



Transcript of
ENGlobal Corporation.
Third Quarter 2021 Earnings Call
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Participants

Rick Eisenberg - Director of Media Relations, Eisenberg Communications
Mark Hess - Chief Executive Officer, ENGGlobal Corporation
Roger Westerlind - President, ENGGlobal Corporation
Darren Spriggs - Chief Financial Officer, ENGGlobal Corporation

Analysts

Jeff Campbell - Alliance Global Partners

Presentation

Operator

Good morning and welcome to the ENG's Third Quarter 2021 Financial Results Conference Call. Your host for this morning is Chief Executive Officer Mark Hess. At the request of ENG, today's call is being recorded and will be available for replay on the Investor Relations section of the Company's corporate website, www.englobal.com. You may access the replay by dialing (Toll Free) 877-481-4010 domestically, or 919-882-2331 internationally, and referencing conference ID 43346. This replay will be available shortly after the completion of this event through 9:00am Eastern time on November 11, 2021.

I would like to inform all parties that your lines have now been placed in a listen-only-mode until the question-and-answer segment of this call begins. To ask a question in that segment, you will receive instructions from the operator.

At this point, I would like to turn the call over to Rick Eisenberg, Media Relations Director with Eisenberg Communications.

Rick

Thank you, operator and thanks everyone for joining us on this call. Before we begin, I'd like to review our forward-looking statements provision. During today's conference call, Company representatives may make forward-looking statements. Any statements made in this presentation about future operating results, or other future events are forward-looking statements under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Please note that actual results achieved by the Company may differ materially from such forward-looking

statements. A discussion of factors that could cause such differences appears in the risk factors section of the Company's 10-K.

Presenting on the call today will be Darren Spriggs, ENG's CFO, and Roger Westerlind, ENG's President. Following the presentations, Darren, Roger and Mark Hess, ENG's CEO, will be available for questions. And now I will turn it over to, Darren Spriggs....Darren?

Darren

Thank you Rick.

I would also like to extend my welcome and appreciation for those on the call today.

For the quarter. We reported approximately \$6 million in operating revenue and \$6.7 million in direct operating costs. Included in the direct operating costs is \$1.6 million related to underutilized staff and proposal cost, which has significantly increased over prior periods. During the quarter we recorded an employee retention tax credit for \$1.3 million for retaining our staff. This credit is recorded in other income in accordance with GAAP.

Our SG&A was \$3.1 million for the quarter, which included non-recurring legal and advisory fees of \$230K, compared to \$2.2 million for last year. The remaining increase is primarily related to investment in our business development staff and related activities.

The PPP loan in the amount of \$4.9 million was forgiven during the quarter as well and is also included in other income.

Our income tax expense consists of state income taxes primarily in states that do not use net income to calculate tax, like Texas. Our federal income tax expense is offset by an adjustment to the valuation allowance recorded against it.

As a result, we recorded net income of \$2.4 million, or 7 cents per share, for the quarter compared to a loss of \$1.1 million, or 4 cents per share last year.

For the first nine months of the year, we reported approximately \$29.4 million of operating income and \$29.2 million of direct operating costs. Included in the direct operating costs are approximately \$4.3 million of costs related to maintaining our underutilized staff and proposal cost, which have significantly increased over recent years past. During the first nine months of the year, we recorded an employee retention tax credit for \$3.1 million for maintaining our staff which was recorded as other income.

Our SG&A was \$9.9 million for the first nine months of the year, which included an accounts receivable reserve of \$1.4 million for one of our customers who has suspended their operations and \$350K for non-recurring legal and advisory fees, compared to \$6.6 million last year. The remaining increase is primarily related to investment in our business development staff and related activities.

The PPP loan, the employee retention tax credit from this quarter and the employee retention tax credit from Q1 make up essentially all of the \$8.1 million in other income.

Our income tax expense consists of state income taxes primarily in states that do not use net income to calculate tax, like Texas. Our federal income tax benefit is offset by an adjustment to

the valuation allowance recorded against it. As of the end of the quarter our entire deferred income tax asset, including our NOL, was reserved.

As a result, we recorded net loss of \$1.8 million, or 6 cents per share, for the first nine months of the year compared to net income of \$0.1 million, or 0 cents per share last year.

Our cash balance was \$25M as of the end of the quarter, an increase of \$12M over last year. And our working capital increased \$16M over last year to \$30M as of the end of the quarter.

We believe this cash on hand, along with internally generated funds, availability under the company's revolving credit facility, and other sources of working capital, will be sufficient, to fund ENGlobal's current operations, and expected near-term growth.

And now to you Mark.

Mark

Thank you, Darren.

Last quarter I spoke about a number of initiatives they we have undertaken to better position ENG in the marketplace. At the center of these initiatives is an improved strategy that supports our short- and long-term goals.

During our last call, I shared information about our target markets: renewables; automation; government services; and traditional oil and gas. Our collective experience, history and relationships in these markets supports the decision and market focus. We are seeing significant increases in activity in each of the selected markets.

I spoke about recruiting seasoned leaders for each of these markets, by targeting candidates with solid experience and relationships in the EPF/EPC areas will help us further developing even stronger ties with our key clients.

The excitement surrounding our office relocation and rebranding has resulted in better applicants seeking career opportunities.

This rebranding is something that I also shared with you during our last call together. We talked about how important this was to the overall strategy of ENG. The new logo, the website and the relocation is all part of the strategy to better communicate our expanded capabilities to our current and new clients. This campaign is fully launched and our online content has shown noticeable improvement.

The strategy execution has continued with the recent addition of construction services. ENG now offers self-performed, on-site construction. Our full suite of services now consists of engineering and project execution services, integration, fabrication and now, construction of small capital projects. You may have seen the press release on this topic. With this addition, we offer our clients full, self-performed EPC project execution. Because we are positively postured with our clients, this expansion quickly generated 2 project awards for small construction projects. These projects were awarded to ENG by 2 different major midstream and pipeline companies. We will be releasing more information about these awards very soon, and provide additional confirmation that this addition to our strategy is working.

Last quarter, I updated everyone on the Hydrogen plant we delivered from our facility in Henderson, Texas to Seaboard Energy in Kansas. The successful completion of this project has given birth to similar opportunities that our Renewables group is currently bidding and/or

evaluating. In addition, our current administration has committed over \$500B towards the Energy Transition in the new infrastructure plan. This, combined with the United Nations climate summit happening now, will drive an increase in activity. The IEA anticipates 1,500 renewable diesel and jet fuel plants will be needed by 2030 to meet the Paris Accords greenhouse gas reduction commitments. Our significant leadership strength in this group has positioned ENG as an authority in this space, and exposure to these opportunities is a reflection of our level of involvement and exposure in the market. This is further confirmed by the number of new inquiries this group is receiving.

With the initiatives we have been pursuing, we have improved our position in the markets that we serve. We have made a significant equipment investment in our structural fabrication facility, located in Henderson, Texas. This equipment is a critical part of the overall strategy for making our fabrication services more efficient and increasing its capacity. We are seeing tangible signs of a successful strategy in the form of purchase orders from new and existing upstream clients. We are seeing a similar trend in our Automation and Integration division with an increase in opportunities from our existing client base. The significance of these orders is far greater than the revenue they represent. It's an industry validation and a catalyst to for growth in the segment.

Our project awards are also accelerating, with recent Q4 purchase orders from several major IOC clients and we stand an above average chance of winning the larger opportunities in our pipeline.

We have already exceeded that amount in bookings so far in Q4. This increase is the result of our business development activity and key account strategy, combined with an uptick in the market.

We are seeing increases in key metric categories, received RFQ's, from August to September 20%, and saw another 25% increase September to October. Our number of submitted proposals increase with +\$100MM in September. This is also evidence of the increased business development activity in the early part of the year. All total, we have just under \$250M in working opportunities, and a total of +\$1.0b in identified opportunities. I am optimistic about the opportunities we currently have in our pipeline, the increase in metrics and the wins we're seeing.

Safety is a continual focus, and I gave an update when we met last quarter. I shared about our safety program, ZERO IMPACT & First Things First. A strong commitment to safety not only is paramount for our employees but will also continue to enable ENG to work with our clients. This is a priority for us, and this focus and commitment reflects that fact.

Our strategy also encompasses major back office initiatives, including, our now, fully implemented CRM tool. We are focused and committed to full utilization of this powerful tool, throughout the company. At the same time, we have been improving our balance sheet, and I am happy to report to you today, that it is very strong. We have access to our working capital facility and the capital markets, if necessary, with almost no debt. This is an important fact to our customers, as it provides them with greater assurance that we have the financial strength to complete their complex projects.

We believe in the strategy that we have chosen and implemented. It is aggressive, but realistic. We are meeting weekly to monitor our progress and adjust where necessary. We are now seeing real results directly related to these strategic efforts, and we are extremely optimistic about the future of ENG. We believe this positive momentum will continue to prove to be successful.

We have accomplished a significant amount so are in 2021, and as 2022 quickly approaches, we must continue to work with urgency, and focus. That being said, we are very pleased to be able to report to you that the strategy is working.

This concludes my prepared remarks and now I would like to turn the call over to the operator for questions.