Willdan Group, Inc.
First Quarter 2024 Financial Results Conference Call
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Presenters
Al Kaschalk, Vice President, Investor Relations
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

Operator
Hello, and welcome to the Willdan Group First Quarter 2024 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. As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Al Kaschalk, Vice President, Investor Relations. Please go ahead, sir.

Al Kaschalk
Thank you, Kevin. Good afternoon, everyone, and welcome to Willdan Group's first quarter fiscal 2024 earnings call. Joining our call today are Mike Bieber, President and Chief Executive Officer, and Kim Early, Executive Vice President and Chief Financial Officer. This call builds on our earnings release we issued after market close, today. You can find today's earnings release in the press release section of our website at ir.willdangroup.com. A copy of the slides that accompany today's call are located in the 'Events and Presentations' section of the website. In addition, our Willdan Investor Report is available under Stock Information section of the same website. 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 include non-GAAP measures. A more detailed Safe Harbor statement is on the cover of our first slide and in our Annual Report on Form 10-K. I will now turn the call over to Mike Bieber, Willdan's President and CEO, who will begin on Slide 2.

Mike Bieber, President & CEO
Thanks, Al. We had an excellent start to 2024 with solid performance, across the board. Revenue was up 19% organically, year-over-year, to $123 million. Adjusted EBITDA was up 12%,

year-over-year, to $11 million. We converted our strong Q4 revenue into cash, as Q1 cash flow from operations was up 56%, year-over-year, to $27 million. These metrics are all company records for the first quarter, and these were delivered against a tough comparison a year ago when we also had record performance led by a large software license. Kim will go into more detail on our financial results.

Today, you'll hear us talk about new data center load, driven by artificial intelligence processing, that is adding demand for electricity, far faster than most predicted. This trend is a new catalyst for Willdan's services. Solid performance over the last 18 months has rapidly deleveraged our balance sheet and puts us in a strong position to pursue strategic acquisitions. I'm proud of our team for delivering another great quarter.

On Slide 3, for those less familiar with our business, Willdan helps transition communities to clean energy and a more sustainable future. We have about 1,600 employees comprised mostly of scientists, engineers and other technical professionals. We have 53 offices across North America and help clients avoid 7.7 million metric tons of greenhouse gases. Our customers on the right are about evenly split between government and utilities, while commercial customers make up only 7% of our work. In Q1, government customer demand for our services remained healthy, continuing the trend we saw last year. We are submitting new proposals to government customers at a record pace for us, as new federal funding is beginning to flow to our state and local customers. These clients are also issuing us new work to demonstrate progress to voters, in advance of the November elections.

On Slide 4, our upfront policy and data analytics work informs Willdan's strategy. In our upfront work, we see that customers are beginning to, rapidly, prepare for new electric load on the power grid. I'll give you some examples of this in a moment. In Engineering, we saw strong demand for our municipal services. We picked up new programs that designed for transportation electrification, small local solar generation and municipal building efficiency. In Program Management, we entered the year with around $200 million in funded backlog and did a good job of executing here, early in the year. I'll note that at Willdan, while revenue is skewed towards larger program management projects, our profit is delivered about equally from each of the three phases of work.

On Slide 5, we had several notable wins, this quarter. We added two new Confidential LoadSEER software customers in Q1. One is a major IOU on the East Coast and the other is an IOU in the Western U.S. Building on our work performed for New York City, we added a Comprehensive Regional Climate Action Plan for the city of Chicago this quarter, beating out highly qualified competitors. This study is funded through the Federal Inflation Reduction Act, IRA, and is similar to IRA funded climate action plans we've recently won in Hawaii, Idaho, New Mexico and the State of New York. We use data analytics to advise clients on ideal locations for new data centers, optimizing electricity availability, price and other factors. We had a new project this quarter from a large real estate investment firm that is trying to site new data centers. We also have a group within Willdan, about $10 million a year, that provides energy efficiency at data centers across the U.S. We've had this group for years. We picked up a new contract with AT&T, one of our long-term customers, providing this service. And in California, we were selected by the Pasadena Department of Water and Power to develop a carbon-free electricity strategic plan.

On Slide 6, recent headlines nearly everywhere point towards the rapid electricity load growth caused by AI data processing. The swift commercialization of AI requires massively more electricity than most people expected. A recent study by the International Energy Agency, IEA, shows the combination of AI and cryptocurrency processing will double data center energy consumption by 2026, just two years from now.

On Slide 7. According to the Federal Energy Regulatory Commission, FERC data, over the past year, grid planters nearly doubled the five-year loan growth forecast. The main drivers are investments in new industrial manufacturing and the data center facilities. The map on the right shows that certain pockets in the D.C. area, Southeast, Midwest and West Coast are projecting far more rapid growth than average areas. Lower electricity transfer capability between these regions is a key risk for reliability, if low growth outpaces deployment of new generation in certain areas.

Since these forecasts were filed with FERC, Willdan customers like Puget Sound Energy, Duke Energy, Dominion and TVA have stated that their load expectations have grown even higher, due to data centers. This indicates that the current FERC load forecast is likely to be an underestimate. Electricity prices, last year, increased about 18% in California and increased 10% in New York, Willdan's largest two markets. This compounding effect of higher electricity prices and higher electricity load is providing a new catalyst for Willdan solutions. We're clearly excited about the energy transition capabilities that we've assembled here; planning, software, energy efficiency and engineering. We are in the right market, and we look forward to adding even more capabilities through M&A in the quarters ahead. Kim, over to you.

Kim Early, EVP & CFO
Thanks, Mike, and good afternoon, everyone.

Slide 8, We're happy to report that our key metrics continue to move in a positive direction. For the first quarter of 2024, contract revenue was up 19% over Q1, 2023, to $123 million, and net revenue was up 12% to $69 million. The higher revenue reflects year-to-year increases across all our service lines, as demand for energy and municipal services remained strong. Double-digit percent increases in program and construction management activities and strong performance in our utility programs were the primary factors behind a 21% increase in revenues in the Energy segment, while revenue from the Engineering and Consulting segment also increased a healthy 13%, reflecting continued strong demand for our services.

Between net revenue and adjusted EBITDA, G&A expenses increased but at a lower rate than the revenue growth. They increased 13%, primarily due to higher wage, employee benefit costs and incentive compensation in support of the expanding revenues, but were partially offset by lower depreciation and amortization, compared to a year ago.

Interest and other expenses declined by 38% over the prior year quarter to $1.4 million in Q1 of 2024, due to the lower interest rate spread on our credit facilities and interest income earned from the higher cash balances generated from the continuing profitability and improved working capital ratios. Our income tax rate was 25.1% in the quarter, compared to 44.8% for the first quarter of 2023. Thus, for the first quarter, net income tripled to $2.9 million, or $0.21 per diluted share, versus net income of $0.9 million or $0.7 per diluted share a year ago.

Adjusted EBITDA was $11.0 million, or 16% of net revenue, up from $9.9 million in the first quarter of 2023. And adjusted diluted earnings per share increased 25% to $0.40 per share versus $0.32 a year ago. It was a record first quarter for Willdan revenues and earnings.

Turning to the balance sheet. Slide 9 highlights some of the more important metrics reflecting the continuing strength of our financial condition. Net debt was reduced from $75 million at year-end to $50 million at the end of the quarter, as a result of the higher cash balance. That reduction and the strong EBITDA performance enabled us to reduce our leverage ratio from 1.6 times at the end of 2023 to 1.1 times in just three short months. We generated $27 million in cash flow from operations and $25 million in free cash flow for the quarter and ended the quarter with $47 million in cash on the balance sheet to accompany our $50 million unused line of credit. The first quarter cash flows benefited from the strong earnings and a reduction in working capital, due to improved DSO performance in our operating units and the sequential decrease in revenue from Q4 of 2023 to Q1 2024, consistent with the prior year effect.

Moving to Slide 10. This solid first quarter performance reinforces our confidence in our 2024 full year financial targets. Net revenue in the range of $270 million to $280 million, adjusted EBITDA of $48 million to $50 million and adjusted diluted earnings per share between $1.80 and $1.87. These targets do not include any potential future acquisitions. Operator, we're now ready for questions.

Operator
Thank you. We'll be now 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. One moment please while we poll for questions. Our first question, today, is coming from Moshe Katri from Wedbush Securities. Your line is now live.

Moshe Katri - Wedbush Securities
Hey, thanks. Nice results, guys. So, all the metrics are moving in the right direction, obviously. I want to talk a bit about the deal pipeline, both for software and services. Maybe we can talk about, directionally, I'm assuming it's higher, but what do we have in terms of the near-term

software and services and then six to 12 months from now? And is there any way to kind of quantify that? Thanks.

Mike Bieber, President & CEO
Good question, Moshe. We've certainly ramped up those efforts and are actively in the marketplace and in negotiations. We have a pretty good pipeline, I would say, at this point. of both the services, technical services we've mentioned we want to invest in and some software companies we're looking at that are really in, I'll call it, four areas.

First, waste to energy, where we have a good customer base, but no capabilities right now. Electrical engineering, where we subcontract a lot of that work out and our light on that technical capability. The front-end consulting, where our last acquisition was E3. And as you mentioned, the analytical software space. Those are the four areas that we're looking at, and it looks pretty good. It's a fractured market. There are a lot of opportunities, and we're picking through them to find the right match for Willdan.

Moshe Katri - Wedbush Securities
Understood. And then, was there any software contribution during the quarter, in terms of revenues?

Mike Bieber, President & CEO
There was. Moshe, we had two software sales. I pointed out there's one on the East Coast and one on the West Coast. They're both confidential clients, so they didn't wish us to release their name. That's why we didn't press release them. And it was a good contribution and we didn't break out the revenue number, but good contribution, just like we saw actually a year ago last year, where we had that big Exelon contract.

Moshe Katri - Wedbush Securities
Alright. And then final point, obviously, there's going to be a lot of excitement about your commentary related to incremental data center load, due to AI data processing and crypto. Is that already kind of resulting in incremental kind of deal flow coming through Willdan, or this is something that happens down the road? Are we--sales results, those trends kind of reflected and better kind of deal flow?

Mike Bieber, President & CEO
They are already starting to occur. One of our technical people was at a conference just two days ago, where utilities were confessing the load growth they are already seeing on their networks. So, this has started. I met with two utilities over the last two weeks and also had that kind of discussion about increased load growth and how they need to reconfigure their programs, their forecasts, some of their software, all to prepare for this pretty rapidly changing environment. So, it's starting to occur, and I don't think it was expected, even several months ago.

Moshe Katri - Wedbush Securities
Understood. Thanks.

Operator
Thank you. As a reminder, that's "*", "1" to be placed in the question queue. Our next question is coming from Craig Irwin from ROTH MKM. Your line is now live.

Craig Irwin – ROTH MKM
Thank you. Hey, Mike. Congratulations on another solid quarter here. It's nice to see this trajectory. Nineteen percent growth, organic growth in the quarter is a really solid number. So you did mention the two unnamed contracts from integral analytics. But can you maybe talk us through anything that went extraordinarily well, this quarter? Or are we looking sort of mid-teens organic growth as something that might repeat, this year? And then, I guess, as a last part of this question, you guys have been conservative about your guidance for the last several quarters. What are your feelings or what would you need to see to acknowledge a growth rate that might be a little better than the top line to $280 million, like you are suggesting in your forecasting, creating net revenue.

Mike Bieber, President & CEO
Yeah, great question, Craig. First, organic growth, it was a little higher than even we expected. And it was good across the board. In addition to those software sales, really all of the units did a little better than we expected, and it was right out of the gate. It wasn't from any one contribution that we saw this kind of performance. I would say, right now, that our guidance does not reflect that kind of growth rate and we're going to stick with our guidance, at this point. We had a great Q1. It's still just early in the year, that's all. It was only a couple months ago when we announced guidance to you. So, we'll see how the year unfolds, but we really started out, well. It was across the board. We've got good business drivers and we'll revisit guidance again, next quarter.

Craig Irwin – ROTH MKM
Excellent, excellent. So then, my second question is about hiring and training of new employees. With this nice organic growth that you've had with the strength you're starting to show again in the software business, it's not just Integral Analytics, but E3, it's multiple things that are working for you. What's your experience out there, as far as hiring employees with the necessary skill sets and the opportunity to bring them in and train them? I mean do you need to maybe increase your hiring and plan for necessary employment levels, over the next couple of years?

Mike Bieber, President & CEO
We are increasing our hiring, consistently hiring, but it has not been a major impediment to our growth. We have a good reputation, and we're in a good place to work. We are attracting a lot of new graduates, especially out of graduate schools who want to join us. We're attracting a lot of people from private equity firms, who don't like that kind of environment. We're hiring

directly from our competitors, that way. And I know of a number of people who joined us, just this past quarter, who fall into both of those camps. We've also been able to hire directly from our customers in both out of the government and out of the utility. So, all three of those sources are where we're finding our people. It hasn't been an impediment. And I think we're in a good spot to be able to continue to recruit that kind of talent to keep up with this growth.

Craig Irwin – ROTH MKM
Excellent. Then last question for me is cash flow. Your cash from operations almost $27 million in this quarter. I have to look in the ancient history to see if there was anything ever this high in the first quarter, but I doubt it. Can you maybe talk about cash needs for this year? Do you see investments in working capital or other items? Or is this new sort of discipline that you're bringing to the whole organization to squeezing the balance sheet for cash and giving you an opportunity to maybe operate a little leaner?

Kim Early, EVP & CFO
Well, we're certainly trying to do that and we've had some success. We've been working at that for a while, and we're able to reduce that DSO level that we've got invested in it. So, we have been able to squeeze some extra cash out of the thing. When we look at what we expect, I guess, for cash flow from operations for the year, we're certainly hoping that we can approximate something close to the EBITDA targets that we're going to achieve. We're expecting the CapEx numbers to be in the $10 million to $12 million kind of range for the year. And so, we certainly think our revenues are going to ramp up from this first quarter number during the course of the year, and that's going to need some working capital but, thankfully, less than what we have used in the past. And we expect to end the year with cash from operations, something close to the target EBITDA numbers.

Craig Irwin – ROTH MKM
Excellent. Well, congratulations on another solid quarter. I'll hop back in the queue.

Operator
Thank you. We've 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
I'd just like to thank everyone for your interest in Willdan and the interest in our Q1 call. And we'll talk to you again, next quarter. Thank you.

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.