NASDAQ:WLDN Q4 2025 Earnings Call Transcript

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Rochelle | Conference Operator:

Greetings and welcome to the Wilden Group fourth quarter and fiscal year 2025 financial results conference call. At this time all participants are in a listen-only mode. The question and answer session will follow the formal presentation. If anyone should require operator assistance please press star zero on your telephone keypad. As a reminder this conference is being recorded It is now my pleasure to introduce Al Kazchok, Investor Relations. Please go ahead, sir.

Al Kazchok | Investor Relations:

Thank you, Rochelle. Good afternoon, everyone, and welcome to Will Dan Group's fourth quarter 2025 earnings call. Joining our call today are Mike Bieber, President and Chief Executive Officer, and Kim Early, Executive Vice President and Chief Financial Officer. Our conference call remarks will include both GAAP and non-GAAP financial results. Reconciliations between GAAP and non-GAAP measures can be found in today's press release and in the presentation slides, all of which are available on our website. Please note that year-over-year commentary or variances on revenue, adjusted EBITDA, and adjusted EPS discussed during our prepared remarks are on an actual basis unless otherwise specified. We will make forward-looking statements about our performance. These statements are based on how things we see today While we may elect to update these forward-looking statements at some point in the future, we do not undertake any obligation to do so. As described in our SEC filings, actual results may differ materially due to risk and uncertainties. With that, I'll hand the call over to Mike, who will begin on slide two.

Mike Bieber | President and Chief Executive Officer:

Thanks, Al. We closed 2025 with record financial performance and strong momentum across our business. For 2025, both contract and net revenue grew greater than 20%, led by our energy work. Adjusted EBITDA grew 40%, and yearly margins expanded to above our 20% target for the first time in 2025. Strong EPS growth allowed us to generate $71 million of free cash flow, and we are now in a net cash position. In 2025, organic net revenue growth was 17%, and was largely driven by expansion with existing customers. Electric load growth has returned to the United States after about 15 years of stagnation. Artificial intelligence and data centers are accelerating electricity demand at a scale not seen in recent years. To a lesser extent, transportation and building electrification and increased domestic manufacturing are also contributing to electricity demand growth. Our utility customers are confronting a grid that must manage more power, more intermittency, and more complexity than ever before. At the same time, affordability has moved to the forefront. As infrastructure investment increases, regulators must balance reliability, decarbonization, and cost containment, increasing the need for smarter planning and cost-effective execution. Many studies have shown that energy efficiencies usually increases rates slightly but drives down bills for participants because you're using less energy and thus improves affordability. The dynamic plays directly into where Wildan operates, and the results reflect strong execution, which fuels our positive long-term outlook. On slide three. Let me step back for a moment and remind everyone how our business is structured and where we're seeing demand. Welland delivers a broad range of energy and infrastructure solutions to utilities, state and local governments, and commercial customers. On the left side of the slide, approximately 85% of our revenue comes from the energy segment, with the remaining 15% from engineering and consulting. On the right side, activity remains healthy across all customer groups. Our utility customers represent about 41% of revenue and continue to perform well. These programs are typically three- to five-year contracts funded through

ratepayer mechanisms, which provide strong visibility and recurring revenue. Importantly, we're seeing program sizes usually grow over time as energy efficiency becomes recognized as a system resource. State and local governments account for approximately 48% of revenue and remains a steady source of growth. Most of this work is supported by user fees and municipal bond funding. both of which remain stable. Commercial customers have rapidly grown to 11% of revenue, with most of that activity tied to power for data centers. AI-driven load growth is creating meaningful infrastructure and energy optimization needs, and we're helping these clients navigate grid constraints, design solutions, and meet aggressive power requirements. Commercial customers represent the most fertile business environment we serve, and we plan to continue intentionally increasing our capabilities offered to the commercial sector. Taken together, this mix reflects a diversified, durable business supported by long-term contracts, relatively stable funding sources, and growing demand across multiple end markets.

Conference Operator | Operator:

On slide four. Our upfront policy, forecasting, and data analytics work informs our strategy

Mike Bieber | President and Chief Executive Officer:

and helps us navigate market change. We operate at the intersection of consulting services, engineering, and program management, helping clients plan for new load, design infrastructure upgrades, manage grid complexity, and implement cost-effective energy solutions. In our upfront work, we are seeing particular demand for studies on the impacts of electricity load growth, and that work grew more than 50% organically year over year. As I mentioned in prior earnings calls, those market changes led us to the APG acquisition. That provides power engineering solutions to commercial customers, including data centers and hyperscalers. We expect that work to more than double in 2026, and we are growing that backlog into 2027 and 2028 now because they're long-term contracts. In other parts of engineering, we saw strong execution and growth. with both commercial and municipal customers. In program management, we performed above our plan on utility programs and building energy programs for cities. Demonstrating this model in an example, I'll walk through what we're doing around data centers. First, we work with both hyperscalers and government regulators to optimize the siting and mitigate the electric load impacts of data centers. Our consulting work for Amazon Noted in our December press release is an example of this, along with our studies for the states of Virginia, Michigan, and California. Next, we work for data center developers to design and manage the construction of substations that power new data centers which enable AI. I'll provide you some examples of that in a moment. And finally, as Will then has done for more than 10 years, we provide energy efficiency optimization for data center operators mostly through long-term master service agreements. On slide five, we have a strong pipeline of opportunities that we are converting into contracts, and the pipeline is solid heading into 2026. Importantly, our average contract size has continued to grow, fueling the overall growth of Willday. Here are just a few examples we converted since our last conference call. For the city of San Diego, we recently signed a $112 million energy efficiency program that will help save electricity at municipal infrastructure owned by the city. This program is about two years in duration and addresses a wide range of civic buildings and other infrastructure that uses electricity. This follows a similar $97 million win with Alameda County, California, we announced last quarter. For Mount San Antonio College, we were just awarded an exciting new contract that demonstrates how acquisition integration can provide larger scale and more effective client solutions. This $49 million brand new project is an integrated microgrid resiliency project. Within WILDAN, it will involve the legacy civil engineering group collaborating with several previously acquired energy groups to deliver a comprehensive energy solution to the college over the next two years. Next, for Menlo Digital, one of America's largest data center developers and a large customer of ours, we are now breaking ground on a $38 million project to design and manage the construction of an interconnect substation that powers a new data center in Phoenix, Arizona. For Solve Energy, we signed a $4.5 million integrated distributed energy resource, or DER, project in Utah. And finally, we signed a smaller confidential LoadSeer software license in Q4. LoadSeer is our flagship long-term utility forecasting software. On slide six,

this slide highlights what we continue to see in the data center market, sustained growth in electricity demand. There's currently an estimated 35 gigawatts of active data center construction in the U.S. While it's unlikely every announced project will ultimately be built, the broader trend is clear. Demand for power from digital infrastructure remains durable and is expected to extend at least through the end of the decade. Importantly, this isn't just about megawatts. It's about complexity. Data center load growth is driving transmission upgrades, distribution system and expansion, interconnection challenges, and increasing reliability requirements. Virginia and the more rural states of Texas, Georgia, Arizona, Tennessee, and Wisconsin are all experiencing rapid growth in energy demand from data centers. This dynamic plays directly to WLDAN strengths, from power system engineering and grid modernization to targeting energy efficiency and load optimization solutions. As electricity demand grows, utilities and commercial customers need technically advanced partners to plan, design, and optimize the system.

Conference Operator | Operator:

That's exactly where we operate.

Mike Bieber | President and Chief Executive Officer:

On slide seven, we continue to see energy efficiency evolve in ways that reinforce its strategic importance within tomorrow's power grid. There is increasing focus on capacity-driven and locational efficiency programs. Targeted efficiency and non-wire solutions are now delivering measurable distribution-level value, directly supporting grid planning and load management. Next, affordability is now a nationwide concern. Utilities and regulators are attempting to mitigate customer bill impacts, and energy efficiency remains one of the most cost-effective and immediate tools to reduce customer bills while accommodating load growth. Next, grid modernization is accelerating. Advanced metering infrastructure and AI-enabled analytics are improving measurement, targeting, and performance optimization, further integrating planning studies and efficiency into core systems operations. Reliability has become more of a year-round concern than just the historical concern of summer peaking. Now winter and summer grid events reinforce the role of efficiency as a dependable system resource. Wildan is well-positioned today and plans to further increase our capabilities through key hires and acquisitions. I want to mention that we have a particularly robust acquisition pipeline entering 2026. that will better enable us to serve customers in the future. Jim, over to you.

Kim Early | Executive Vice President and Chief Financial Officer:

Thanks, Mike, and good afternoon, everyone. Turning to slide 11, for the fourth quarter of 2025, contract revenue increased 21% to $174 million, and net revenue grew 13% to $89.5 million for the quarter. Adjusted EBITDA also increased 13% compared to the prior year, totaling $20 million for the quarter, and adjusted earnings per share more than doubled to $1.57, which is $1.23 on a gap basis, aided by exceptional tax deductions from energy efficiency incentives under Section 179D. The quarter benefited from broad-based growth and acquisitions. Margins remain solid as we maintain strong execution and cost discipline. Fiscal 2025 as a whole reflects the trajectory and strength of our operating model as noted on slide 10. Fiscal 2025 was a record year for Wilbent. Consolidated contract revenue grew 21% to $682 million and and net revenue grew 23% to $365 million for the year. Again, the growth was broad-based across our segment, service lines and customer base, and was aided by contributions from our acquisitions. Of the 23% growth in net revenue, 17% was organic and 6% was from acquisitions. Importantly, our revenue growth translated into meaningful profitability expansion as well. Gross profit increased 26.1% to $256 million, and gross margin expanded to 37.5% from 35.8% in the prior year, reflecting growth and productivity gains in our program management and consulting services in both segments, as well as success. delivering those services. General and administrative expenses increased with the growth, including investments in talent and technology, incentive compensation tied to performance, and acquisition integration. But the resulting operating leverage helped

adjusted EBITDA increase 40% year-over-year to $79.5 million. Net interest expense decreased for 2025, primarily due to lower debt levels combined with a lower interest rate spread derived from reduced leverage ratios. We also benefited from the interest income derived from consistently high cash balances. And more significantly, we recorded an income tax benefit of $12.6 million as a result of the 179D deductions and the impact of the higher stock valuations. thereby adding to our bottom line and resulting in an effective tax rate benefit of 31.4% compared to a tax rate expense of 15.4% in 2024. As a result, net income more than doubled to $52.6 million for the year, or $3.49 per diluted share on a gap basis, compared to net income of $22.6 million, or $1.58 per share, in 2024. Adjusted earnings per share increased to $4.89 per share, compared to $2.43 in the prior year. Revenue growth and margin expansion propelled these strong results. Turning to the balance sheet and liquidity on slide 11, we generated $80 million in cash flow from operations, continued improvements in working capital levels supplemented the strong earnings, and $71 million in free cash flow, or $4.69 per share in 2025. We invested $9 million in CapEx, primarily for proprietary software development, and used $36 million for acquisitions. We also reduced borrowings by $40 million under our credit facility and had only $49 million in outstanding debt at year end. We ended the year with $66 million of unrestricted cash and a net positive cash position of $17 million, the first time since 2017, and effectively zero leverage compared to the 0.3 times EBITDA at the end of 2024. In addition, We continue to maintain full availability under our $100 million revolving credit facility, resulting in total available liquidity of $216 million at year end. This provides meaningful financial flexibility as we move into 2026. Our capital allocation priorities remain consistent. Reinvest in the business to support organic growth and pursue accretive acquisitions that expand and enhance our capabilities in geographic reach. Turning to slide 12. Over the past four years, our growth profile has been both durable and increasingly profitable. Gross revenue and net revenue grew a compound annual rate of 18% and 16%, respectively, while adjusted EBITDA expanded at a 30% compounded annual rate. And on slide 13, we've demonstrated the ability to expand margins over time through disciplined execution and productivity improvements, favorable mix, and prudent cost management. The 21.8% margin in 2025, for the first time, exceeded our long-term goal of a 20% EBITDA margin. We expect the 2026 margin to also exceed that 20% target. On slide 14, we provide our financial guidance for 2026. These targets assume no future acquisitions. We expect net revenue in the range of $390 to $405 million, adjusted EBITDA in the range of $85 to $90 million, and adjusted earnings per share in the range of $4.50 to $4.70 per share. These targets assume a full-year effective tax benefit of approximately 10%, and 15.8 million diluted shares outstanding. These numbers exclude any future acquisitions, though we expect to make acquisitions during the year, and our guidance will be updated accordingly. In summary, on slide 15, Fiscal 25 is a record year marked by continued growth and margin expansion. We entered 2026 with a strong balance sheet and ample liquidity to support strategic growth. We are positioned at the center of growing energy and infrastructure markets with a robust M&A pipeline to enhance scale and capabilities.

Conference Operator | Operator:

With that operator, we are ready to take questions.

Rochelle | Conference Operator:

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment while we poll for questions.

Conference Operator | Operator:

And as a reminder, it's star one to ask your question. And one moment while we pull for questions.

Rochelle | Conference Operator:

And we'll take a question from Craig Irwin with Ross Capital Partners.

Craig Irwin | Analyst, Ross Capital Partners:

Good evening, and thanks for taking my questions. So I'll start off the top by, I guess, asking about the thing that I think is affecting aftermarket trading, right? Your EPS guide of 450 to 470 is fantastic, but it is below the 493 last year. You know, when I look at the tax rate that you're guiding us to, a 10% benefit, That compares to negative 31% last year. So there's obviously quite a difference in the 179D assumption for 2026. This doesn't impact EBITDA. But can you maybe walk us through what your assumptions are for 179D in 2026, how this worked so very well for you last year, and is there potential for us to see 179D maybe become more favorable for you over the course of the year?

Kim Early | Executive Vice President and Chief Financial Officer:

Yeah, thanks, Craig. Well, the first big assumption is that consistent with the one big beautiful bill, this 179D is set to expire at the end of June for this year. So that inability to carry that through to the end of the year means that we can only take advantage of that through projects that are started within the first six months of 2026. So that's the single biggest factor there. There's also a little bit of a shift in just the work that we're doing from the Clark County School District. So we have a lot of school buildings within that school district to the shift into work we're doing for – Alameda County and San Diego, which will involve fewer buildings, which are really the source of a lot of those 179D deductions that we got. So the main driver is just the assumption that the 179D provision is not being renewed as of the end of June. And secondarily, that there's just fewer buildings in some of the projects that we're doing that would qualify it.

Craig Irwin | Analyst, Ross Capital Partners:

Understood. That makes complete sense. So my next question is about the EBITDA growth, right? So for the trailing four quarters, your EBITDA growth has been between 67% and 190% year over year, really just absolutely crushing it. So when I look at this, you know, I know your markets are helping in a big way, but I kind of have a suspicion that Wildan is humming on all cylinders, that there's certain – significant operating improvements that are happening at the company that might be improving the fundamental profitability of the company moving forward. Can you maybe unpack for us any of these operational changes that might be taking place? I know you're conservative in your guide and you give us numbers that you firmly believe in, but how should we look at the potential for your initiatives on profitability and performance as contributors over the course of the next year?

Mike Bieber | President and Chief Executive Officer:

Yeah, Greg. First, we expect margins to continue to be above 20%, that long-term target. We achieved that this year, and in our guidance, midpoints squarely above 20% again. It's actually a little improvement over this year. So that improvement continues, and the big structural change over the last five years is that we've moved up the value scale and are able to charge more for the work that we do. The second is the back office cost absorption of the scale itself. As we've grown the company, corporate costs are not growing at nearly the

rate of the top line. So we think that's going to continue, and it's reflected in our guidance. You're right. I look back on last year's guidance, and our long-term expectations for investors are overall, to grow 15% to 20% top line and bottom line. And I think by the end of the year, we'll be right there, if not better. And that's exactly what we did in 2025. We've got the same playbook for 2026. We'll come in with appropriately conservative guidance at the beginning of the year. We know that you want us to beat and raise, and we think this positions us well. So I think it looks good for 2026.

Craig Irwin | Analyst, Ross Capital Partners:

Excellent. Last question, if I may. So you guys are winning in data center, right? Why? Because you bring the right resources to the customer quickly, and they can rely on Wildan to execute the project impeccably. But you've historically done the same thing for utilities, and utility demand seems to be going up because of the reserve margins that are falling across the country, right? Load growth is becoming a big problem. You know, Do you see potential for continued requests for accelerated project completion that tends to drive margins upward over the next couple of years? I mean, is this a theme that you're seeing, you know, more predominantly across your utility customer base?

Mike Bieber | President and Chief Executive Officer:

It is, Craig. You're absolutely right that utilities are being squeezed now, generations not necessarily keeping pace with the demand for that electricity. And so, yeah, energy efficiency is the cost-effective resource. They're trying to get as much out of those programs as they can get. And that's why you've seen those programs grow over time. You know, if you look back over 2025, 17% organic growth, there wasn't any single big win that drove that. It was mostly expansion from those long-term programs customer relationships, many of which are utilities, as you pointed out. That's exactly what we're seeing, and that trend is continuing.

Craig Irwin | Analyst, Ross Capital Partners:

Great. Well, congratulations on another really solid quarter, Mike.

Conference Operator | Operator:

Impressive. And next, we'll move to Tim Moore with Clear Streets.

Tim Moore | Analyst, Clear Streets:

Thanks, and congratulations just on the hard effort and the great execution throughout the year. You really harnessed the tailwinds and scale benefits. It came through, and all beaten race stocks still have momentum. One thing I just want to follow up, actually I have two questions. If I recall properly from last year, the year before actually, the fourth quarter of 2024, that Los Angeles Department of Power and Water contract wasn't, I think, in the for Q24 revenue. Did it ramp up meaningfully in this December quarter? I know you were laughing, kind of not much contribution in the year-ago period.

Mike Bieber | President and Chief Executive Officer:

On a percentage basis, it ramped up materially, but its contribution was very small in dollars, actually, for the Q4. That program is ramping up, though. We're not going to see... We'll see improvement in Q1 over Q4, but the big ramp-up for LEDWP is in Q2 We've got the amendments that we needed in place, the changes to the

contracts, the contracting communities ready for it. And I think you'll see a material contribution to that contract starting Q2 of this year. And then, you know, it goes on for the next four years.

Tim Moore | Analyst, Clear Streets:

That's good, because I think I was modeling $7 to $8 million, maybe a quarter, maybe it would be higher. I know it was going to be higher than the original terms that phased down before renewal. So that's helpful. Mike, I want to check something, actually, if I heard correctly in your call. I mean, I'll just look at the transcript. But did you mention that you thought data centers could double in 2026 for revenue, or was I mishearing the end markets?

Mike Bieber | President and Chief Executive Officer:

No, we were talking specifically about the APG acquisition that does that type of, you know, substation design and construction management for those data centers. And we are expecting that to more than double for us this year. A lot of those projects, though, are two or more years in duration. So we're actually building backlog into 27 and 28. This is going to be a long-term trend.

Tim Moore | Analyst, Clear Streets:

That's great. I mean, it seems like it could be about 20% of your revenue by the end of the year from data centers related. If it does double, I mean, I imagine it would. Does that make sense? It could be maybe 20%. I mean, I know you had some AT&T before that, but it seems like you could get to 20% data centers.

Mike Bieber | President and Chief Executive Officer:

It'll certainly grow from 11% year over year. I don't know where we'll end up. We mentioned it's the most robust area we're serving, and In addition, I'll mention we're looking at acquisitions that specifically expand our capabilities to the commercial customers overall. We want to diversify in that direction, so we'd like to catalyze and drive that number up even further into the 20s.

Tim Moore | Analyst, Clear Streets:

Great, great. And one last question that's related to just the thread you just started. You do that Compass Municipal Advisors acquisition that really kind of gets you into the financing side, helps agencies and develop new projects. Is that a little bit different of a business model for you? I mean, is the margin higher because of the financing tie-in for that?

Mike Bieber | President and Chief Executive Officer:

We have a financial services group, and we have for probably 15 or more years at Wildan. We don't talk about it a lot, but it's a legacy activity that we provide primarily for communities in the western half of the U.S. A lot of the work is in California, Texas, a little bit in Florida. So that was a geographic expansion of that group. We currently didn't serve any of the customers in Wildan. North and South Carolina, and Kentucky. So you're right, that can be a higher margin business, and we see great cross-selling opportunities between that upfront financing work, particularly for school districts, and the other things that we provide for those schools like energy efficiency.

Tim Moore | Analyst, Clear Streets:

That's terrific, Mike.

Conference Operator | Operator:

Well, thanks for all that, Collar, and that's it for my questions. Thank you. That will conclude the question and answer session.

Rochelle | Conference Operator:

And this does conclude today's teleconference. You may now disconnect your lines.