

Transcript of
ENGlobal Corporation
Second Quarter 2022 Earnings Call
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Participants

Rick Eisenberg - Media Relations Director, Eisenberg Communications
Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation
Roger Westerlind - President, ENGlobal Corporation
Mark Hess - Chief Executive Officer, ENGlobal Corporation

Analysts

Jeffrey Campbell - Alliance Global Partners
Rob Brown - Lake Street Capital Markets, LLC

Presentation

Operator

Good morning, and welcome to the ENG 2022 Second Quarter Financial Results Conference Call. 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 46147. This replay will be available shortly after the completion of this event through 9:00 AM Eastern on August 11, 2022.

I would like to inform all parties that your lines have now been placed on a listen-only mode until the question-and-answer segment of the call begins. [Operator Instructions]

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

Rick Eisenberg - Media Relations Director, Eisenberg Communications

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; Roger Westerlind, ENG's President; and Mark Hess, ENG's CEO. Following the presentations, Darren, Roger, and Mark, will be available for questions.

And now, I'll turn it over to Darren Spriggs. Darren?

Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation

Thank you, Rick. I would also like to extend my welcome and appreciation for those on the call today. For the quarter, we should improvements in all earnings and statement metrics compared to the same period last year. Our 2Q results are in line with the trend we have been seen for the past 3 quarters. We expect this progress to continue on the second half of the year and into next year.

Highlights for the quarter compared to the same period last year include: revenue increased by \$276,000 to \$11.4 million; gross profit increased by \$1.3 million, primarily due to increased utilization of our staff and reduced expenditures on proposals. Excluding the \$1.4 million bad debt write-off last year, our SG&A remained comparable last year. Net loss improved by \$2.7 million to a \$1.5 million net loss or a negative \$0.04 per share. Backlog increased by \$7.4 million to \$19 million for the quarter. All these positive signs are an indication that the investments we may in last year staring to payoff.

As a reminder, last year, we completed a rebranding campaign, relocated our corporate office to be closer to our client base, redesigned our website, and hard key business development personnel with strong relationships to clients in the industry. We also completed the acquisition of Calvert Energy and begin our field services business in the Permian Basin in Q2, which Roger and Mark will elaborate on later.

Our cash balance was \$14.1 million as of the end of the quarter, a decrease of \$5.1 million over last year's balance of \$19.2 million. Our working capital decreased \$6.9 million from \$26.3 million to \$19.4 million. The change in cash and working capital as primarily related to the net loss of \$5.2 million for the year.

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

And now to you, Roger,

Roger Westerlind - President, ENGlobal Corporation

Thank you, Darren, and good morning, everybody. For us who lives in the Southern border of U.S., we know that heat is an issue for all our people across our business unit. Heat has been a focus multiple initiative across all sides with a focus on hydration and stress management. I'll start with oil and gas operations. Our used [turn itself was] [ph] more or less high, the high utilization of project manager engineering procurement, a lot of project is going on with bidding a multiple projects and adding additional people to the team.

We are continuously adding additional clients, new equipment have been purchased not like new scanners. Fabrication, we're working through our backlog in a goal to increase that to the end of the year. We're setting up as then this stainless steel fabrication in our Portwall facility for clients. Space becomes more of a daily issue. We intend to sign it additional lease for extending our modular fabrication in the west part of Houston. Several inquires both from Denver and Tulsa received, and several bids walks have been done on more schedules.

We continue refining our MSAs, we have over 150 active MSAs. As Darren mentioned, we're starting our West Texas operation and [rest of our cruise] [ph] is active. We are bidding additional bids for pump booster stations. The Monahans office with Darren mentioned the ribbon cutting summaries scheduled for October 22.

On the project side, we're bidding additional booster stations, expansion of pipe racks, separators, engineering services, flare studies and many other projects. With EPC opportunities for EPC work in oil and gas, we have received this week bids for compressor stations, process studies and construction.

For our energy and renewables, the focus remains on sustainable airplane fuels and renewable diesel as a core pillar of our activity forward, or strategies to be along the leading engineering procurement and fabrication for renewable diesel and sustainable airplanes. The talks are ongoing with several new players in North America regarding these projects.

Our main project as reported earlier is to be built our new grass roots sustainable airplane fuel plant in North Dakota. We expect to get engaged in an EPC agreement in Q4 this year. A large portion of that plant will be built in our new fabrication shop in West Houston. We also active in waste energy in hydrogen and methanol, we expect great results in this.

For our Government Services, we have been rewarded from the Tulsa Public School, SCADA system. We are working on several other bids in this area. Our automation group is also very active with several main clients. The integration, we continue our fabrication of the trailer program, we hiring key people and training people for this, and generally activities looks really good for latter part of this year and continuing in 2023. Over to you.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Thanks, Roger. As you've just heard, there are many opportunities in our business that we are very excited about. I'd like to highlight some of the progress that we've made over the last 12 months or so. Through the efforts of our team, we have steadily increased our backlog from \$8.4 million at the end of Q3 last year over \$19 million at the end of this quarter. That represents over 120% improvement in our backlog.

At the same time, we have steadily increased our revenue over the last 4 quarters from \$5.9 million in Q3 of last year to \$6.9 million in Q4, \$7.3 million in Q1 and \$11.4 million in this quarter. The Q2 increase over Q1 this year represents a 56% sequential increase.

Our gross profit increased this quarter, as Darren mentioned, due to our ability to utilize our people more efficiently and reduced expenditures on proposals as we mentioned. This is a testament to the quality of the people that we have attracted and retained throughout COVID and during our rebuilding process. We could not have achieved these results without our people, and I could not be more proud of our employees.

As you've heard from Roger, our prospects for awards in Q3 and Q4 of this year look very good. So our outlook for the remainder of the year also is very positive. In addition to our core businesses that Roger touched on, we announced in May the acquisition of Calvert Group Belgium, which has a license for proprietary small scale gas liquids technology utilizing a gliding-arc-plasma and a modified Fischer-Tropsch process. This acquisition fits well within a global score capabilities of engineering, design, fabrication, automation, and commissioning. But more importantly broadens our offerings now includes a technology solution.

We are currently incorporating this technology into standard GTL trains of various sizes ranging from 25 barrels per day to 100 barrels per day, designed to process 250,000 to 1 million standard cubic feet of gas per day. We expect to complete the 25 barrel per day design soon and deliver one mid-next year due to lead times on major components. And we'll begin working on larger 50 and 100 barrel per day designs in the coming weeks. We expect these trains to sell for between \$4 and \$9 million per train. And we expect that we could build, that we could produce as much as one per week when we are in full production.

Last year, over 143 billion cubic meters of gas was flared worldwide according to the Global Gas Flaring Reduction Partnership and World Bank. One solution to reduce the amount of gas flared [ph] tears to convert it in an economical way to synthetic fuel, diesel or naphtha. And we believe our GTL plants will accomplish this. Our initial approach to distribution of the GTL trains is through partnerships with service companies in countries with the highest levels of gas flaring.

To date, we've signed an exclusive marketing agreement with OiLSERV, which we announced in July covering the countries of Iraq, Algeria, Libya and UAE. These markets alone represent 34 billion cubic meters of gas flared per year, or roughly 1.2 trillion standard cubic feet of gas flared annually. So, as you can imagine, the market for this solution is very large.

I'm pleased with where we are today and what our outlooks are for the near future in the coming years. I think we have a very strong base to build from. And we have a lot of opportunities in our pipeline.

So at this point, I'd like to turn the call over to questions. Operator?

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Thank you. Your first question is coming from Jeffrey Campbell of Alliance Global Partners. Jeffrey, please ask your question.

Q: Good morning and congratulations for the upward trend in the business. First question, I wanted to ask was how is the North Dakota location chosen for the plant that Roger described in his opening remarks?

Roger Westerlind - President, ENGlobal Corporation

Sorry, can you repeat that?

Q: Yeah. I said, how? Maybe I should say, why? I'm just wondering how or why North Dakota became the location for the plant that you described in your opening remarks. The one that you said, I think, it's going to come online in the fourth quarter.

Roger Westerlind - President, ENGlobal Corporation

I think a combination of feedstock that the operator owns the land.

Q: Okay. What's your current forecast? Or what's the range, if you prefer for progressing from the first GTL plant that you've identified as happening sometime fairly early next year? And the one unit per week scale manufacturing guidance, just trying to get a sense of what kind of time you see for that rollout?

Roger Westerlind - President, ENGlobal Corporation

Yeah, I would say within 12 to 18 months, we could be on that pace.

Q: Okay. That's helpful. Thanks. Sticking with the GTL, my impression, initial impression was that Oman was going to be the center of activity for these new modules. But the recently announced marketing deal with OilSERV certainly expands the potential footprint for their sales. I was just wondering, was this seemingly rapid expansion of interest to surprise? Or was this an expectation?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

No, it was an expectation. In our diligence, we met many of these players.

Q: Okay. And then, finally, we recently saw that the EPA is intensifying scrutiny of methane waste in the Permian, supposedly with an eye for invoking penalties for infractions. I understand the logic of first focusing on the Middle East due to the high level of emissions enforcement in the area. I was just wondering, if you had any contact with any potential future Permian customers? Is that an area of interest over time, particularly now that you're manning your presence in the area?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Yes. We have had contact with customers in the United States, not just in the Permian, but in other places. Obviously, the economics of the wells in the United States are different than economics of the wells overseas. U.S. is number 4 country when it comes to flaring annually. And as we mentioned, the more scrutiny and the more regulations that get promulgated on flaring will only make this solution more attractive. But, I think, we're going to have to come up with a different marketing philosophy and solution for the clients here in the United States due to the well life and the gas produced on wells over their life. So we're going to have to look at that.

But I do think that the market, there is a big market here. And I think we can satisfy a significant portion of it.

Q: And just to follow-up on that, I think, you just touched on it. But when you're talking about the different economics, you're talking about maybe longer lives conventional wells in the Middle East, as opposed to the live hard and die young unconventional wells that we have here. But if I remember correctly, there was at least schematically a mobile or mobile solution for this GTL that you're building. So is that what you mean, when you say need a different solution, you'd have to develop something with mobility as opposed to maybe in a second stay in one place for a longer time in the Middle East?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

The way we're designing these units, is that – I wouldn't call them mobile, but they're transportable, they're skid mounted trains, they're on – I don't remember how many skids for a small 25 barrel train, I think there's 10 or 12 skids. And so they are placed at the well site. And so they can be picked up and move, but it's not mobile in that you can mounted on the back of a 18 wheeler drive it from flare to flare. But what I'm talking about is, is more of the economics of how that product is sold into the marketplace. Whether it's done as a sale, or a lease, or a day rate, I don't know exactly how that would be. We have to explore that.

Q: Okay. So it's less to do with something on the hardware side, more on the marketing side. Got it.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Correct.

Q: Thanks for the help. Appreciate it.

Operator

Thank you. Your next question is coming from Rob Brown of Lake Street Capital. Rob, please ask your question.

Q: Good morning.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Good morning.

Q: First question is just on the kind of the pipeline for the back half the year and then into the next year, I know, you said it's improving quite a bit. Could you just give us some characterization about sort of the opportunities you see, is it across the board? Or are there certain markets that are doing better, maybe just a sense of how that pipeline shaping up and what it consists of?

Roger Westerlind - President, ENGlobal Corporation

The strategy, if you go back to maybe mid-next-year, when we invested in oil, gas or petrochemical was back on kind of seeing the future of the oil price it was, we remember very

low, and we took the opportunity to invest. So we see that simply paying off that the [no mansion, no forgotten ex-deal] [ph] to Oxy, obviously investing heavily, approved for that is just what we have talked about. But also then serving our clients, for example, setting up our West Africa – West Texas operations, so we can supply an EPC solution to the ex-deals to the Oxy's to the Chevron's. But also the renewable is coming strong. So my humble view, I think the segment we selected mid-last-year is old fiery.

Q: Okay, great. And then on the renewable business, you've got a number of projects you said, what's your sense on the new energy bill? Will that accelerate these projects? Or are there sort of incremental projects you see there? And maybe, is there – could just scope up the opportunity from that bill?

Roger Westerlind - President, ENGlobal Corporation

Absolutely. USDA have allocated as you probably know \$3 billion. So the North Dakota project has applied for the USDA financing, which is capped to \$250 million. I think the overall there as we know, if we take sustainable airplane fuel, we're going to shift from [gap to self] [ph], roughly 30% by 2030. And if you translate to that the number of plants to being built, that is many, many, we're talking well over 50 plants, that these days that the field staff is not just like solar was in the beginning competitive when it comes to compare with jet fuel.

So I think what we see is a lot of interest, and I think we working really hard on really tried to gauge, who of those developers and operators will really do it. I think the North Dakota is done a great example of somebody we believe in would be able to award EPC contract. But there is many others. If you talk to how their top services, one of the technology provider. They have 120 opportunities in their pipeline, which we are close connected to. I think the bottom of voice is that was about I don't think it will be as quick as maybe the government things are going to happen. These plants are small refineries, and they are quite complex, quite expensive to build. Is that answered your question?

Q: Yeah. It did. Absolutely. Thank you for the question. I'll turn it over.

Operator

Thank you. Your next question is coming from Alan Oakley, who is a private investor. Alan, over to you.

Q: Great, thank you. Hey, Mark and team, congrats on the trends on revenue margins and backlog, great to see it. Number of employees today if you could tell me the billable versus overhead, and then the utilization on the billable?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

So, I think, what we're hiring every day. So, I think, currently we're at about 300 employees, of which I'm going to guess 260 are billable. And our utilization rate is somewhere around 90%, I would guess. But we also have high-value low-cost engineering centers that we work with. So not all of our revenue is generated from our employees, right? And we also work on fixed price work, more and more of our work is fixed price work, in which case we can leverage our employees greater than we can with just T&M work, between revenue and employee.

Q: Okay. It on the backlog at \$19 million. What's the target margin that looks like you're a little over 11% for this quarter? What are you targeting on that \$19 million backlog?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

We're at about 11 or 12 probably on the backlog.

Q: Okay. And then the on-site construction services this quarter, was there any revenue from that? And these numbers last quarter, I think, you indicated that that would be a meaningful number this quarter. Is that been pushed back to come third quarter or fourth quarter?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Yeah, we haven't seen any – in this quarter, we didn't have any construction services or field services included in our numbers. And so we did expect both of those in the third and fourth quarter.

Q: Okay. And then the \$100 million renewables plant that was mentioned previously. Did I hear that correctly? Is that contract will be signed in the fourth quarter?

Roger Westerlind - President, ENGlobal Corporation

It's well above \$100 million. Yes.

Q: Okay. So you feel certain that'll be signed in the four quarters that's still subject to investment decision by the client?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Absolutely.

Roger Westerlind - President, ENGlobal Corporation

Great.

Q: Okay. And in the small gas, scale gas looks like you bought it for \$937,000 some of that was a cash, some a stock issue. Are you able to talk about the contract with all served the financial impact of that contract?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Well, what I would focus on with OiLSERV is the amount of opportunity that they represent. So OiLSERV services currently in those four countries that I mentioned. And they have many clients within those countries, that are very interested in and have initiatives in place to reduce their flaring, and they're getting penalized for their flaring. And the wells are being choked in, because of the flaring. So in order for them to produce more, in order for them to reduce their flaring penalties, they have to have a solution.

So to me, what the marketing agreement with OiLSERV represents is the total market availability. Now granted, we're not going to be able to serve us 1.2 trillion cubic feet of gas a year. But that is, I mean, we're not going to capture all that, OiLSERV isn't going to capture all

of that. But there's just a huge marketplace and we have a number of opportunities within that market already on the table. So to me, the way to look at it is how many of these plants, I mean, these trains can we build and supply to OILSERV to satisfy that market?

Q: Okay. Thank you. A couple of questions on liquidity. \$14 million in cash today. When do you expect to collect the payroll tax receivable is \$2 million, is that a third quarter, fourth quarter?

Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation

Yeah. We're expecting to collect on that, get that from the IRS in the third quarter.

Q: Okay. Great.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Well, let me something add that, Alan, we expected to get that this quarter and we received one in the – was it the first quarter?

Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation

First quarter.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

We received one in the first quarter, we expected one in the second quarter, so that didn't. So to some extent, we are beholden to the IRS for that payment.

Q: Okay. But certainly will help on liquidity. So, and then on the revolver, it's now gone current, I think it matures, May 23. As I read it, it's really somewhat restrictive. It's a borrowing base and so you really don't have access to the full \$6 million. If you had any discussions with them about potential renewal increase and maybe less restrictions, and you got \$14 million of cash in the bank there is that. What do you see on that?

Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation

Yeah. So we've had preliminary conversations with our lender about increasing that. So those are ongoing conversations. But that's something we're looking into and considering, and obviously, we want to increase that availability under our revolver.

Roger Westerlind - President, ENGlobal Corporation

I know that you've sent me some suggestions and observations, and I appreciate that. And no, obviously, we're looking into that.

Q: Great. And then last question, I apologize. But the last quarter, I think, your new business number that was in the margin was \$859,000. I wrote it down may not have written it down correctly. This quarter, you said you reduce that. Could you confirm the \$859,000 from last quarter? Then what is the number this quarter?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

I'm not familiar with what you're asking, Alan.

Q: I guess in your gross margin, I guess, it's the new business proposals where you're spending a lot of money making [or replying] [ph] RFPs. I think like last quarter, you referenced \$800,000 to \$900,000 number. But I think you said that number was less this quarter by them here on number?

Darren Spriggs - Chief Financial Officer, Corporate Secretary and Treasurer, ENGlobal Corporation

Yeah. So the proposal was this quarter, I think was approximately \$450,000.

Q: Okay. Great. That's all I've got. Thank you very much.

Operator

Thank you. Your next question is coming from Jeffrey Campbell of Alliance Global Partners. Jeffrey, please ask your question.

Q: Yeah, thanks for letting me ask a couple of follow-ups. First one was just regarding the backlog. What's the timeline for the backlog? Is it the standard 12 months? Or is there a different timing on it? And do you see that increasing over the next 12 months with all the projects that your potential projects are you talking about it?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

I think, I mean, I don't know if anything off top of my head in our backlog that we wouldn't complete in 12 months? And so, the answer your second question is absolutely, we're trying to push our backlog up every month. That's a big focus for us. Bookings, our booking ratio, or booking to burn ratio for this year, so far is over 1.4. We really want that to increase. So that's our big focus.

Q: Okay. And regarding the OiLSERV discussion, just not to put words in mouth their sounds like the real value there, so they already have a business, and they've got a lot of relationships, and you don't have to reinvent the wheel. And those markets, which probably would be expensive and time consuming. But just wondering, of the countries that are – that you've identified, is there any one in particular, I think, had a tendency to move on unit a little bit sooner or later? Or is there not really any big distinguishment between one country and another?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

I think Iraq has the greatest opportunity. I mean, there's a second largest flaring country in the globe. So they have the biggest opportunity, we have some opportunities in Iraq that we're working with OiLSERV on right now. And I don't want to downplay Oman. So, as you mentioned earlier, we've been working with a company in Oman to do the same thing that OiLSERV is doing in the other countries, and so that may actually be the first place that we put a unit.

Q: Okay. Great. Thank you.

Operator

Thank you very much. It appears we have no further questions in the queue. [Operator Instructions] Okay, I'll now hand back over for any closing remarks.

Rick Eisenberg - Media Relations Director, Eisenberg Communications

Yeah. No closing remarks [to ENG] [ph]. Thank you. Thank you for your time. Thank you, operator.

Roger Westerlind - President, ENGlobal Corporation

Thank you.

Operator

Thank you, ladies and gentlemen, this does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.