**Company:** **WILLDAN GROUP, INC.**

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**Moderator:** **Tony Rossi**

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Operator: Good day, everyone. Welcome to the Willdan Group Fourth Quarter 2019 conference call. Today's conference is being recorded. At this time I'd like to turn things over to Tony Rossi of Financial Profiles. Please go ahead.

Tony Rossi: Thank you, (Kellyanne). Good afternoon, everyone, and thank you for joining us to discuss Willdan Group's financial results for the fourth quarter ended December 27, 2019. With us today from management are Thomas Brisbin, Chairman and Chief Executive Officer, Stacy McLaughlin, Chief Financial Officer, and Mike Bieber, President of Willdan Group. Management will review prepared remarks and we'll then open up the call to your questions.

Statements made in the course of today's conference call, which are not purely historical, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements involve certain risks and uncertainties, and it's important to note that the company's future results could differ materially from those in 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 Form 10-K for the year ended December 27, 2019 and subsequent quarterly reports on Form 10-Q.

The Company cautions investors not to place undue reliance on the forward-looking statements made during the course of this conference call. Willdan Group disclaims any obligation and does not undertake to update or revise any forward-looking statements made today.

In addition to GAAP financial results, Willdan also provides non-GAAP financial measures that we believe enhance investors' ability to analyze our business trends and performance. Our non-GAAP measures include net revenue, adjusted EPS and adjusted EBITDA.

We believe net revenue allows for an improved measure of the revenue derived from the work performed by our employees. Adjusted EPS and adjusted EBITDA are supplemental measures of operating performance, which removes the impact of certain expense items from our operating results. GAAP reconciliations for all of these non-GAAP measures are included at the end of the earnings release we issued today.

With that I'd now like to turn the call over to Chief Financial Officer, Stacy McLaughlin. Stacy?

Stacy McLaughlin: Thanks, Tony. I'd like to add my welcome to those joining us on today's call. I'll start with an overview of our income statement, and our balance sheet and finally our guidance.

The Q4 2019 results were by far the strongest results in the company's history. Total contract revenue for the fourth quarter of 2019 increased 49.7% to $129.4 million from $86.4 million for the fourth quarter of 2018.

The increase was driven by growth in our energy segment. Net revenue, defined as contract revenue minus subcontractor services and other direct costs, was $61 million, an increase of 51.8% from $40.2 million in the year ago quarter.

Within the energy segment, net revenue increased by 84.5%. Within the engineering and consulting segment, net revenue declined 5.2%.

Direct costs of contract revenue were $86.2 million for the fourth quarter of 2019, an increase of 44.9% from $59.5 million in the same period last year. The increase was primarily related to the growth in contract revenue.

Our direct costs of contract revenue were 67% of our total contract revenue in the fourth quarter, down from 70% in the third quarter of 2019 and 69% in the same period of the prior year. The decrease from both periods reflects a slight decrease in the use of subcontractors in the recent quarter.

General and administrative expenses for the fourth quarter were $37.7 million compared to $25.3 million for the prior year period. This increase is consistent with the percentage growth in contract revenue.

We generated operating income of $5.5 million for the fourth quarter of 2019 compared to operating income of $1.7 million in the fourth quarter of 2018. Adjusted EBITDA was $13.8 million for the fourth quarter of 2019, an increase of 110% from $6.6 million for the fourth quarter of 2018. The adjusted EBITDA margin, as a percent of net revenue, was 22.7% compared to 16.4% in the prior year period.

We incurred $1.3 million in net interest expense in the fourth quarter of 2019 compared to $625,000 in the same period last year. The increase was due to the debt utilized to finance our recent acquisitions.

During the fourth quarter, we recorded income tax expense of $1.2 million, reflecting an effective tax rate of 27.1%. Net income for the fourth quarter of 2019 was up 145.5%, from 11 cents per diluted share in the prior year to 27 cents per diluted share in the current quarter.

This represents net income of $3.2 million in the fourth quarter compared to $1.2 million in the same period last year. On an adjusted basis, our net income was $11.5 million, or 97 cents per diluted share.

This represents an increase of 60% year-over-year. The most significant adjustments from our GAAP net income was stock-based compensation and intangible amortization. Both of these items are non-cash and are not a result of the increased performance within the operating segments.

For fiscal year 2019 consolidated contract revenue was $443.1 million, an increase of 62.8% over the prior year. Net revenue was $199.5 million, an increase of 42.9%. Adjusted diluted earnings per share was $2.27, an increase of 9.7%. Adjusted EBITDA was $37.7 million for the year, an increase of 48.4%.

Turning to the balance sheet and cash flow from operations, we had $57.5 million in accounts receivable net at December 27, 2019, down from $61.3 million at December 28, 2018. For the full year, our cash flow from operations was $11.6 million, an increase of 54% from $7.6 million in the prior fiscal year.

As of December 27, 2019, we had $130 million outstanding on our total credit facility. This leaves $70 million available within our credit facility as well as an additional $100 million accordion.

Turning to our outlook, I would like to provide our financial targets for fiscal 2020. These targets do not include the assumption of any revenue from new contracts to be awarded through the California IOU procurement process or any future acquisitions.

For the full year we expect net revenue to range between $215 million and $230 million, adjusted diluted EPS to range between $2.47 and $2.60, an effective tax rate of approximately 17%, which I will discuss further, a diluted share count of 12 million shares, depreciation of approximately $4.1 million, amortization of approximately $13 million, stock-based compensation of approximately $19.8 million and interest expense of approximately $4.5 million.

In December of 2019 Congress renewed 179D, an energy efficiency tax deduction. This deduction applies to projects where Willdan is the engineer of record, the project is fully constructed and the client is a non-tax paying entity.

For instance Willdan's work making publicly owned infrastructure more energy-efficient falls into this category. This has the effect of lowering the company's cash taxes paid by several hundred basis points. This benefit will exist throughout 2020.

As we've talked about before, software sales volume can change our sales materially. For 2020 guidance we are assuming that our software business breaks even, which represents approximately $4.5 million in new software license revenues.

For purposes of modeling, our adjusted EBITDA distribution throughout the year is expected to be around 10% in Q1, around 25% in Q2, around 35% in Q3 and around 30% in Q4. I'd now like to turn the call over to Tom.

Thomas Brisbin: Thank you, Stacy, and good afternoon, everyone. We executed well in the fourth quarter and delivered our highest level of revenue, earnings and EBITDA.

Organic net revenue in the quarter jumped to 9%, driving the full year organic growth to a positive 3%. The improvement in organic growth was driven by the expansion of existing energy efficiency programs in the quarter and the Xcel software contract, which was signed in December.

First, I would like to make some general observations. The New York Public Service Commission announced on January 16, 2020, nearly $2 billion in additional utility energy efficiency through 2025. Also the commission reauthorized $1.3 billion of existing energy efficiency, resulting in over $3 billion for EE, energy efficiency, in building electrification to 2025.

Currently 68% of all electric customers are served by a utility that has a climate role. We believe this focus will progress from goal setting to showing progress. We are all seeing funds like BlackRock, Brookfield, Global Infrastructure Partners generate capital seeking clean energy investments.

Electrification is a growing technology, or simply stated fuel switching from natural gas to electricity. Currently California is 40% renewable, thus generating less greenhouse gas emissions.

We see the demand for heat pumps that provide heating, cooling and water heating increasing. This trend is good for Willdan because we designed this technology for our customers.

Electrification also applies to vehicles where charging infrastructure is needed. Our IA software is valuable in accessing where these charging stations should go on the grid. More customers will use distributed energy resources and need less power from the wholesale market, again, benefiting Willdan because of our capabilities to go beyond energy efficiency to solar battery installation.

Resiliency will also become more important. Looking at California, fires and earthquakes, the New York hurricanes and floods and recently, Tennessee tornadoes.

Five years ago, there were almost zero solar battery installations. Growth in total battery storage is up 230% year-over-year. In the US behind the meter, known as the customer, is up 138% from last year.

Going to the competitive landscape, the competitive landscape continues with consolidation. There is great interest in this market by private equity and internationals. We have been fortunate that most of our acquisitions are companies that we have worked with and know well.

Synergistic growth between the companies is easily recognized and is the driving force for the merger. In reverse chronological order our acquisitions of E3 - policy consulting, Onsite Energy - engineering, The Weidt Group - new construction, Lime - small business energy efficiency, IA - data analytics and Abacus, 360 and Genesys, mechanical, electrical, energy engineering.

These capabilities will allow us to propose and win contracts that were not possible just two to three years ago. It's been a good year for positioning and winning.

I have a few new business highlights. In civil engineering we won the recompete for Westlake Village, which we've now held for 35 years as the incumbent. We've expanded to Indiana, Illinois and Kansas. We've added several new cities in California as well.

For financial services we're now registered with the Securities and Exchange Commission as a municipal advisor.  We won our first advisor contract with the City of Lynwood, California.

In the mechanical, electrical engineering group, in the Northeast we won $300,000 in additional commission from Yale University.  We've also done new direct-to-customer for schools, colleges, JPMorgan, Regeneron, Digital Realty and Sheraton to name a few.

There has been a significant announcement by NYCHA, the New York City Housing Authority. They have announced a five-year $400 million contract.  Willdan is one of four firms selected to address NYCHA's problems, primarily energy usage and central plant upgrades, a Willdan strength.

In the Midwest and West, we see that the Pacific Northwest is back and growing with new work. Our design-build projects, such as the California Department of General Services, Trinidad Schools and Pueblo County and Colorado are doing well.

In industrial engineering, we completed 11 of 17 megawatts for Southern California Edison, their local capacity requirements.  We've done $4 million for AT&T's central offices.  We're also working on cement plants on waste heat recovery projects.

Remember, industrial is about 30% larger than commercial, which has been our business for many years.  We are just beginning this initiative.  Collaboration is strong for industrial for both utilities and direct-to-customers throughout the Company.

In the utility, state and municipal markets, we won Con Ed small business for the fourth time. We've been extended for Con Ed multifamily.  We won Puget Sound Energy for the third time. We won Central Hudson, CDI, a commercial direct install program, for the third time.

We won New York's national grid CDI program where we won it and it's been expanded for the fourth time.  We won NYSERDA Con Ed pay-for-performance program.  We won Oncor in Texas for the second time.

With regards to smaller projects, in the USTDA, we won the Turkey Smart Campus and it's going well and also the Massachusetts Community Microgrid projects.  We just got started with SCE's Resilience Pilot and also Consumers Energy with a smart energy district.  We've also got new EV infrastructure contracts in California cities of Fairfield, Roseville and Tulare.

For our new construction EE programs, we've won Duke Energy through 2022, Focus on Energy, Wisconsin through 2023, Xcel Energy through 2023 and MidAmerican Energy through 2024. Many of these contracts will be held for over 15 to 20 years.  Collaboration with new construction software is being presented in bid in many Willdan utility customers.

Policy consulting, we've been adding staff and geographies, such as Calgary, New York and Boston.  They do a lot of high price profile work such as the privatization of Santee Cooper in South Carolina.

They're also doing client pathways (for) more states, such as Maryland and Maine, and electrification and building standards for California.  New York's new efficiency order and zero-carbon electrification road maps have also been taken on by our policy shop.  They also have a three year contract for the California PUC for their rolling energy planning forecasting.

In data analytics, as we said, Xcel Energy booked as the largest software license ever.  Xcel is a leading multistate utility with goals of 100% renewable energy.  We've also added Austin Energy.

We've been recognized by the Pacific Northwest National Laboratory and the Electric Power Research Institute that LoadSEER, our software, is the leading load and distributed energy resource planning application for utilities. Collaboration on all new utility business has been essential.

I apologize for this exhaustive list, but we have added massive capabilities, and we are integrating, collaborating and winning. We have the right attitude. We are winning as a team. Our people see the benefits of having more to offer their clients.

We have worked hard in 2019 assembling these capabilities and putting together a cohesive story on the benefits to our customers. Going forward we see these capabilities as essential to compete nationally.

Now to California. California IOUs are finally moving. PG&E for the gas and electric has gone through abstracts, proposals and interviews/oral presentations. They have moved to active negotiations.

We expect work with at least industrial, public and possibly commercial to start the second half of this year. SCE, Southern California Edison, had progressed through abstracts and proposals. The California Public Utility Commission gave all IOUs in mandate to be 40% outsourced by the end of 2020.

San Diego Gas & Electric is through abstracts, proposals and interviews. Negotiations have started. Completion is anticipated by the second half of 2020. We are optimistic with our progress so far. We have not put any new California revenue in our 2020 forecast because of past delays and conservatism.

Our focus in 2020 will be our delivery, collaboration and winning. We have a great team. Everyone is focused on making Willdan the dominant player in the US market. We have executed well as you can see in our results. Our forecast shows continued growth in 2020.

With that, we can take your questions.

Operator: Thank you. At this time if you do have a question, please signal by pressing star 1. Again, that will be star 1 for questions. We'll hear first today from Moshe Katri with Wedbush Securities.

Moshe Katri: Hey, thanks. Nice quarter. A couple of ((inaudible)). First, I just want to - it's on the December numbers, maybe you can talk a bit about what are the largest drivers for the revenue side for the quarter? Obviously they are strong numbers. Maybe both on the individual contracts and then in that context, can we get a sense for the revenue contribution from IA for the quarter?

Thomas Brisbin: Moshe, could you - you were really garbled. I don't know if it was just to us or everyone on the phone. Is there a way you could ask that question again? And we probably understood about 30% of it.

Moshe Katri: Sure. Is that any better?

Thomas Brisbin: Keep talking or say it again.

Moshe Katri: What were the largest drivers for the revenue upside for the quarter? And maybe if you can go through some of the individual contracts, that will be helpful. And then in that context, what was the revenue contribution from IA during the quarter?

Michael Bieber: Yes. Moshe, this is Mike. We got some contract expansions on the East Coast in most of our utility programs, including Con Edison and some of the programs in upstate New York. They contributed strongly in the quarter.

That was true on the West Coast in some programs and in the Midwest in places like Rocky Mountain where we had a good quarter as well. Sometimes in these programs, utilities get behind and towards the end of the year, they push in additional funds. So that happened in the examples that I just gave.

So utility programs broadly in Q4 were very good and were strong. Direct-to-customer programs were also strong. Work at DASNY was very good in the quarter.

On software sales, we didn't break out and won't be breaking out, a specific contribution from IA in the quarter. But Tom mentioned, it's a good software award that happened in December with Xcel Energy. That was the only one that hit in Q4. And we've got a good pipeline of those opportunities moving into 2020.

Moshe Katri: Okay. Understood. And then you spoke a bit about the quarterly numbers, actually in terms of what we should look for in terms of EBITDA contribution, you know, biquarterly for the year. But can we - how should we model revenues also for the next quarters in calendar '20?

Michael Bieber: Yes, revenue should - revenue and EBITDA should follow the proportions approximately that Stacy laid out in her script. So we can - if you want, we can talk after the call about your particular model for 2020 if you'd like.

Moshe Katri: Okay, Okay. And then a follow-up question, you know, obviously, you spoke about the California award. It seems that, you know, all the three utilities seem to be moving along.

Do you believe that we're going to get to that 40% mandate by yearend? Is that where directionally we're going to? And then how do you feel about your capabilities in terms of delivery on this, you know, pretty large pipeline that's coming through? Thanks.

Thomas Brisbin: They have to be signed by December 31, 2020. They have by - two of them, I believe, Mike, are July 1. They have to be signed with the PG&E. And (San Diego Gas & Electric) has to outsource 25% by July 1, 2020.

So we expect to see revenue for sure -- sot for sure, nothing's for sure -- but in the last half of 2020 and that 40% doesn't start until 2021. There was one more part to your question.

Moshe Katri: How do you feel about your ability to deliver once these contracts are signed and ready to, I guess, be executed?

Thomas Brisbin: Yes. The good thing is that both PG&E and San Diego Gas & Electric, we've been incumbent and our team is a team of incumbents. And we're ready to hit the ground and deliver. So these are a team of companies that have been delivering for the past 10 to 15 years.

Moshe Katri: Understood. Thank you.

Operator: And again for questions, that is star 1 at this time. We'll hear next from Craig Irwin with Roth Capital Partners.

Craig Irwin: Good evening. And thanks for taking my questions. So 9% organic growth in the fourth quarter is a pretty nice rebound to your long-term target rate. Can you maybe describe whether or not there were elements in there that might not repeat in the first half of 2020 or, you know, are there specific items that were one time and that, you know, we need to flatten out of our models as we look for sort of a normalization back to the 10% growth over the next few quarters?

Michael Bieber: Yes, Craig. Stacy mentioned the ramp that we expect throughout 2020. So overall organic growth can move around between quarters. We would expect it to be - but we've got an easier comp in Q1.

So I think that we, for the full year, should expect a single digit type of organic growth for the full year. And that may persist through all four quarters. As Tom mentioned, the upside to that is, in Q3 and Q4, if we get some of these California awards, which now that looks more than - looks likely and we see revenue in 2020, that would be upside that we've not included in our forecast.

Craig Irwin: Okay. So you're talking about awards, which I like. When we look at the update given last week by the four major IOUs, PG&E had several contracts that they indicated that they're already in negotiation for a first half award as did San Diego Gas & Electric.

That usually means that the vendor has been selected and that, you know, barring any unforeseen disagreements that the selected vendor will get the award. Do you have anything that you can share with us about contract negotiations that would, you know, maybe give breadcrumbs for the potential awards around the middle of this year as these items are wrapped up?

Thomas Brisbin: I would say for PG&E and San Diego Gas & Electric, they have taken one, two, maybe three firms to active negotiations. And that it would be unwise for us to say whether or not we're in that group because that would put us in a poor negotiating position.

Craig Irwin: Understood.

Thomas Brisbin: We're actually well aware of active negotiations both in San Diego and PG&E. And we're optimistic. ((Inaudible)).

Craig Irwin: Good. So are we. That's really good to hear. So then to circle up on Integral Analytics. I should say congratulations for the Xcel award during the quarter. That was a very nice win.

Can you maybe frame out for us the range of scenarios for IA in 2020? You were very specific in excluding software licenses from your guidance, but it's quite possible that you do book software revenue in 2020 and even possibly in each quarter.

So, you know, can you maybe frame out for us the scope of what you're looking at that could be awarded? And given that it's not in your guidance, are you likely to press release even smaller awards that are in the range of potentially a half million or less as these potentially come out over the course of the year?

Michael Bieber: Craig, to clarify, in Stacy's script, we said that we expected the software business to break even. That does not mean that we don't expect additional licenses. To break even we have to book approximately $4-1/2 million in new software sales to break even. And that is what is assumed in our guidance and that is consistent with what Stacy said in her script.

However, as you pointed out, you're right. They do have a pipeline far in excess of that. That would indicate a revenue for the year of around $6-1/2 million, and they did around $8 million in revenue this year.

So they would actually have to decline from their current run rate to hit that guidance number. So there's upside there and that's what we're pointing out to investors.

The size deals range anywhere from a half a million dollars to multimillion dollar type contracts. And so, that's a pretty wide range of possibilities. Accordingly you're right. We will announce significant contract sales awards to give you visibility on how we're progressing throughout the year.

Craig Irwin: Okay. Then a point of clarification, my understanding was that the $4-1/2 million in revenue was primarily maintenance contracts on existing installs and then some of the consulting and pre-installation activities that go with customers getting ready to potentially go forward with a license fee.

You know, it's a small spend for them and an opportunity to really see what's capable before they write the big ticket at the CFO's office. Am I misunderstanding or mischaracterizing that when I share that? And do you have annual renewals of your maintenance agreements that I expect would be in place across the existing install base?

Michael Bieber: No. This $4-1/2 million, Craig, is in addition to that what I'll call annuity type revenue that you talked about. The annuity type revenue is, you know, $2 million to $3 million per year. And that is continuing into 2020, just like it did in 2019. No change there. And then in addition to that, we need to book about $4-1/2 million in new software sales.

Craig Irwin: The last question along this line is, I understand you may have hired actually a couple of people into Integral Analytics which, from our side, looks like you're pretty constructive rather than taking cost out, sort of going in the right direction.

Can you confirm that you maybe have hired a couple of people in there to provide sales support and some of the other things that would help this business deliver in 2020?

Michael Bieber: We have expanded the salesforce. I think we talked about that earlier with you. And so they're off to a good start this year.

Craig Irwin: That's what we wanted to hear. That's excellent, that's excellent. Just to go back to the California energy efficiency solicitations, you know, on past calls you talked about the total scope that you've bid for.

Has anything changed materially there over the last, you know, small number of months or are we still looking basically at the same contracts while we wait for the new RFP processes to get going into 2020?

Thomas Brisbin: New RFP. So are you talking about the statewide stuff?

Craig Irwin: Yes. I mean, different utilities have different buckets they're putting things in. And they've moved these buckets around twice now so this is the third time. You know, like SCE just got their local public sector and agricultural for local customer programs and, you know, then they have their public programs and their cost-cutting programs, you know, and that also happens much later this year. And it's just an example of what the four utilities are doing.

Thomas Brisbin: So let's say SCE, the ones that were on the table that we've bid on now were commercial, industrial and multifamily. And we're very much aware that public will be coming probably middle of next year. In contrast to that, public came up for PG&E and we're in for that. And San Diego Gas & Electric, neither industrial, public or multifamily has come out.

Craig Irwin: Yes, they're definitely behind.

Thomas Brisbin: Yes. Well the other thing, as you noticed, I don't speak anything about residential. So we do not plan to bid on any residential.

And then there's this other element of the state, which are called statewide, which are being - each utility is given a lead. So we're looking at new construction. For example, PG&E has the lead. That's where the Weidt Group came in and we submitted an abstract. And that's as far as they've gotten on that.

But there is also higher ed. There is prisons. There is community colleges. They might even go state colleges. I can't remember - codes and standards, all are being considered as statewide programs will take one utility needed rather than split it four ways amongst utilities. None of those have come up yet.

Craig Irwin: Understood. And then last question before I jump back in the queue.

Thomas Brisbin: We have new construction in PG&E.

Craig Irwin: Yes. Thank you, Tom. The last question before I jump back in the queue. California is not the only place where there's good things happening, right? There's multiple other geographies across the country.

You know, do you think that if you were to book maybe a $50 million or $100 million award that California is most likely to deliver first, or is there a potential for us to see, you know, similar-sized projects from other geographies that you obviously are not naming specifically for competitive reasons?

Thomas Brisbin: I think California will go first. We were looking at a couple of other states that are kind of behind ((inaudible)) maybe ((inaudible)) months. So the only other thing that could happen is with the new New York legislation. We're the incumbent for all the major utilities in the Northeast, which is a big advantage.

That's why I kind of read the opening statement about what New York is doing. They are between 2x and 2x in the programs. And we are the incumbent for Con Ed, National Grid - what's the other one? Excuse me, Central Hudson, yes.

So the reason I started off the presentation with that and showed how much of a New York hold we have as the two states likely to either increase budgets or award new contracts will be New York and California where our greatest presence is. But we're also prepared for the other states that will be coming online.

Craig Irwin: Do you have a timeline for New York potentially making a decision or is that also kind of open to variance?

Thomas Brisbin: The decision is made. How long it takes to get the procurement, what they do about it, we don't have any information.

Craig Irwin: Congratulations on the solid quarter and thanks again for taking my questions.

Operator: And there are no further questions. I would like to turn things back to management.

Thomas Brisbin: Okay. Well, thank you all for attending the call today and we look forward to seeing you next time.

Operator: And that will conclude today's conference. Again, thank you all for joining us.