

# Mossberg's Investor Digest

## Best Idea Profile:

## Willdan Group, Inc. (NASDAQ:WLDN)

### DESCRIPTION:

Willdan Group provides professional, technical and consulting services to public and governmental agencies, public and private utilities, and commercial and industrial firms through 25 offices from California to New York. Its complementary services include engineering and planning, energy efficiency and sustainability, economic and financial consulting, and homeland security. Celebrating its 50 year anniversary, Willdan was founded in 1964, and became a publicly traded company in 2006. It is based in Anaheim, California.

### KEY INVESTMENT CONSIDERATIONS:

**Rebounding Demand** – The recovery in residential housing has a big impact on Willdan. Additionally, many municipalities downsized their engineering services during the recession and are currently understaffed and looking to outsource these services, driving a steady flow of work in engineering, building safety, and construction management. Most of Willdan's contracts are with small cities, but the numbers add up quickly. The company has added about 50 new employees since the beginning of the year. Its one large city contract, represents the largest staff outsourcing project in California. Management expects that it will add its second large city contract in the second half of 2014 (they have won the competition and are waiting to start services), which will be a substantial win.

**Impressive Quarter** – The visibility of top-line growth is greatly enhanced by a series of recent positive contracts and expectations for second half wins. First quarter revenue was up 12%, EBITDA was up almost a million, and earnings per share increased from 5 cents to 17 cents over the first quarter of 2013. This exceeded analyst's expectations. Without giving guidance, management stated that it expects 2014 will be more profitable than 2013, and is exuding optimism.

**Dual Growth Channels** – Management believes there is a good pipeline for tuck-in acquisitions. Their objective is to grow them at a rapid rate. This combination of organic and acquisition growth fits well into the company's strategy and is well supported by a strong balance sheet.

**Cash and NOLs** – The balance sheet is very strong with \$12.7 million in cash. Additionally, Willdan has \$6.8 million and \$9.8 million in federal and state operating loss carryovers, respectively, to use.

**Interesting Prospects** – Management has outlined many interesting prospects for additional work in the second half of 2014. Not the least of these is a long-term contract with FEMA that it expects to hear about in the next few months. Willdan's engineering and homeland solutions would be aimed at helping cities reduce risk related to natural disasters. The business is scalable depending on when and where FEMA is called out. However, on average there are 61 natural disasters per year to which FEMA is summoned. Therefore, although potential revenue is unpredictable, it is viewed as a substantial contract. Secondly, Willdan also just won its first contract under the California Clean Energy Jobs Act, Prop. 39. California has allocated \$2.5 billion over the next few years to this, and Willdan will be providing energy savings programs in California schools, with the potential for additional contracts.

### VALUATION:

Willdan is trading at its high for the year; however, confidence is high for another strong quarter and the expectation that multiple contracts in the second half of the year will continue to drive momentum, particularly in the engineering division.

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Investment Data (as of 5/30/14)

<b>Recent Price</b>	<b>\$6.25</b>
52-Week Range	\$2.32 - \$6.25
Fiscal Year End	Dec 27
Dividend	NA
Yield	NA
Shares Outstanding	7.4 M
Average Trading Volume (3 mos)	12k
Market Capitalization	\$46 M
Cash	\$13 M
Long-term Debt	\$539 K
Enterprise Value (EV)	\$30 M
Book Value	\$2.92
TTM Revenue	\$87 M
P/ Revenue	0.5x
TTM EPS	\$0.47
P/ EPS	13x
TTM EBITDA	\$4 M
EV/ EBITDA	8x