

Transcript of
ENGlobal Corporation
ENGlobal Third Quarter 2022 Earnings Call
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Participants

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

Analysts

Jeffrey Campbell - Alliance Global Partners
Rob Brown - Lake Street Capital

Presentation

Operator

Good morning, and welcome to the ENG 2022 Third 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 46868. This replay will be available shortly after the completion of this event through 9:00 a.m. Eastern Time on November 15, 2022. All participants have been placed on a listen-only mode and we will open up the floor for questions and comments after the presentation.

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, ENGlobal Corporation

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, ENGlobal Corporation

Thanks Rick. I would also like to extend my welcome and appreciation for those on the call today. For the quarter, we reported approximately \$13.1 million in operating revenue, a 121% improvement compared to \$5.9 million for the same period last year. Making this the fourth consecutive quarter, revenue has increased. Gross profit margin increased 18.8% from negative 13.7% to a positive 5.1%. This increase is attributable to the improvement in underutilized staff, which is lowered by 766,000 compared to the same period last year.

Our overall gross margin is driven by relative sales volumes from our different lines of business. Although, our gross margin percentage may vary from quarter-to-quarter, depending on the composition of the segment revenue, we expect our margins to continue to improve. SG&A decreased \$169,000 compared to the same period last year. We continue to keep an eye on our overhead cost.

We held our fixed cost in line with previous quarters, notwithstanding the recent acquisition and the startup cost of our two new facilities. Operating loss improved by \$1.7 million to \$2.3 million from \$3.9 million. For the quarter, we recorded a net loss of \$2.3 million or a negative \$0.07 per share, compared to a net profit at \$2.4 million or \$0.07 per share last year.

Last year's net income of \$2.4 million included non-recurring other income of \$6.4 million, which consisted of \$5 million for our PPP loan forgiveness and \$1.4 million for an employee retention tax credit. Backlog increased by \$2.9 million to \$15.7 million compared to \$12.8 million at the end of last year. It also increased by \$7.3 million compared to \$8.4 million at the end of the third quarter last year.

The improvement in backlogs and indication that our recovery is continuing and that the key strategic initiatives we implement in last year are producing the desired results, we expect our bookings to be significantly higher in Q4 compared to the previous quarters, and to carry a healthy backlog into 2023. Our bookings increased \$6.3 million for the quarter to \$9.6 million from \$3.3 million for the same period last year. For the year, we have been awarded 106 POs for new work with an average PO value of \$227,000. For the quarter, we received 35 POs for new work with an average value of \$181,000. The largest be in the recent \$2.6 million task order from the \$20 million contract with the Army Corps of Engineers. And this was the only press release issued during the quarter for new awards.

For the first nine months of the year, revenue, gross profit and operating income all improved compared to the same time period last year. Revenues increased by \$2.4 million to \$31.8 million from \$29.4 million. Gross profit increased by \$1 million to \$1.3 million from \$300,000. Operating loss improved by \$2.3 million to \$7.3 million from \$9.6 million.

Our working capital decreased by \$9.6 million from \$26.3 million to \$16.7 million. The change in our working capital is primarily related to the loss for the year of \$7.5 million. We are expecting to increase our working capital early next year as we generate positive cash flow when we return to profitability. We are pursuing additional financing alternatives in the event, we need additional working capital to fund our current operations.

We believe our 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 ENG's current operations [Technical Difficulty] and expected near-term growth. And now to you, Roger.

Roger Westerlind - President, ENGlobal Corporation

Thanks Darren and good morning, everyone. Our strategy for the chosen market is picking up speed. As discussed before, ENG's focused markets are oil and gas and petrochemicals where we provide project management, engineering, procurement, fabrication, and also field construction services for trail mid and downstream clients. Our automation group is focused on control system for both the public market as major international companies and the DOE and DoD segment.

Our energy and renewables is focused on a mix of larger public operators as well as developers. And as Darren mentioned, announced before, our GTL is a gas-to-liquid for stranded and flare gas is picking up speed. We have several opportunities, especially in the Middle East area. Since we last spoke, ENG has oil and gas, and petrochemical, we signed a number of major MSAs with major international companies, completed our first construction contract and finally, we see a lot of opportunities created by Doug and his team.

Kevin, focusing on automation for government and industry and his team is focusing on the integration and automation market and making steady progress both with the DoD, DOE and major operators.

Energy and renewables, Marc, delivered our first renewable diesel plant for Seaboard as earlier announced. This plant was successfully hand over in late October. We also finalized our FEED estimate for a new sustainable airplane fuel plant in North Dakota in end of October. Client is working on funding and the award is delayed to 2023.

Gas-to-liquid, the team is making headway in especially Middle East. Several promising opportunities is currently under negotiations. As Darren mentioned, we signed a new lease in Brookshire which is West of Houston for our state-of-the-art fabrication facility, which we announced before. We also got our field service organization in Monahans, which is 45 minutes roughly at west of Midlands, Texas, which is really promising for field service and rest of bus crews.

Since we last spoke, we have booked a number of new work. Few examples, if you start with oil and gas, and petrochemicals, we are doing a solar farm in Texas. We have signed an MSA with -

- sorry, with one of the largest IOCs. We generated immediately a construction work in the shale. We continue working with other major IOCs. We have been awarded an EPC project for meters - for metering upgrades. We also awarded engineering for methane upgrades, the fabrication of vessels and compression station upgrades.

In energy and renewables, we have expanded our strategy as earlier discussed to also service the chemical companies and the downstream opportunities. Of course, we are still focusing on the renewable diesel, especially the Sustainable Airplane Fuel segment, which is very active with several opportunities.

In automation in DoD as Darren mentioned, we have been awarded by the Army Corps of Engineers. We have -- we were awarded Friday to remote instrument enclosure for a major IOC here in Houston with continue working with SCADA System TLCs for several clients. As also mentioned for GTL, we have several 50 barrel proposals out, which we are very hopeful to receive the PO soon. We're using our CRM to forecast ruling 90 days. A few highlights in the oil and gas, and petrochemical group, we have some 30 hard bids outstanding with a total value of approximately \$50 million.

Market is picking up. Several new MSAs are signed in place and it looks like a very strong 2023 for us. Automation and integration, both for IOCs and DoD, DOE has several opportunities. We have some 60 proposals out value just under \$100 million. For energy and renewables, we have a mix of chemical and renewable projects, some 20 prospects value totally over \$100 million. And lastly and not least, gas-to-liquid as I said before, mainly in the Middle East for major operators, some 10 opportunities with a total value of plus \$100 million. Thank you.

Mark Hess - Chief Executive Officer, ENGlobal Corporation

Thank you, Roger. Just as a reminder several years ago we started this journey to redefine ENG. Since that time, we have new leadership team, we rebranded, we've moved our Houston office, we've expanded our capacities and our capabilities with field construction and field services in West Texas as Roger and Darren both mentioned. To realize the benefit of these investments, we've had to modify or sign many new MSAs providing for the new service offerings that we now have.

While client acceptance has been a bit slower with these new services, we've started executing these for our current and new clients. Excuse me. Additionally, we acquired new GTL technology as Roger mentioned. We are now working to complete the designs.

I'm pleased with where we have been able to accomplish over the last 20 months or so. We are now very well positioned to take advantage of the increased workload we expect in West Texas and other basins, as well as our renewable business and other business units.

Darren mentioned our bookings. We're on the up upswing, and we have increased our revenue each quarter over the last four quarters. With the increase in revenue comes increase in utilization of our people, which helps our gross margins. And while holding our fixed cost

steady, points to profitability in the near future. We have increased our backlog four out of the last five quarters and have made a healthy start on Q4.

Q4 -- the start for Q4 will help the Q4 revenue, and it will also give us a much better start to the New Year relative to where do we started this year. Looking forward into 2023, we should see activity in our Oil and Gas segment increase significantly. The small field service and construction projects we are working on in 2022 should come at a quicker pace and in larger amounts in 2023.

There's still a lot of activity in the renewables and green energy market. We will continue to be relevant in these markets as well as other markets as Roger mentioned. The continual improvement of the industry outlook for both traditional oil and gas and green energy should continue for the foreseeable future, which will be a significant tailwind for us. We have a long list of opportunities in each of our business units, Roger just touched on many of them. And we expect to close on many of these in the coming months, which will continue to increase our bookings, our backlog and our revenue. And finally, today is Election Day. Make sure your voice is heard.

I'll now turn the call over to the operator for questions.

Operator

Your first question for today is coming from Jeffrey Campbell at Alliance Global Partners.

Q: Hi, gentlemen. Good morning. Thanks for the discussion this morning. I'm just going to mainly ask some questions to probe some of this a little bit more. The third quarter of 2022 revenues grew quite nicely quarter-over-quarter, but the gross profit declined approximately 50%. I just wondered if you had some color on this quarter's gross margin result and how you think this is going to trend over the next several quarters?

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

So Jeff you had mentioned a decline when comparing it the second quarter or third quarter of last year?

Q: No, second quarter or quarter-over-quarter.

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Okay. And like I mentioned in the script earlier, our gross margin or our gross profit is driven by the composition of the segment revenue and the utilization of our people. So that's been improving. And with the Q4 -- Q3, we had some projects that had low gross margins in our OGP segment in Q3 compared to Q2. And so I think that was driving most of that decrease.

Q: Okay, good. So it was essentially mixed?

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Yes.

Q: Okay. Darren, you mentioned and Mark reiterated expectation for meaningful booking growth even in fourth quarter 2022. Are these bookings expected to be from the ongoing business lines or does this start to represent contributions from new initiatives such as the Permian expansion?

Mark Hess - Chief Executive Officer, ENGlobal Corporation

It's coming from both. So some of it is from the expansion in the Permian, both in the field services and the construction services, but there's also increased bookings from our current business. It does not include anything for GTL though, by the way.

Q: Yes, well, I was going to get there. But before that, can you add a little color on the new fabrication facility in Brookshire? Is this an expansion lever to any of the specific new lines of business such as the small scale gas-to-liquids units? Or is this more just an expansion of your broad fabrication capacity?

Roger Westerlind - President, ENGlobal Corporation

The Henderson facility, we start with, call it the old one, is not optimally set up for doing modules. And for example, crane capacity space is very limited. So the strategy forward is the new facility will do bigger modules. We get our MSA stamp actually yesterday, sorry, ASME. Thank you. Stamp, right? So the strategy forward is for Henderson, the existing older facility will do the smaller pipe racks mix and max and our Brookshire facility the new one will do the modules, for example, including GTL.

Q: Okay. That's very helpful, Thank you. Regarding the small scale GTL opportunity, I just want to know is the 12 to 18 month timeline to full capacity still intact? And do you still expect to have testing that's ready sometime in first half of 2023?

Roger Westerlind - President, ENGlobal Corporation

I mean, we are working hard on it. New technology and new application all have challenges, which we are up to. So what we are doing, as Mark mentioned is we're finalizing the design. We had a big workshop last week and we are going to wrap up that to put a concrete plan in place for how we are going to both sell and execute this, which is well underway.

Q: Okay. Thank you. And finally Roger, you mentioned that the North Dakota renewable gas-to-liquids project's been delayed into 2023. I just wondered if you could add anything to that. Meaning do you expect, now expect FID in the first half of 2023 or could it stretch longer? Any color there would be helpful?

Roger Westerlind - President, ENGlobal Corporation

No. Hard question. The base funding is based on USDA guarantees through a bank. And I think the summaries is -- the financing is more complicated than the operator expected, I think is a fair statement. So to give it a timeline right now, I would be very careful.

In addition to that, Jeff, you know, so we have a finalized design for what we call inside battery limit for a 6,500 battery unit based on how the top of technology. So we are not waiting for like one, what do you call that in English? All eggs in one basket. What we have is another four or five opportunities where we are going to pursue, we are pursuing the same strategy as for the North Dakota plan. Those plans I'm referring to is both here in the U.S. and in Canada. So we are not waiting for anybody, first comes first out.

Q: Well, and to follow-up on that, just to help your friendly modeler here, what's kind of a timeline on any of those opportunities? And presumably it would be sometime in -- FID would be sometime in 2023, is that fair?

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Absolutely.

Q: Okay. All right. Thank you.

Operator

Your next question for today is coming from Rob Brown at Lake Street Capital.

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Good morning, Rob.

Q: Good morning. Just follow up on some of the projects you talked about in the pipeline. It's a pretty nice pipeline, but on the gas-to-liquid projects, could those get sort of ordered in and signed in 2023 and some of those started in 2023? Or what sort of the timeline on that particular segment of project?

Roger Westerlind - President, ENGlobal Corporation

I mean, we are hope hopeful is some of these will be signed this year. So, if anybody thought we said we are waiting for somebody, we're not. We have -- I think, back to Mark's comment earlier, I think we redid the strategy and we sticking to that and it starts to pay off. What comes first if what our detail is a little hard to say is a deeper discussion. Anybody have access to the World Bank reporter about flaring? I mean, that indicates a huge market, but it looks to us that the Middle East and with our porter also in the Middle East we are very hopeful that quite a few opportunities both this year and next year, if that answered your question.

Q: Yes, that was great. Thank you. And then I guess that was the other question I had is sort of what gives you the -- or what sort of areas of confidence do you have that bookings are sort of set up nicely for the fourth quarter here? Is it really that pipeline that you talked about and sort of discussions with customers that give you confidence in that bookings kind of activity ramping here?

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Yes. I think you're correct. It is the conversations that we're having with customers. It's the indications from them of the -- and these are obviously projects that we've already bid. So, it's where we stand in the bid. Their indication to us as to when these purchase orders may result from the opportunities. If I add to that, what we really have geared up is to -- in practice called follow the money. So, we are really focusing on the operators that we truly believe with all our knowledge have the money to either award is to us or unfortunately at times to others, but we don't want to get hanging that, that things drags on them, don't come to them. So with the help of the CRM, and we upgraded that also this year, 32 years on the line, I would say we have a solid backlog, not backlog, but the solid backlog prospects, which is really real for us or for somebody else for a long time, if that makes sense.

Q: Okay. Great. Yes, thank you. And then the last question is really on the sustainable aviation fuel projects. I think you said four to five of them are sort of in your sites. What's a typical sort of revenue per project and how long do those sort of take to complete once you've booked them?

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

Maybe a longer answer again that it's two versions of them. One is somebody extend the plant or you build a grassroots. What we focusing more is on the grassroots. So a 6,500 per pound is somewhere around 500 million. And the ENG scope then is focused on the inside battery limits, which means project management, the engineering, procurement, and fabrication modules. So if you take those \$500 million, ENG scope is approximately \$150 million over an 18, 20 miles period.

Q: Okay. Great. Thank you. That's very helpful. I'll turn it over.

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

You're welcome.

Operator

[Operator Instructions] There appear to be no further questions in queue. I would like to turn the floor back over to the management team for any closing comments.

Darren Spriggs - Chief Financial Officer, ENGlobal Corporation

No closing comments from us.

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.