WILLDAN GROUP, INC.

Q2 FY2021 Earnings Conference Call

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(edited)

CALL PARTICIPANTS

EXECUTIVES – WILLDAN GROUP

Al Kaschalk – VP Investor Relations
Tom Brisbin – CEO & Chairman
Kim Early - CFO
Mike Bieber - President

ANALYSTS / INVESTORS

Craig Irwin – ROTH Capital Partners
Moshi Katri – Wedbush Securities
Marc Riddick – Sidoti & Company

PRESENTATION

Operator

Please standby as we are about to begin. Good day and welcome to the Willdan Group Second Quarter Fiscal Year 2021 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Al Kaschalk, VP, Investor Relations. Please go ahead, sir.

Al Kaschalk – VP Investor Relations

Thank you, (Jenny). Good afternoon, everyone, and welcome to Willdan Group's Second Quarter 2021 Earnings Call. Joining our call today are Tom Brisbin, Chairman of the Board and Chief Executive Officer; Kim Early, Chief Financial Officer; and Mike Bieber, President.

The call today (revolves) 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 in the Investors section of our Web site, willdan.com. Management will review prepared remarks and then we'll open the call up to your questions.

Statements made in the course of today's conference call, including answers to your questions, which are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements involve certain risks and uncertainties, and it's important to note that the company's future results could differ materially from those in any such forward-looking statements. Factors that could cause actual results to differ materially and other risk factors are listed from time to time in the company's SEC reports, including, but not limited to, the annual report on Form 10-K filed for the year ended January 1, 2021. The company cautions investors not to place undue reliance on the forward-looking statements made during the course of this conference call, which disclaims any obligation and does not undertake to update or revise any forward-looking statements made today.

In addition to GAAP results, we'll then also provide non-GAAP financial measures that we believe enhance investors' ability to analyze the business trends and performance. Our non-GAAP measures include net revenue, adjusted EBITDA and adjusted EPS. We believe net revenue defined as contract revenue, net of subcontractor services and other direct costs, allows for an improved measure of the revenue to it from the work performed by our employees. And adjusted EPS and adjusted EBITDA are supplemental measures of operating performance, which removes the impact of certain expense items from our operating results. GAAP reconciliation for each non-GAAP measure is included at the end of the earnings release we issued today. After Tom's prepared remarks, Kim will provide a review of our financial results. We will then take your questions. Tom, over to you.

Tom Brisbin – CEO & Chairman

Thanks a lot, Al, and good afternoon, everyone. During our call this afternoon, I will provide an update on the current operating environment and Kim will review our second quarter financial results.

Our second quarter results met our expectations, given we are still in transition from the pandemic. The restart of LADWP was June '21, 2021, our largest contract. We also have PUC approval on all California IOU programs. Companywide we are not under any COVID restrictions that impair our ability to do work. Of course, the ramp up are challenging, but we are completely back to work. We are then pleasantly surprised by how well our Engineering segment has done during the pandemic. We expected some effect, but we have seen steady performance and currently there's growing demand. California construction is accelerating, and our municipal customers are trying to catch up.

In our Energy segment we have resumed all programs and have approvals on the total $786 million California IOU programs. The programs in status are PG&E Pacific Gas & Electric, the new construction program valued at $98 million. It covers all new commercial facilities. We have PUC approval, a notice to proceed and the duration is five years. For PG&E Public programs, value is at $90 million. It covers K-12, all government facilities, federal state and local, we have PUC approval, a notice to proceed and the duration is four years.

For San Diego Gas & Electric. The small commercial program. Its value is $42 million. It's for all facilities under 20 KW. We have PUC approval, a notice to proceed, and the duration is three years. For SoCalGas, we have the large commercial program valued at $12 million, we have PUC approval, a notice to proceed and its duration is four years. For Southern California Edison, the one -- and the last one we've been waiting for, the large commercial program valued at $387 million, the industrial sector valued at $155 million, and the multifamily program valued at $82 million. We finally received PUC approval on all three programs. Utilities have committed to a notice to proceed by September '20. The duration for all three programs is five years.

So, we have a big challenge before us delivering these massive programs. We're confident based on our nationwide experience, lessons learned over the past 15 years, data management capabilities, exceptional people. Experienced incumbent teaming partners and the desire to be the best firm in the nation give us the confidence for excellent performance. We expect $50 million in additional revenue over the next 12 months and $10 million in the fourth quarter of the year.

Turning to the LADWP program. We originally expected this program to resume in March. It is our largest program. We are excited to report that the small commercial direct install program finally resumed on June 28 of this year. The program is ramping quickly. Given the limitations in place related to the pandemic, over the past 15 months LADWP did not spend budget for energy efficiency services. We are in discussions with our clients to discuss how to spend these program dollars over the near term, which would be additional to our baseline program pre-COVID.

In our first month of operations on LADWP, the month of July, we nearly met our pre-COVID run rate. This is an excellent start-up. Thank you to all the staff that have been preparing for the restart and the staff that are returning from furlough. We expect this team to meet the challenges of a rapidly growing program. We are encouraged by the growing pipeline. Willdan's diverse capabilities are driving more and more larger opportunities. Our pipelines and backlogs are at record highs, and the market is growing.

In the last couple of months, asset managers have announced a massive climate-related fundraising to invest in the energy transition. All things zero carbon, such as renewables, wind and solar, battery storage, EV charging, distributed energy resources are the words of today. Brookfield just announced a

$7 billion fund, GBG $5.4 million, Copenhagen and Infrastructure Partners $8.4 billion, BlackRock $4 billion. What's behind this? Expectation of returns in this space is growing. Development risks are better understood. The policy signals are aligning, and we foresee a future where just about everyone has a net zero target on energy.

So, there's an awareness that there is a much greater total addressable market. It appears climate-related investing has made a big step change up from just a specialty market. Willdan is well positioned for this future. We navigated well through the pandemic, we do not lose any key capabilities or contract value. Now we must deliver and back to the growth rates that our shareholders expect. We are merging a stronger post pandemic company. Thank you to our shareholders and employees for their patience and understanding.

We will now turn the call over to Kim to discuss our financial results. Kim?

Kim Early - CFO

Thanks, Tom, and good afternoon, everyone. Our second quarter results reflect the transitory phase from the COVID pandemic suspensions to the resumption of key programs and the preparation and the start of the expanded opportunities under the new California IOU programs. Gross revenue for the quarter was essentially flat with the same period a year ago, but net revenue net of subcontractors, materials and other direct costs was up 9.4%. While our direct install revenues recovered substantially from the suspensions put in place a year ago, those gains were partially offset by reductions in performance contracting revenues as those activities were transitioning from completed projects to new projects, which should start to show anticipated increases beginning in Q3.

Gross profit margin increased to 36.7% in Q2 of 2021 compared to 35.4% in the quarter a year ago, reflecting the change in the revenue mix and the results of efforts to improve productivity and margins across our direct install businesses. G&A costs were $4.6 million or 13.7% higher in Q2 2021 compared to the year ago quarter. Last year's second quarter G&A costs reflect the wage and staff reductions implemented during the early stages of the pandemic suspensions. This lower base period accounts for a majority of the $3.4 million increase in salaries and wages compared to a year ago, along with some increased staffing and nonchargeable labor in anticipation of the new California IOU contracts and other organic expansion opportunities.

Higher stock-based compensation and other G&A costs were partially offset by lower depreciation and amortization to account for the change in total G&A costs. The higher SG&A costs were partially offset by the higher margins and net revenues, resulting in adjusted EBITDA for the quarter of $3.3 million, down from $7.2 million in Q2 of 2020. Our adjusted earnings per share were $0.24 per share for Q2 of 2021 compared to $0.17 per share in 2020, up 41% year-over-year.

For 6 months to date, gross revenue of $163.2 million was down 13.9% compared to a year ago, but net revenue increased by 2.6% to $95.2 million. The gross revenue reductions in our direct install and performance contracting businesses translate to a smaller reduction in our net revenue due to the high subcontracting materials content, while the gross revenue increases from Integral Analytics software and E3 Consulting & Advisory revenues have low pass-through expenses and therefore, translate to a higher increase in net revenue. Thus, the change in mix of revenue sources as a result of the pandemic suspensions and the sharply higher software and consulting revenues accounts for the different trajectories of gross to net revenue through the first half of the year.

That change in mix also accounts for the 680-basis point improvement in gross profit margin year-to-date when compared with the same period in 2020. The increase in gross profit was partially offset by a $1.9 million of increase in G&A costs versus a year ago, primarily due to those wages and I think staffing reductions implemented in Q2 of 2020, which will lead to restored. The net effect of those changes resulted in adjusted EBITDA of $8.0 million for the first half of the year compared to $8.5 million a year ago, and adjusted earnings per share of $0.43 per share compared to $0.04 in 2020.

From our perspective, since the LADWP program is now resuming the regulatory approval of the STE contracts and several other new program and project opportunities, We expect the second half of 2021 to report substantially improved revenues and earnings. This, we believe, will set the stage for reporting the more sustainable growth and earnings capabilities of our business model and for achieving a record year for revenues and earnings in 2022.

The changes in our balance sheet and cash flow though reflect the changing mix of revenues described earlier, along with the impact of gearing up for the start of the second half expansion. As we expected, our cash balance has been reduced from $28.4 million at year-end to $9.4 million at the end of the second quarter. Cash used in operations was $708,000 for the 6-month period as the working capital expansion required by the program start-up costs and some temporary customer payment delays combined to offset the cash generation from revenues. Scheduled principal payments on our term loans, earn-out payments resulting from successful acquisition performance comprises the majority of the $15.2 million used in financing activities and $3 million in Capex comprised the remaining cash usage.

Our $50 million line of credit and $20 million of available delayed draw term loans remain unused at quarter end. We do expect, however, that the restart of the LADWP small business direct install program and the commencement of the new SCE programs in Q3 will expand our working capital requirements and result in usage of the line of credit in Q3. We would expect to continue to use that line until the cash flows from the expanding revenue begin to catch up in 2022. I'll now return it to Tom for any questions.

Tom Brisbin – CEO & Chairman
Thanks, Kim. Do we have any questions in the queue?

QUESTION AND ANSWER
Operator
Thank you. If you would like to ask a question, please press star 1 on your telephone keypad. And please make sure that your mute function is turned off to allow your signal to reach our equipment if you're on speakerphone. Again, it's star 1 to ask a question.

We will go to our first question in the queue from Craig Irwin of Roth Capital Partners.

Craig Irwin – ROTH Capital Partners
Good evening. Thanks for taking my question. Tom, we all understand the COVID transition. And I guess everybody in L.A. is kind of breathing a sigh of release now that there's a little bit more normalcy. So that's obviously a good thing and great to be back at work at LADWP. Can you clarify for us whether or not there was any California revenue in the quarter or in the first half? And I don't know if you can approximate or estimate the contribution, but the numbers you tossed out earlier, I think $10 million in the fourth quarter was one of them. Can you just confirm if that's entirely LADWP or California or a mix of contracts?

Tom Brisbin – CEO & Chairman
We have not -- there's no California IOU in our first half. We don't expect to ...

Kim Early - CFO
Not from these programs.

Tom Brisbin – CEO & Chairman
Not from these programs.

Kim Early - CFO
Yes, a new program.

Tom Brisbin – CEO & Chairman
A new program. Yes. I think that was this question also. Correct?

Craig Irwin – ROTH Capital Partners
Yes, that's the question.

Tom Brisbin – CEO & Chairman
And the $10 million will come from, hopefully, $10 million will come from the California IOU. That's not from LADWP. That I referred to.

Craig Irwin – ROTH Capital Partners
Okay. Understood. So, with the COVID headwinds off, is it fair to kind of amortize the scope that you won or the duration of the contract and say that that's going to get us to an approximate run rate in '22 that's reasonably accurate? Or will these programs sort of build up into the final year of the programs?

Tom Brisbin – CEO & Chairman
I would say it's going to build towards the end of '22. It's going to be bigger than 23. It's going to be probably a bigger 24. And hopefully, when the program five years from now starts there -- starts to -- or it looks like it might come through an end, we don't want to just hit a wall or the most -- the greatest run rate, we would like to be ramping down in that fifth year, not too much because we anticipate there'll be a recompete and if our performance is a plus, we will be in there fighting to continue for another five years.

You also got to think about, Craig, that we are at about -- and you know these numbers better than I do, probably 30% to 5% to 40% outsourced. And over -- by 2025, they got to get to 100% outsourced. So, with good performance, we anticipate these programs to now continue when to recompete but grow up five years up.

Craig Irwin – ROTH Capital Partners
Understood. Understood. So, I'm kind of hoping that we're still ramping in 2025. But that it will be the additional program. So, my question really is -- there's a lot ...

Tom Brisbin – CEO & Chairman
Wait, wait, Craig, I can't say that because the utilities would think that we think that will help us. We've got a plan for our contracts as you may or may not win. So, you don't want to be sky high your ramp in the fifth year, you want to be some reasonable number.

Craig Irwin – ROTH Capital Partners
Yes. Understood. Understood. So, there's still quite a lot of business to be outsourced, correct? And you have one an outsized share to date. The awards have been quite late, which all of us expected in the first place. Do you think it's likely we see material movement on the next round of awards before the end of the year? Where can you say you are in the RFP, RFQ process for those incremental opportunities? And just given how the timeline has come together for the work that you were awarded this year, would you expect those projects to be in full excision mode before you see the next round of awards made?

Tom Brisbin – CEO & Chairman
Yes. We -- I mean, I don't think we'll see the beginning of what's called abstracts, RFPs, orals and awards, I don't know, the end of '22 end of '23. I mean, everybody is trying to wrap their head around this, including the utilities, there might be specialty programs, but in terms of the overall large programs, I would say the end of '22, '23 to meet a '25 goal, something like that. Craig?

Craig Irwin – ROTH Capital Partners
Okay. And then ...

Tom Brisbin – CEO & Chairman
It could even be into '23 before we start to see something.

Craig Irwin – ROTH Capital Partners
Okay. Okay.

Tom Brisbin – CEO & Chairman
On California.

Craig Irwin – ROTH Capital Partners
And then the potential scope, right, if we do some back of the envelope math and we say a little bit better than a third was handled, and they were maybe 20% outsourced. We still got maybe half of the $1 billion a year in energy efficiency spending in California to be outsourced? Would you expect -- I mean, we've been doing five-year contracts. Would you expect there to be procurements that could support a couple of billion dollars in future activity? Is that really the size of the probable procurements that we'll see over the next two years?

Tom Brisbin – CEO & Chairman
I'm not speaking from utilities, but I mean we think there could -- we could grow the value we're looking at now by 50% by the end of '25 with excellent performance. But what the utilities are going to do? You know the mandate as well I do. If it's a 40% number and they got to hit 100% number by 2025, do the math. 2.5x times the $800 million gives you $1.6 billion. A little bit more, $1.8 billion. I got my CFO saying I can't add. He always yells at me for that. So yes, there is significant work left to be done. Are you still there, Craig?

Operator
Yes - did you have something else for Craig?

Tom Brisbin – CEO & Chairman
No. I just wanted to let him know that we also see this type of growth in other parts of the country. I mean I alluded to the fact that this subject is heating up and our pipeline is good in New York and other parts of the Midwest. So you'll see announcements over the next few months. I mean we're doing quite well on our backlog and pipeline. But that's for Craig and we're on to the next question.

Operator
And yes, we'll go to our next question from Moshe Katri of Wedbush.

Tom Brisbin – CEO & Chairman
Okay.

Moshi Katri – Wedbush Securities
Hey, thanks for taking my question. I hope you guys are all good. Good shape. I'm less worried about the pipeline and my worry is more about the sustainability of the flow of business that's coming through, given the nature of this pandemic in -- especially given what California may be kind of forcing people to do or not down the road. So your thoughts on what could -- what -- I mean how are you guys kind of getting set up for this, especially with the LADWP contract in terms of in-person installment, that's number one. All focus continues to be more on the operational side, as you indicated, the challenge of being able to kind of deliver these contracts on time and on budget. Maybe you can talk a bit about some of the lessons that you learned during the pandemic, how are you getting set up. And then maybe we can talk about wage inflation and what sort of wage comp increases do you have set up or actually embedded in the model, looking into this year or next year, given the elevated kind of nature of wage inflation across the board.

Tom Brisbin – CEO & Chairman
There's about three parts there. Mike will do a wage inflation and other parts. I'll try to take on some of the lessons learned during pandemic, which is virtual selling, virtual audit, do-it-yourself installs, but that's not going to cover all of what we've got to do. So if we did get shut down again completely, we would experience the same thing. We have no magic bullet. We might be able to pick up 20%, but there's no magic bullet to do 100%. We are -- we don't anticipate that now. I mean, Moshe, do you know something we don't know?

Moshi Katri – Wedbush Securities
Not exactly.

Tom Brisbin – CEO & Chairman
I mean, are you expecting that LA will close again? To the extent that on ...

Moshi Katri – Wedbush Securities
I don't know, look at what happened in Melbourne overnight in Australia. So, I don't know.

Tom Brisbin – CEO & Chairman
Yes. Well, I don't have an answer for that other than we have learned lessons how to do some virtually. I'm sure that if we get shut down again, we can pick up enough to get through it again. Unfortunately, we won't hit those growth rates that we would love to hit with where we're looking at now, but I'm just being very candid that you can't hit -- you can't deliver the backlog we have closed. So, there's no sugar coating.

Moshi Katri – Wedbush Securities
And a -- yes. And how about wage inflation and what's embedded in the models?

Mike Bieber - President
A lot of our clients -- a lot of our contracts have escalators in them. We are seeing wage inflation. It's coming in on the new hires. We are hiring quite a number of people right now. You can see we've got more than 100 open positions on our Web site at this point. So we are rapidly staffing up. And we're seeing more than 5% wage inflation overall and that varies by the type of talent you're trying to hire and other things. We don't hire typically at the lower or less educated levels. Most of our new hiring is done with advanced degrees or college degrees and so in some parts of the country where you can see higher than 10% wage inflation. But in general, we are able to pass on those costs through our contract mechanisms, Moshe.

Moshi Katri – Wedbush Securities
Okay. That's helpful. And then if we -- obviously, with things coming back and assuming the trend continues, can you kind of give us some -- maybe just some broad guidance, I don't know, long-term view in terms of what do you think the non-GAAP margin in the business could be down the road, assuming that things pick up and we don't have any issues with kind of people sitting on the bench and underutilized, et cetera? Can we kind of go back to somewhere in that high-teen level, maybe a bit higher?

Mike Bieber - President
That's exactly right. We were at 18.5% pre-COVID. And that's adjusted EBITDA as a percent of net revenue, which is the metric you're referring to. We would expect to, at this point now, return to pre-COVID levels, so in that 18-ish percent, and then grow from there because that number was partially being driven over the last several years by back-office cost absorption. And now we have the backlog to drive this well beyond $500 million per year, which we've never experienced. That would be record revenue growth. And so, I would expect the margins to slowly creep up from that pre-COVID level of roughly 18%.

Operator
And so, just a reminder, it is star 1 on your telephone keypad if you have a question at this time. And we will go next to Marc Riddick of Sidoti & Company.

Marc Riddick – Sidoti & Company
Hi, good afternoon.

Mike Bieber - President
Hi, Marc.

Marc Riddick – Sidoti & Company
So, I wanted to circle back to sort of the path you seem to be setting with commentary around the potential for order flow and some other areas that are looking promising. And I was wondering if you could talk a little bit about to what extent, if any, of that is driven by sort of state local funding mechanisms being supported federally or if that's part of those conversations or if -- without getting into too much detail, but what you could sort of share as to maybe some areas that you're positive about as far as being able to build the pipeline. And then I have a follow-up after that.

Tom Brisbin – CEO & Chairman
We have, (Marc), considerable new work that we'll be announcing. And let's just call it, housing, multifamily housing, low-income housing that will benefit tremendously from any federal stimulus type package, both in just infrastructure upgrades as well as energy. That is new. We're not completely new, but it's growing within Willdan and you will see announcements in the next month or two. And then with that work, which has already got more work behind it and the stimulus comes, it's something that we didn't think we would benefit from six months ago. And now we're more optimistic on that money. It's focused and it might actually get to the people who need it.

Marc Riddick – Sidoti & Company
Thanks. It's very encouraging. Thank you for that. I was wondering if we could shift gears, I know that certainly -- and first of all, thank you for all the detail that you provided in your initial commentary and sort of where you are. It certainly seems as though I you're going through that process of transitioning to the opportunities, it's going about as smoothly as one could ask for. I was sort of curious as to is it possible to think about the prospects of looking at potential acquisitions down the road? Or are there some service areas that you think that would be complementary to those opportunities? Or how should we think about that.

Mike Bieber - President
Sure, Marc. We won't resume acquisitions until sometime 2022. We'll get the leverage down and get these California programs up and running first. But we are starting those conversations. We've had a few of them now. There are several areas that we would like to add. The last is to pick up where we left off. We acquired one company in the industrial space, which is 40% of the market, but less than 5% of Willdan. So that space is wide open for us.

There are a number of good opportunities out there in the industrial space, which would also help diversify us a little bit and hedge against the utilities, which is now creeping up at over 60% of our portfolio. So industrial first. Electrical engineering second, that's a good area. We're able to hire electrical engineers. It's been tough to find the right-sized business in that area. There are a few out there. We would like to make an acquisition there. And lastly, I'd point we're getting to a size where we would also like to make an acquisition in the federal space.

The other area that I would say we would like to follow-up on actions we've already taken is in the policy space. We've acquired E3 right before the pandemic in October and there are a number of other opportunities there on the policy advising space as well.

Marc Riddick – Sidoti & Company
That's very encouraging. Thank you very much.

Operator
And we'll go to a follow-up from Craig Irwin of Roth Capital Partners.

Craig Irwin – ROTH Capital Partners
Thank you. So I guess this is a question maybe for Kim, right? Modeling is always difficult for Willdan. I guess it's really a function of the nature of the business. But if you look at the analyst models and the consensus numbers for the third and fourth quarter, obviously at least my take is that there needs to be an adjustment. Can you maybe help us think through what the appropriate revenue expectations would be, what the major puts and takes are for us to get numbers right, given that we are basically starting up in California, that there are expenses related to that with that that don't have margins with them yet and the other basic puts and takes to get our models a little bit more precise?

Kim Early - CFO
Well, I'm not sure how to answer that, I guess.

Tom Brisbin – CEO & Chairman
I guess, directly, Mike, maybe you've got some guidance.

Mike Bieber - President
So, Kim's turning to me because I think I have a summary of street estimates in front of me, Craig. So let me see what commentary I can provide. On the net revenue side, the models are a little higher than our internal plan, but not that far off. The Q4 earnings number is higher than our internal plan. And I think that is because people are modeling in or modeled in the contribution of the new California IOU programs in terms of earnings in Q4. And that won't actually hit until sometime in 2022.

The California programs won't contribute to earnings. They will not contribute to earnings in this fiscal year. They'll be a drag on earnings because we'll have start-up costs. But then you'll see that pretty rapidly roll over in 2022 and drop straight to the bottom line. That would be earnings and cash flow. So, I think the disconnect is probably in this -- when you had the California program starting basically three to six months later than most of the street models, that Q4 number is probably the one that needs to be look at.

Craig Irwin – ROTH Capital Partners
Perfect. Perfect. And then just as a follow-up question. One of the other factors that contributed to significant lumpiness in EBITDA, EBITDA margins has been software sales from Integral Analytics. Do you have any software sales in your internal forecasts? Is it fair to expect one or two contracts by the end of the year? Or should we strictly treat that as upside? And I guess the other side of the question is, has the pipeline changed? And is there an update you can give us?

Mike Bieber - President
Integral Analytics has had a good year thus far and we think in the next six months is going to have an even better year. You're right, I would expect another one or two deals thus far. We've factored those down in our internal plan, but I think there's some upside there for all of us. That pipeline looks really good. They continue to gain traction with the big IOUs as more DERs are coming on and making the grid much more complex. You really just cannot do accurate forward forecasting on spreadsheets as most of the United States does at this time. And the way to get around that is to adopt Integral Analytics software. So the pipeline looks very good. It continues to improve and they're going to have a great year.

Craig Irwin – ROTH Capital Partners
Excellent. Well, thank you and congratulations on the final approvals of your California projects. Good luck in the next round, and we look forward to the progress next quarter.

Operator
And we'll go to a follow up from Moshe Katri of Wedbush.

Moshi Katri – Wedbush Securities
Yes, thanks. Just to confirm if I heard it correctly. We didn't really recognize any revenues from software sales this quarter, am I correct?

Mike Bieber - President
That is correct, Moshe. We had none in Q2. We had the software license of PG&A we announced in Q1, but nothing in Q2, correct.

Moshi Katri – Wedbush Securities
Right. And maybe we'll see some signings during the next six months. And can you talk a bit about what's going on there? I think you went through maybe a restructuring of the sales force last year. I don't know, maybe you changed compensation, but the product looks great, but we're yet to see any sort of meaningful results from that part of the business. Maybe you can talk a bit about that because obviously this will give you a pretty decent boost to profitability, which is something that we want.

Mike Bieber - President
Yes, Moshe, we've made a number of changes in the software business in the last 24 months. You and I have talked about some of those. You're right, we've restructured not only sales but even development services. We've hired a number of new people in that business. We are trying to move from what was historically large lumpy deals to more compartmentalized for more annuity-based sales. And those would be smaller deals that are more incremental and less lumpy. And I think you'll see some of that come in in the back half of this year in a couple of deals we're working with right now.

We're also doing a lot of collaborative development with E3. There's a meeting going on today, in fact, on a brand-new service offering that they're working on called short-term forecasting, which we're excited about and hope to and have more announcements about, and that's being discussed just today.

So, I believe that IA will have its first meaningful contribution to earnings for Willdan this year. It's been a long time coming, and that we love the margins coming out of that business. We also love the technical differentiation. They do not have substantial competition in the marketplace. Competition is really from inaction. So we're highly differentiated and it's a great business. We'd like to invest more there.

Moshi Katri – Wedbush Securities
Okay. And then final question on my side. As you're ramping the business with the utilities or with California in general, should there be an impact on DSOs? Is there -- are there -- how are there kind of payment cycles relative to the rest of the business?

Kim Early - CFO
The new contracts are going to have a little more extended capability for -- or requirement for working capital. So the terms are a little more complex maybe than in some of our earlier contracts with some of the parameters having a quarterly true-up. So the DSO is likely to go up. The working capital requirements are likely to go up a little bit, but not radically so.

Moshi Katri – Wedbush Securities
Understood, thanks.

Operator
And with no other questions in the queue, I would now like to turn the call over to Tom Brisbin, CEO, for any additional or closing comments.

Tom Brisbin – CEO & Chairman

Well, thank you for all your questions and interest, and thank you to the shareholders who are listening or will listen. And we expect post pandemic, if we're really there, Moshe, if you're still listening, and we live in the most closed city here in L.A., but we expect to really get going now and stay there and deliver to all of you what we promised over the last three, four years. So we hope this all comes to an end, the pandemic, and we can get back to work. So, thank you all.

Operator

And so, this concludes today's call. Thank you for your participation. You may now disconnect.