

Willdan Group, Inc.
Third Quarter Fiscal Year 2025 Financial Results Conference Call
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Willdan Group, Inc.

Al Kaschalk, Vice President

Mike Bieber, President & Chief Executive Officer

Kim Early, VP & Chief Financial Officer

Q&A Participants

Craig Irwin - ROTH Capital Partners, LLC, Research Division

Tim Moore - Clear Street

Richard Eisenberg - Private Investor

Operator

Greetings, and welcome to the Willdan Group Third Quarter Fiscal Year 2025 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. 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. If anyone should require operator assistance, please press “*”, “0”. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, Al Kaschalk. Please go ahead, Al.

Al Kaschalk

Thank you, Kevin. Good afternoon, everyone, and welcome to Willdan Group's Third Quarter 2025 Earnings Call. Joining our call today are Mike Bieber, President and Chief Executive Officer, and Kim Early, Executive Vice President and Chief Financial Officer. Our conference call remarks will include both GAAP and non-GAAP financial results. Reconciliations between GAAP and non-GAAP measures can be found in today's press release and in the presentation slides, all of which are available on our website. Please note that year-over-year commentary or variances on revenue, adjusted EBITDA and adjusted EPS discussed during our prepared remarks are on an actual basis. We will make forward-looking statements about our performance. These statements are based on how we see things, today. While we may elect to update these forward-looking statements at some point in the future, we do not undertake any obligation to do so. As described in our SEC filings, actual results may differ, materially, due to risks and uncertainties. With that, I hand the call over to Mike, who will begin on Slide 2.

Mike Bieber, President & CEO

Thanks, Al, and good afternoon. The third quarter of 2025 marks another milestone in Willdan's growth. In the third quarter, we continued to execute very well, delivering results that exceeded the Street expectations and our own forecasts across all key metrics.

Against a strong Q3 last year, net revenue grew by 26% year-over-year, driven by an outstanding 20% organic growth rate. 2025 will mark the fourth consecutive year that we've produced double-digit organic growth.

Margins also continued to expand in Q3, concurrently with significant investments for our future, with electric load growth expected to increase over the next decade, driven by data centers and electrification. Willdan's unique capabilities and execution position us well to sustain long-term growth. As a result, we are again raising our full year financial targets, which Kim will present a little later.

Turning to Slide 3. Willdan delivers a broad range of energy and infrastructure solutions to utilities, commercial customers and state and local governments. On the left side of the slide, the Energy segment makes up about 85% of our revenue, while our Engineering and Consulting work makes up about 15%.

On the right side, demand remains healthy across all customer groups. The 15% of work for commercial customers is mostly centered around electricity usage at data centers, where AI-driven load growth is creating significant demand. Willdan is helping technology clients navigate energy constraints, optimize infrastructure and meet aggressive power requirements.

Our Utility business makes up about 41% of revenue and continues to perform well. Most of our utility contracts are three to five years in duration, funded by rate payer fees and continue to provide a strong foundation of recurring revenue. The size of our long-term utility programs is generally increasing across the country as energy efficiency can be viewed as a power resource.

Work for state and local governments makes up 44% of revenue and continues to grow, organically, at a double-digit pace. Demand from our government customers remains solid, and the outlook is positive. Most of our government work is funded through user fees and municipal bonds, which have remained healthy.

On Slide 4. Our upfront policy, forecasting and data analytics work informs our strategy and helps us navigate market change. In our upfront work, we see particular demand for studies on the impacts of electricity load growth, and that work is growing at about 50% organically, year-over-year.

Those market changes led us to the APG acquisition that provides Power Engineering solutions to data center clients, hyperscalers and other commercial customers. I'm pleased to report that APG is collaborating very effectively with the rest of Willdan and has already won record backlog that we expect will propel more than 50% growth by APG in 2026.

In other parts of Engineering, we saw strong execution and growth with both commercial and municipal customers.

In Program Management, we performed above our plan on utility programs and building energy programs for cities. Demonstrating this model in an example, we are hired by technology hyperscalers to identify the optimal sites for data centers. We then provide clients, consulting, engineering and project management to supply the electricity that powers those centers.

The new generation of data centers usually requires high-voltage power, often hundreds of megawatts with a dedicated utility scale substation and utility interconnect. After a data center is built, Willdan provides energy optimization inside the data center, as we have done for many years. Each step with the customer informs the next step. This model extends across all of our service lines.

On Slide 5. We have a strong pipeline of opportunities that we are converting into contracts, and the pipeline remains solid, heading into 2026. Here are just a few examples we converted since our last

conference call. For Alameda County, California, we won a 2-year \$97 million project to design and implement energy and infrastructure upgrades at county infrastructure, throughout San Francisco's East Bay.

For a confidential client, we won two substations for solar storage projects worth a combined \$21.7 million in Oregon and Georgia. For a confidential client in Texas, we won a \$14 million substation project for a solar energy storage system and a \$7.8 million greenfield substation project. In Utah, we won a \$3.6 million project to expand an existing substation. And I'll note that projects two through five on the table were all led by our recent APG acquisition. They're doing very well.

On Slide 6. In early October, Willdan's E3 subsidiary published new research on electricity load growth. This research forecasts between 0.7 terawatt hours and 1.2 terawatt hours of U.S. electricity load growth, over the next 10 years. The drivers are broad-based and extend well beyond the data center load growth now often talked about to include new industrial demand, electric vehicles and the electrification of building systems.

The colors on the bar chart depict the relative proportions of load growth drivers. This load growth is transforming electricity markets from a one static landscape into a dynamic long-term growth market.

On Slide 7. Looking globally, this map demonstrates that current data center electricity load, expressed in gigawatts, is by far the greatest in the United States right here. The map also puts into perspective just how large Northern Virginia data center electricity load is, compared to anywhere else in the world. We've previously talked about our landmark study for Virginia on the impacts of this load, which has led to several more similar studies for data center developers and utilities.

Willdan is in the right market at the right time and is building the right set of capabilities to help clients navigate electricity load growth. Utilities are also investing to enhance reliability and flexibility as more distributed resources come online, requiring significant modernization of aging infrastructure.

Together, these forces are driving one of the largest infrastructure investment cycles in decades, and Willdan is well-positioned to help utilities and communities navigate this transformation. I'm very pleased with the way our team is performing. Now Kim, over to you.

Kim Early, VP & CFO

Thanks, Mike, and good afternoon, everyone. Our Q3 results reflect another quarter of significant year-over-year improvement, continuing a trend that began in early 2022.

Turning to Slide 8. For the third quarter of 2025, contract revenue increased 15% year-over-year to \$182 million, while net revenue grew 26% to \$95 million. The recent acquisitions brought 6% of that growth, yielding an organic growth rate of 20% for the quarter. Growth was broad-based across both segments, led by continued strength in utility programs and double-digit gains in planning and construction management, as well as continuing municipal demand, geographic expansion and new contract wins.

Gross profit for the quarter grew 30% to \$67.1 million, up from \$51.6 million last year, driven by the revenue growth and solid project execution. Altogether, higher revenues, favorable gross margin and effective cost control drove a 91% increase in pretax income to a record \$14.3 million for the quarter.

We reported a 4% income tax rate for the quarter, compared to 2% for the same period last year. So net income thus rose to \$13.7 million, up 87% from the \$7.3 million we reported in Q3 of 2024. Adjusted

EBITDA reached another new quarterly record of \$23.1 million, or an adjusted EBITDA margin of 24% of net revenue and up 53% from what was an excellent performance in the quarter a year ago. GAAP diluted earnings per share increased 77% to \$0.90 per share, while adjusted earnings per share was up 66% to \$1.21 for the quarter, compared to \$0.73 a year ago. Broad-based growth and excellent execution drove a record quarter.

Now to Slide 9. For the nine months of 2025, contract revenue was up 20% year-over-year to \$508 million, while net revenue increased 27% to \$275 million. \$14 million of the net revenue growth came from acquisitions over the past year, yielding organic net revenue growth of 21%, year-to-date. Gross profit increased 31% to \$193 million, up from \$148 million last year.

Pretax income grew 77% to \$29.7 million. The discrete tax benefits from stock option exercises and 179D energy efficiency deductions allowed for a \$4.2 million tax benefit, year-to-date, and thus a net income of \$33.9 million or \$2.26 per diluted share through the nine months. Adjusted EBITDA rose 52% from \$39.1 million in 2024 to \$59.5 million, or an adjusted EBITDA margin of 21.6% of net revenue, and adjusted earnings per share nearly doubled to \$3.34 per share. All are record numbers for a 9-month period. We are on track to exceed our goal of 20% adjusted EBITDA margin in 2025.

Slide 10 outlines our balance sheet and cash flow metrics. We ended the quarter with only \$16 million in net debt, after deploying \$33.4 million cash for the recent acquisitions. This brings our trailing 12-month leverage ratio down to 0.2x adjusted EBITDA, compared to 0.3x at year-end 2024. Free cash flow for the first 9 months was \$34 million, consistent with the \$33 million generated for the same period in 2024. On a trailing 12-month basis, our free cash flow was \$65 million, or an impressive \$4.34 per share.

We had all \$100 million available to draw under our revolving credit facility and an available but undrawn \$50 million delayed draw term loan, plus \$33 million in cash on the balance sheet, giving us \$183 million in total available liquidity at quarter end.

Our healthy balance sheet, expanded credit facility and consistent operating performance provide us with the financial flexibility to pursue targeted acquisitions and expand capabilities in strategic markets, all while maintaining prudent leverage.

Turning to Slide 11. This slide reflects the 20-plus-percent compound annual growth in revenue we've been able to achieve over the past 15 quarters and the even more enviable growth in the adjusted EBITDA over the same period. The lines reflect the ebbs and flows of our diversified portfolio of projects across sequential quarters, but the clear trend across the nearly 4-year period is up and to the right. This record of sustained improvements has been enabled by the strong execution by our management team in a growing market. We've been able to grow and diversify our service offerings to satisfy the increasing demand from utilities, governments and commercial clients to adapt to the new environment.

On Slide 12. Building on this multiyear record of performance improvements, we're raising our financial targets for 2025. Net revenue for the full year 2025 is now expected to be between \$360 million and \$365 million, and adjusted EBITDA is now expected in the range of \$77 million to \$78 million. Adjusted diluted earnings per share is projected to be between \$4.10 and \$4.20 per share, based on an estimated tax benefit of 10% and 15.2 million shares outstanding. These targets do not include the impact of any future acquisitions.

Wrapping up on Slide 13. We're proud of the results we've been able to deliver, and we're excited about the potential for the future as we continue to win new contracts and expand existing ones. Organic net

revenue growth of 20% for the third quarter, the successful completion of recent acquisitions and excellent free cash flow conversion attest to the record-setting performance for the quarter and the year, to date.

Our performance and confidence in the future support raising our 2025 financial targets. With low leverage and an experienced and motivated management team, we are well-positioned in dynamic and growing markets, and we have an active pipeline of strategic acquisition opportunities. Operator, we're now ready to take questions.

Operator

Certainly. 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. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. One moment please while we pull for questions.

Our first question is coming from Craig Irwin from ROTH Capital Partners. Your line is now live.

Craig Irwin, ROTH Capital Partners

Hi, good evening and thank you for taking my questions. So, I should start by saying congratulations, another really just amazing quarter. Mike, in the last few quarters, you've been growing close to double the targeted growth rate that you've had for the last several years. I wanted to ask if you could maybe talk a little bit about what's lifting this customer demand. How do you plan for the capacity to serve these opportunities?

And the profitability is clearly there. Do you get more picky or more choosy about how you service these customers? Or do you see this as something that can maybe be an opportunity for you to continue over the next number of quarters?

Mike Bieber, President & CEO

That's a big question, Craig. Thanks. Well, first, the market is good. You know that. Electricity prices are rising. Demand for electricity is increasing. So the market is good. But there's something else going on.

Our own performance within that marketplace has improved pretty substantially over the last couple of years, as you mentioned. We're more effective at cross-selling, especially with new acquisitions that we bring in than we ever have been before. And that has led to tens of millions of dollars of new revenue that we had never seen before in our cross-selling evolution, I'll put it.

Culturally, we've become much better at that. And APG and the list of their wins sort of epitomizes that. They've been excellent collaborators. We've got a great pipeline. And they're hoping to accelerate and catalyze our growth into 2026. You saw that on the new wins. So, that's what's going on.

I can't provide you a detailed forecast for 2026. We won't do that until March of this year, but we have been -- we normally guided the Street towards high single-digit organic growth rates. And you're right, we've been about double that now for a little while. We're going to do our best to make it as reasonably high as we can.

You mentioned becoming selective. And in certain instances, we have become selective with those projects. We can afford to do so at this point, especially in our commercial work for data centers, where we're choosing to work with certain mid-tier developers that we have very close relationships with,

we're working effectively with and it's a good business environment. It's not competitive. It's directly negotiated work, and we are becoming more selective in that area.

Craig Irwin, ROTH Capital Partners

Understood. And I'm guessing that you might be referring to APG, which bridges into my next question. So the work that APG is executing, the work they're winning, the data center work is some of the most exciting projects that Willdan is completing, right now.

Can you maybe talk about the ability for other areas of Willdan to supplement the capabilities at APG and the execution capacity there? And is this something that is improving employee utilization and just general resource utilization for the company?

Mike Bieber, President & CEO

Yeah, sure, Craig. Well, first, our upfront consulting work that we do, particularly for the hyperscalers, is feeding into our information that we know where the new data centers are going into. That's useful. And on the back end of that, the work that we had been doing to make energy efficient, or make data centers more energy efficient, we've been doing that work for a long time is useful in our knowledge of working around that environment. So, all of those groups are collaborating pretty well. We're also even getting our civil engineering group involved in certain projects. So, that's sort of what the landscape looks like, right now.

Craig Irwin, ROTH Capital Partners

Okay. And then last question, if I may. Other companies in the service sector are talking about difficulty sourcing employees. Can you talk about the Willdan workforce? How flexible is the workforce that you've assembled over the last several years? Are you able to develop people up to fill these needs, these opportunities? And do you see this as an impediment to your growth?

Mike Bieber, President & CEO

We don't see it as an impediment to growth. Actually, we see ourselves as the employer of choice. We have not had major impediments in hiring employees. And I just saw today that our employee count for the first time has reached over 1,800. We're hiring. And I think we're doing a very effective job of hiring and retaining key employees. I'll note that we have had 0 turnover in our senior management team over the last more than two years. We haven't lost a single person. So no, it's not a major impediment. Look at our website if you're interested.

Craig Irwin, ROTH Capital Partners

Well, congrats again on another really solid quarter.

Mike Bieber, President & CEO

Thanks, Craig.

Operator

Thank you. As a reminder, that's "*", "1" to be placed in the question queue. Our next question is coming from Tim Moore from Clear Street. Your line is now live.

Tim Moore, Clear Street

Thanks. Mike and Kim, congratulations on the continued execution and optimizing your funnel to really cross-sell and benefit from this low-power secular theme. So my first question is really more about risk

management and balancing that. It's a good problem to have to be growing organically as fast as you have in the last few quarters and seemingly for next year.

So can you maybe just give us a little color on -- we know you hired a lot more consultants this year. We know the employee count is up a lot. You're getting inbound inquiries also through your project managers. But just wondering how you kind of think about accepting larger projects and program management and just making sure that you're staffed without maybe having to pay overtime or on-site costs or actual travel and hotels for maybe a project that if you're jumping around. Can you give us some color on that to really keep the margin up there?

Mike Bieber, President & CEO

Sure. Great question. We don't often get it from investors, but it's what we spend most of our time on day in and day out, Kim and I, on this risk management idea. You're right that you need to look -- when you're growing organically at 20-plus-percent, you need to look at the leading indicators to make sure that you're delivering effectively for those clients. And we look at everything from quality to health and safety to other factors, and we review them every week with every operating unit.

The leading indicators look good, and we're not seeing issues that might say that we're taking on too much risk or growing too quickly. But we are growing quickly, and we're keeping our eye on that and keeping our eyes wide open. That's how I would describe it. Kim, do you have anything to add?

Kim Early, VP & CFO

Yeah, the only thing I would add to that, Tim, is that these larger scale projects take a while to develop. And it's not necessarily a big surprise to us when we finally get awarded a project. It's not like we're waiting for some envelope to be opened at the end of a process, and we don't know what's going to happen there.

We are working on these -- developing these projects for quite a long period of time, and we can see them coming and we can get a pretty good feel from these clients that we may be in position to win.

So, we're able to look ahead and plan effectively as well, as to what those risks are and how can we get those staffed and how can we make sure we're prepared to execute when the project finally does get awarded.

Mike Bieber, President & CEO

Yeah, Kim is right and points out correctly that a lot of these start out as T&M consulting projects. We're developing the project for months in advance. We're doing all of the engineering and we may, with the client, decide to convert it to a fixed price or fixed unit price contract later on, but we're mitigating our risks significantly by working closely with the client upfront in planning.

Tim Moore, Clear Street

That's terrific color. I'd realize that a big renewal like the Los Angeles Water and Power Department won, it's pretty well planned out. Just curious about the new first-time ones, and that's really helpful.

My only other question is, as you cross-sell APG more than that's early innings, E3 software, civil engineering cross-selling, I'm just wondering, does your team -- and maybe Kim you can speak to this, do you prefer smaller bolt-on acquisitions, or can you really tackle something that's maybe \$100 million-plus target and integrate it well and still be able to cross-sell it well without maybe taking some staff power off of

the cross-selling team that's in the rest of the business as you kind of really look at commercial electrical engineering or maybe interconnection?

Kim Early, VP & CFO

Yeah, I think we've got a pretty effective systems and communication devices, I guess, that we use for the cross-selling activity. And so, it's pretty efficient for us as we bring in these bolt-on acquisitions to establish that kind of cross collaboration. But we're definitely prepared to be able to handle \$100 million kind of size group.

Just culturally, we fit that way. Our tools are kind of designed to make sure that we'll be able to cross-collaborate without significant barriers on those projects. So, we definitely keep our eye open for those kinds of opportunities, and we plan for that kind of potential acquisition, as well.

And whenever you make acquisitions of those size, the leadership on both sides of the fence, our side and the company that's being acquired, the management teams are usually pretty anxious to get to know each other and to find out what the others are doing and how can we work together on that. And that's probably the most exciting piece to most of our team. So we're prepared to do that for sure.

Tim Moore, Clear Street

Thanks for those insights and answering my questions.

Operator

Our next question today is coming from Richard Eisenberg, a private investor. Your line is now live.

Richard Eisenberg, Private Investor

Yeah, good afternoon, guys, and congratulations on a great quarter.

Mike Bieber, President & CEO

Thanks, Richard.

Richard Eisenberg, Private Investor

On the last call, you talked about a potential \$100 million contract with the State of New York. Is that still in negotiation phase? Do you expect to close that? Thank you.

Mike Bieber, President & CEO

We have several large contracts in New York that we're pursuing. And yes, we remain very optimistic that we're going to be successful on one, if not several of those opportunities. And I think they're going to help drive 2026 growth.

Richard Eisenberg, Private Investor

Thanks a lot, Mike.

Operator

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

Mike Bieber, President & CEO

Well, thank you all for attending, and we look forward to speaking with you soon. Thank you.

Operator

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