't yet serve the federal government. Utilities comprise 46% of revenue with 7% from commercial customers.

We are a professional services company, helping customers solve problems with knowledge and software. We help make America's clean energy transition more affordable for communities.

Because of the funding sources of our projects, electrical user fees and government funding, our business model is resilient and generally less impacted by economic cycles and inflation. We demonstrated this strength throughout 2023, capped by an excellent fourth quarter.

On Page 3 of the slides, a customer's challenge typically starts with our policy consulting analysis software and data analytics services, which provide a highly technical road map to a solution. This upfront consulting work also informs Willdan's strategy. We are agnostic to the generation source--solar, wind, battery, gas, nuclear--and we help integrate energy generation and energy efficiency into the local grid at the least cost.

Our engineering services typically come next and often include financial consulting work and rate studies to help fund a customer's project. After engineering design, our program management capabilities manage the delivery of a program on behalf of our customer. We see smaller, higher-margin projects at the top of this pyramid, while larger, longer-term projects are normally at the base.

Let me give you some additional color on our markets and the opportunities we are seeing. In 2023, we talked about our goal to grow our consulting, software and data analytics business. We did that, successfully, and entered 2024 with a robust pipeline that supports significant new software wins we anticipate in the first half of 2024.

Our engineering business grew 16% organically in 2023, and much of this work is for state and local government customers. Counter to the fears about slowdown here, we have seen strong organic growth and are carrying that momentum into 2024.

The biggest change to our business in 2023 was the recovery of program management work that had slowed during COVID. This work improved throughout the year, as supply chain concerns became more manageable. Our program management backlog is at a record-high entering 2024 and is expected to drive strong performance.

Each of these three areas is strategic to our model and provides us with a competitive advantage. The upfront policy clients want to know about practical constraints we'll then seize in engineering and program management. Engineering and program management clients want to know about policy and planning shifts that might affect their programs years later.

On to Page 4. I want to provide you with a partial list of wins, since the last earnings call. These include, at the top of the table, a \$46 million program for Clark County School District. Phase 1 provides energy upgrades to about one third of their schools. This program was two years in development and provides strong backlog for us entering 2024. Phase 1 will be mostly complete this year, and there is an additional \$100 million of opportunity with this client that we are developing for next year.

Next, the decarbonization strategies for the building portfolio of a national health care provider. This win is one of our most exciting opportunities in the next several years and touches over 1,000 hospitals and health care facilities for one of America's largest health care providers.

Next, we've won a \$30 million to \$50 million New England utility program for energy efficiency and program management. This new win that is being announced, today, is our first large anchor program in New England.

The energy efficiency program addresses a wide variety of New England energy users, including small and large businesses, industrial facilities, multiuse buildings and municipal infrastructure. The contract is expected to ramp up through 2024 and is expected to continue its growth in 2025.

Next, the \$18 million Puget Sound contract is the seventh consecutive time; and ConEd, the \$16 million contract, is the fifth consecutive time we've won those important recompetes, indicating the success of those programs.

We've also won a major Western utility grid planning contract and two smaller municipal utility software and planning services contracts.

These new wins, on top of our other multiyear contracts, position us well to continue mid- to high single-digit organic growth in 2024. Kim, over to you.

Kim Early, Executive Vice President and Chief Financial Officer

Thanks, Mike, and good afternoon, everyone. As Mike said, our fourth quarter provided a very strong finish to an exciting and productive year, resulting in record-setting performance and establishing a firm foundation for continued momentum into the new year. The fourth quarter results reflect the highest level of quarterly and annual contracted net revenue, gross profit and operating income in the company's nearly 60-year history.

Looking on the right side of your presentation and moving to Slide 5. For the fourth quarter of 2023, contract revenue was up 37% over Q4, 2022, to a record \$155.7 million, and net revenue was up 25% to a record \$80.8 million. The increase was fueled by some exceptional opportunities to over-deliver target quantities on some of our utility programs, providing approximately a \$20 million contract revenue boost and a \$3 million adjusted EBITDA boost to the quarter. The quarter also reflects significant year-to-year increases across our service lines, as demand for energy and municipal services remained strong.

The growth in revenues was accompanied by a solid 35% gross profit margin for the fourth quarter, while G&A expenses increased only half as fast as revenues as lower stock compensation, depreciation and interest accretion on earn-out liabilities partially offset higher wages and incentive compensation derived from the improved profitability. Interest expense increased 9% over the prior year quarter to \$2.3 million in Q4 of 2023, due to the higher interest rates. And our income tax rate was 19.5% in the fourth quarter, compared to an extraordinary tax rate of 120% for the fourth quarter of 2022.

So, for the fourth quarter, net income was \$8.0 million, or \$0.58 per diluted share versus a net loss of \$425,000, or a \$0.03 loss per diluted share, a year ago. Adjusted EBITDA in the fourth quarter was \$17.5 million, up 48% over the \$11.8 million for the fourth quarter of 2022. Adjusted earnings per share in Q4 of this year was \$0.80 versus \$0.36 in Q4 a year ago, mainly reflecting the increase in pretax income.

In terms of the full year, move to Slide 6. Slide 6 shows that 2023 continued the pattern of double-digit annual organic growth since the emergence from the COVID restrictions. Contract revenue for 2023 increased 19% over 2022 to a record \$510 million, and net revenue also increased 19% to \$270 million with solid growth, across all our service lines. Double-digit percent increases in program management activities and our utility programs were the primary factors behind the higher revenues in the Energy segment, while revenue from Engineering and Consulting Services also grew a robust 16%, reflecting increased demand for our Municipal services.

Right-clicking again, on Slide 7, you can see that adjusted EBITDA nearly doubled in 2023 to \$45.7 million, and our adjusted earnings per share also nearly doubled to \$1.75 per share, compared to \$0.88 a year ago. Gross profit in 2023 increased 25% to \$179.8 million, and gross margin expanded to 35% from 33.5% a year ago, driven by higher software licensing and improved performance in

our restructured California IOU contracts, tempered by higher revenue from construction management activities, which carry a lower margin profile.

We realized further operating leverage in 2023 as G&A expenses increased only 5% versus the same period a year ago, while net revenue grew 19%. Higher employee incentive compensation, consistent with the improvement in income from operations and increased costs related to employee benefits, was partially offset by the lower stock-based compensation and lower interest accretion on earn-out liabilities, which have now all been satisfied.

Interest expense for the year increased by 77% to \$9.4 million in 2023 compared to the same period a year ago, primarily due to the higher interest rates.

Income tax expense was \$3.7 million or an effective tax rate of 25.1%, compared to an income tax benefit of \$3 million on the loss in 2022.

For 2023, net income was \$10.9 million or \$0.80 per diluted share, compared to a loss of \$8.4 million, or minus \$0.65 per diluted share in 2022. Improved results throughout the company enabled a significant turnaround.

On Slide 8, highlights of some of the important metrics reflecting our significantly improved balance sheet and financial condition are presented. With \$39.2 million in cash flow from operations and \$29.3 million in free cash flow for the year, our leverage ratio of net debt, net of our \$23.4 million year-end cash balance, improved significantly to 1.6x trailing 12-month EBITDA from 4.3x at the end of 2022. Net debt was \$75.1 million at the end of 2023, a reduction of \$24.1 million, over the course of the year. With the refinancing of our bank credit facilities and our new three-year credit agreement, no outstanding borrowings under our \$50 million revolving credit facility and a leverage ratio below 2.0, we're well-positioned to pursue strategic acquisition opportunities.

Moving to Slide 9, it provides our financial guidance for 2024. We're expecting contract revenue of \$525 million to \$540 million and net revenue in the range of \$270 million to \$280 million. Adjusted EBITDA is expected to be in the range of \$48 million to \$50 million for the year, and adjusted earnings per share is expected to be in the range of \$1.80 to \$1.87 per share, assuming the 25% tax rate and 14.2 million shares outstanding. This guidance does not include any potential future acquisitions. Mike, back to you.

Mike Bieber, President and Chief Executive Officer

Thanks, Kim. In summary, solid execution in the fourth quarter has capped a record year for Willdan. We've broken through the half-billion dollar revenue mark and have strong momentum and backlog entering 2024. Demand for our services remains healthy as our clients try to navigate America's energy transition. Strong operating results have now delevered our balance sheet, so we are resuming our acquisition program. We now have a growing pipeline of potential deals that we are cultivating. Willdan is in the right market, and we now have the means and opportunity to build a multibillion-dollar world-class company. Operator, we're now prepared for Q&A.

Operator

Thank you. We'll now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press "*", "1" on your telephone keypad. We ask that you please ask two questions and a follow up, then return to the queue. Once again, that's "*", "1" to be placed in the question queue. Our first question, today, is coming from Moshe Katri from Wedbush Securities. Your line is now live.

Moshe Katri, Wedbush Securities

Thanks and congrats on very strong and solid results. So, maybe we can start by talking a bit about the pending deal pipeline. What are you seeing there in terms of maybe if there's any way to kind of compare the current deal pipeline versus where it was a year ago, including software, obviously, and then maybe talk about the nature of the deal flow and visibility? Thanks.

Mike Bieber, President and Chief Executive Officer

Sure. We're continuing the momentum we built up in the back half of the year and especially the fourth quarter, Moshe. It looks really good. With respect to software, I specifically called that out. We just attended our big DISTRIBUTECH conference and met many customers that are in the pipeline. That looks very good, and we're optimistic that we'll have some significant announcements there in the first half of this year. So, that looks very good. The pipeline here continues to grow, and I would say it supports that type of 10-ish-percent type growth that we saw, last year.

Moshe Katri, Wedbush Securities

Okay. And then the nature of the deal flow, is there anything different in terms of what you're being asked to do by clients?

Mike Bieber, President and Chief Executive Officer

The grid is becoming more complex. And as nuclear plants retire, especially coal-fired power plants retire, that complexity is causing them to choose a lot of software solutions, which are required. You can no longer analyze these problems with spreadsheets. And a lot of consulting services that are required. So, those are the areas I'd point out.

The other is that as the cost of energy goes up, the value of energy efficiency that we provide also goes up. So, those programs are robust as well, as you saw from the big win that we had in New England.

Moshe Katri, Wedbush Securities

Yeah, understood. And then just a couple of questions related to the guidance. What's embedded in the model from the recent credit refinancing versus maybe some of the expenses before that?

Kim Early, Executive Vice President and Chief Financial Officer

Well, I'm not sure what you mean by that, Moshe. I mean, the interest rate table, I mean the spread provides us the opportunity to lower the rates, particularly, over what the spreads were for us in most of 2023 and 2022. So, by reducing the leverage, we can reduce the spread over the SOFR

numbers. But there isn't a whole lot of difference in any of the costs related to the agreement, beyond the interest expense.

Moshe Katri, Wedbush Securities

And what's the delta between what it was and where it's expected to be in 2024?

Kim Early, Executive Vice President and Chief Financial Officer

Well, our interest rate here in the first quarter, compared to the fourth quarter, will be about 1% lower, annually. In the course of the year, I'm expecting the interest expense, the net interest expense to be probably at least \$2 million lower than it was in 2023.

Moshe Katri, Wedbush Securities

Okay, \$2 million. And then how does the year look like in terms of first half versus the second half in terms of net revenue contribution?

Kim Early, Executive Vice President and Chief Financial Officer

Yeah, I think this year, it's about 60-40 back half to front half and it's not quite as back-end loaded as 2023 was, which was closer to maybe 70-30 kind of a split. This will be a much smoother transition. It won't have quite as steep a hockey stick into the fourth quarter as maybe we've seen in the past.

Operator

Thank you. Our next question is coming from Craig Irwin from ROTH MKM. Your line is now live.

Craig Irwin, ROTH MKM

Thank you. Evening, gentlemen, congratulations on another impressive quarter. It's something happening routinely, now. So actually, Mike, I wanted to ask specifically about the character of the business. This past year, it seems that there's been a fairly substantial shift in the volatility or, I would say, the lack of volatility compared to what we saw over the prior couple of years.

Can you maybe talk us through about what's becoming more predictable, what's working for you with your customers that eliminate some of this downside volatility that we've seen? I'm not saying that it can't happen again, but you've repetitively surprised everybody to the upside with some very healthy numbers and healthy profitability. What's changed that's delivering this in the business?

Mike Bieber, President and Chief Executive Officer

Well, thanks, Craig. Willdan should be a very predictable business. And we were that from 2015 to 2019, very predictable. And that is because of the nature of our long-term engagements with clients and the funding sources that fund our projects. They tend to be very resilient and consistent. The difference was the volatility you saw with COVID and the start-up of the California IOU contracts. Barring those two events, we should be a very consistent producer of results. And

you saw the resumption of sort of our performance prior to COVID this year, and we're expecting that to continue into next year.

Craig Irwin, ROTH MKM

That's excellent news. So, then, can you talk us through a little bit of the success with Integral Analytics, this year? How has overall momentum taken shape for this business? And can you maybe share with us what the fourth quarter and full year contribution, both on a revenue and EBITDA basis was from this business?

Mike Bieber, President and Chief Executive Officer

Software is a big part of our business. It's doing very well. It grew a few million dollars, year-over-year. This year was around \$15 million in revenue. We don't break off EBITDA, but it was, I believe, the highest margin business that we have at Willdan, so outstanding. And even better yet, they have a great pipeline going into the beginning of the year.

We're expecting some contract notifications here very soon that we'll be able to talk about. So, that looks really good going into next year. And it's all driven by the fact that we have very little competition in that area.

It's really the competition of the inaction by clients. We have a dominant solution that's being widely adopted by large utilities around America, right now. And it's also starting to spin off consulting work. The partnership with the consulting side of the business is very effective. These newest contracts are about 50-50 software and consulting. So, very good.

Craig Irwin, ROTH MKM

Okay. Excellent. And then the project closeouts or the sort of end of year budget flush that did help us a little bit this quarter, can you maybe scope out for us where that came from? Was that from several customers, sort of broadly across the customer base, one or two customers? And if you could give us any color on the relative outperformance there versus the organic growth and obviously, that is organic, but the organic growth in the core business.

Mike Bieber, President and Chief Executive Officer

Yeah, it was very clearly three different areas. It was the California IOUs, First Energy on the East Coast and Con Edison. All three of those customers were behind in their energy efficiency goals and came to Willdan and asked us to expand our contracts, if we could. In every case, we made those expansions in the fourth quarter of the year and hit the higher numbers.

And the results were very clear. It was \$20 million in gross revenue, about \$15 million in net revenue and \$3 million in EBITDA. I think Kim mentioned that in the script. It came right out in the fourth quarter that we just couldn't have expected.

When you look at that, obviously, it was great results for the fourth quarter. We didn't factor that in. You can't rely on that happening next year. So, that's why in guidance, if you back into our organic revenue growth, you'll only see like 5% to 7%. Well, the \$15 million of extra revenue that we booked in the fourth quarter of this year is about a 5.3% headwind to next year. So, if that

happens again next year, then we'll see the types of double-digit organic growth that we've been printing here for many quarters now.

Craig Irwin, ROTH MKM

Excellent. Then last question, if I may. The IRA has been a little bit of a headwind for many of the other companies in the energy efficiency space. But at Willdan, you've seen quite a lot of activity with your customer base, looking for you to provide consulting to help them figure out how they would use IRA money and what makes sense for them as far as sort of long-term investment that this could unlock.

Can you maybe describe to us a little bit about what you're doing to prepare for the next phase when the actual funding for these projects becomes available? Do you expect to have material participation on the projects where you've been advising and consulting, or would you expect the consulting business to remain the driver there?

Mike Bieber, President and Chief Executive Officer

Yeah, it's a good question, Craig. We don't quite know what's to come, but we are helping more than 20 clients, and they're generally municipalities figure out and apply for IRA funding, right now. These are not material contributors to revenue right now, and they weren't in 2023.

They're small-dollar studies, less than \$100,000 apiece, so not material in aggregate, but there's a lot of activity going on in the small front-end consulting work trying to figure out how to access IRA dollars.

We have a number of opportunities. If those--if the funding is received by those communities, and that turns into projects, we have a number of opportunities where we will, likely, follow some of that funding into the next phases of design and implementation. But it's still early. None of that money has hit the street at this point. It's still in the application phase.

Operator

Thank you. Next question is coming from Richard Eisenberg (ph), a private investor. Your line is now live.

Richard Eisenberg, Private Investor

Good afternoon, gentlemen, and congratulations on a great quarter.

Mike Bieber, President and Chief Executive Officer

Thank you, Richard.

Richard Eisenberg, Private Investor

The software contracts that you are anticipating in the first half, is that embedded in the guidance, or if they come through, then you can raise guidance for the year, in the \$180 million to \$187 million range? Also, is there a potential business in states like Florida, Texas, North Carolina, South Carolina? And the last question is, is the company able to take advantage of this huge demand for

artificial intelligence like data centers in your Engineering segment? Thanks again, Mike, and congratulations again. Thank you.

Mike Bieber, President and Chief Executive Officer

Thanks, Richard. And I'll take them in order of your questions here. The first part, I think, was, is there upside? We've embedded some of what we can foresee of the software licensing into guidance, but there's still upside. We factor those down as a probability. And our probabilities are going up, especially after the meetings, last week. So, that looks really good. There is upside in both the first half and the second half of the year.

The second question, and I'm glad you asked it, is what opportunities are we seeing outside of California. Very specifically, the hottest states for us are Florida and Texas, right now. The population, the demographic shift is noticeable in those states. Activity for municipal clients is very robust in both places. I was just in the Orlando office and heading to Texas, next month. It is the growth market for Willdan right now, especially with its municipal clients. So, a lot of opportunity there.

The third was AI, and we have a working group at AI that's been in place for about a year. It's still early on. We'll be adopting AI tools across the company, in 2024. We're evaluating those tools right now because we want to be at the forefront of using those tools to help solve our customers' problems.

The working group is, I would say, close to world-class. We hired AI experts when AI was not a well-known term. This was more than five years ago. And they've been working on this and preparing both our software and the tools that we're using across our businesses to solve those problems.

Richard Eisenberg, Private Investor

Thanks, Mike, appreciate that.

Operator

As a reminder, that's "*", "1" to be placed in the question queue. Our next question is coming from Greg Kitt from Pinnacle Family Office. Your line is now live.

Greg Kitt, Pinnacle Family Office

Hi, congratulations on the great quarter.

Mike Bieber, President and Chief Executive Officer

Thanks, Greg.

Greg Kitt, Pinnacle Family Office

I wanted to ask, I can't remember a period in which you've had so many meaningful customer-contract wins, with Clark County and the New England program announced today as a health care provider, which was a big commercial win, which is not the majority of your business and then the recompetes with Con Ed and Puget Sound, among others. Is there something happening, you think,

has there been some change that's helping you win business more effectively? Maybe can you help us understand what's going on?

Mike Bieber, President and Chief Executive Officer

I don't think there's a change other than we're a big company, and we focused on a lot of those contracts two years in the making. You mentioned Clark County and New England, specifically. Both of those contracts were well over two years in the making.

And the impressive part, I think, was yes, we knew about them. They were both competitive. In both cases, we thought the customers would make multiple awards to many of our competitors. And in both cases, in those examples, they selected Willdan, very surprising. So, the contract sizes were larger than even we expected to receive there. And we're seeing that. We're also doing a good job of delivering.

You saw that in the fourth quarter, and that's what allows, I think, customers to have confidence in us. When the customers came and asked for expansions in the fourth quarter, we actually delivered those higher numbers on a very short order. So, that's what we're seeing, Greg. The contracts are getting larger because of that.

Greg Kitt, Pinnacle Family Office

That's great, thank you very much. And maybe just I wanted to make sure I understood the guidance because I think you did, if I saw correctly, just under \$270 million of net revenue in '23, and the forward commentary was \$270 million to \$280 million. And so, to me, it sounded like a lot of the commentary was a mid- to high single-digit growth made sense off of that \$270 million that you did in 2023. But first, I guess, was that commentary talking about opportunities for mid- to high single-digit growth? Was that on a contract revenue basis or a net revenue basis?

Mike Bieber, President and Chief Executive Officer

It's both, Greg. We wanted to be appropriately conservative coming into the beginning of the year announcing guidance, but you've seen the wins out there. The only note I would say is the \$15 million headwind that we faced due to the exceptional revenue in Q4. We don't know if that's going to happen again, next year.

It doesn't happen every year, but it looks very good to expand our existing contracts. We're already amidst the beginning of the year, and we're already talking about contract expansions in a couple of places. So, we're optimistic that as we get into the year, we'll be able to, potentially, beat and raise that number.

Greg Kitt, Pinnacle Family Office

Thank you very much And then on contract expansions that you had, you talked about the California IOUs, First Energy and then Con Ed. Is there some change in how you're working with those customers, or was that every couple of years, you just get a dramatically larger budget flush? Wondering if those customers are looking at us more like a partner in giving you a little bit more lead time versus, hey, it just all kind of shows up at the end of the year.

Mike Bieber, President and Chief Executive Officer

No, I think you're exactly right, Greg. That's a result of us earning their trust, throughout the year. The California IOU programs, you know the story. Those are new programs, new clients, we had to earn their trust before they would come to us with that kind of year-end expansion, with that kind of problem really. And we appreciate the opportunity to deliver, and we did that for them.

The same thing with First Energy, we had to earn their trust. That was a difficult program. It was a small program, but it started off rocky. And as we got into it and approached the end of the first year, they came to us with a problem we were able to solve. Again, we earned their trust. Con Ed is a client that has trusted us for years, and when they have these issues, they come to us, and we deliver for them. So, that's what happened.

Greg Kitt, Pinnacle Family Office

Thank you very much. Congratulations, and thank you for your hard work.

Operator

Thank you. Next question is a follow-up from Moshe Katri from Wedbush Securities. Your line is now live.

Moshe Katri, Wedbush Securities

Thanks. This is for Mike. Maybe talk a bit about the company's strategy and positioning under your leadership. Any changes or what should we expect on an ongoing basis? Thanks.

Mike Bieber, President and Chief Executive Officer

Thanks for the question. I've worked with Tom for a number of years. He's been my mentor and he's still the Chairman of the Board. Having said that, the differences between us are probably that Tom is a little more business development-focused, and I'm probably a little more operationally focused. It's just our nature, and it was the nature of our partnership. I'll bring that to Willdan.

And if there's anything I'll spend more time on, it's developing that operational excellence that leads to the contract expansions and other opportunities I talked about. That's something I'm going to focus on. Other than that, we're on a good course. Tom started us down a good path and the opportunity is ours to capture at this point, so I thank him for it.

Moshe Katri, Wedbush Securities

And what about kind of coming out with some new offerings that will make the business a bit more recurring in nature?

Mike Bieber, President and Chief Executive Officer

We've talked about that. A lot of our business acts more like an annuity. And the energy efficiency programs very much behave that way. The funding doesn't change that much, year-over-year. They're like steady building blocks that you build the business on top of.

So, our business already behaves very much like recurring revenue, for the most part. The area that we're trying to do better at is the software area where the revenue recognition standards cause it to be lumpy. The customers want to capitalize that software rather than expense it, which causes us to have to recognize all the revenue, upfront.

The things we've done to augment that, I mentioned are pairing services with software, which we were not doing very well, two years ago. Now, the average software license that we signed is about half services, which is up from almost no services before, a couple of years ago. So, that's the one area we're trying to smooth out.

Moshe Katri, Wedbush Securities

And consulting in terms of the role of the consulting business, looking at this more as a kind of a network effect, I guess.

Mike Bieber, President and Chief Executive Officer

I think there's a lot of cross-selling opportunity that we could still realize at Willdan. I talked about how the business model works where the front-end business leads to engineering opportunities two, three years down the pike, and engineering leads to those program management opportunities we see a couple of years later. We're just starting that right now because we added the front end of the triangle, if you will, in 2019.

So, we're just starting on that journey. We have a lot of cross-selling opportunity. A lot of our organic growth, I think, will be focused on that in the next couple of years. And certainly, we just went through our key pursuit list. A lot of those opportunities are coming out of policy work in the States that E3 started out or IA started out where we're seeing later on EE programs develop.

Moshe Katri, Wedbush Securities

Thanks.

Operator

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Mike for any further or closing comments.

Mike Bieber, President and Chief Executive Officer

I'd just like to thank our employees, shareholders and the customers out there for standing by us during the tough times in COVID. And it's certainly been a brighter year, really a great year, in 2023. We're off to a great start in 2024, also.

So, thank you, and we'll talk to you at the end of Q1.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.