

Orbital Energy Group(Q3 2021 Results)

November 16, 2021

Corporate Speakers:

- John Beisler; Orbital Energy Group, Inc.; Investor Relations
- James O'Neil; Orbital Energy Group, Inc.; Vice Chairman & CEO
- Daniel Ford; Orbital Energy Group, Inc.; CFO & COO

Participants:

- Jeffrey Campbell; Alliance Global Partners; Research Division, Research Analyst
- Eric Stine; Craig-Hallum Capital Group LLC; Research Division, Senior Research Analyst

PRESENTATION

Operator^ Good day, everyone, and welcome to Orbital Energy Group's Third Quarter 2021 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, John Beisler, Investor Relations.

John Beisler^ Thank you, operator. Good morning, everyone, and welcome to Orbital Energy Group's Third Quarter 2021 Conference Call. Earlier this morning, the company issued a press release for its third quarter 2021 earnings results. A copy of this release and accompanying PowerPoint presentation are available for download on the Events and Presentations page of the Investor Relations section of the Orbital Energy Group website.

Speaking on today's call are Jim O'Neil, Vice Chairman and Chief Executive Officer; and Dan Ford, Chief Financial Officer. Also on the call today is Nick Grindstaff. Today, management will review the highlights of financial results for the third quarter, as well as recent developments. Following the formal remarks, management will answer questions.

I would also like to remind everyone that today's call will contain certain forward-looking statements made under the Securities Act of 1933, the Securities and Exchange Act of 1934 as amended. Such statements are subject to risks and uncertainties that could cause actual results to vary materially from those projected in the forward-looking statements.

The company may experience significant fluctuations in future operating results due to a number of economic, competitive and other factors, such as the COVID-19 pandemic, including, among other things, the company's reliance on third-party manufacturers, suppliers and service providers, government agency, budgetary and political constraints, new increased competition, changes in the market demand and the performance or liability of its products, integrated solutions and services.

These factors and others could cause operating results to vary significantly from those in prior periods and to those projected in forward-looking statements. Additional

information with respect to these and other factors, which could materially affect the company and its operations are included in certain forms the company has filed with the Securities and Exchange Commission.

These forward-looking statements are based on information available to Orbital Energy Group as of today, and the company assumes no obligation to update statements as circumstances change. With that, I would like to turn the call over to Jim O'Neil, Vice Chairman and CEO of Orbital Energy. Jim, please go ahead.

James O'Neil^ Thank you, John, and thank you to everyone for joining us this morning. Before we begin, as announced this past Friday, Nick Grindstaff has joined Orbital Energy Group as Chief Financial Officer effective tomorrow, November 16. Nick brings over 20 years of experience in the infrastructure services industry, and I'm very pleased to have him join the OEG team.

Dan Ford will help transition Nick well into next year. Dan has done a tremendous job for me as CFO. We have been a great team and become greater friends. He is very confident in his job, has a tremendous work ethic, and I couldn't have asked for anything more out of him.

He was also very loyal to his employees and all within OEG. As OEG continues to increase in scope, size and complexity, it is strategically important for the C-suite to reside in one location, which is Houston. Dan will remain in Portland, where he has a strong foundation of friends and family, and I wish him much success in his future endeavors.

With that, our third quarter results reflect our continued progress in transforming into a completely focused infrastructure services platform. Our acquisition of Gibson Technical Services, or GTS as OEG's telecommunication platform is producing immediate results with a pair of major projects awards from Charter Communications and one from TEC, a Mississippi-based provider of broadband services.

In the quarter, we also expanded GTS' scope of offerings through the acquisition of IMMCO, a full-service telecom, engineering and network design company and Orbital Solar Services was awarded its second utility-scale solar project, which will move to construction early next year.

In our Orbital Power Services sector, Orbital Power, Inc., or OPI, experienced a 138% increase in revenue quarter-over-quarter due to the continued demand by investor-owned utilities and electric cooperatives for our electric distribution services.

We are rapidly establishing a presence in the electric utility infrastructure market as a Tier 1 quality contractor by safely providing services that meet or exceed our customers' expectations.

Additionally, OPI were among the first responders to the Hurricane Ida disaster that hit Southern Louisiana over the Labor Day weekend. Approximately 7 electric distribution crews were deployed with no access to food, water or shelter and worked under adverse conditions for several days.

We are very proud of the ability for our crews to accomplish a significant amount of work restoring power to affected areas without any safety incidents. A heartfelt thank you from me and the OEG leadership team for your efforts and fortitude to carry out your job responsibility safely in the aftermath of a major hurricane event.

The Eclipse Foundation Group, a provider of drill pier foundations, primarily for electric transmission structures and substations, mobilized its third foundation crew in the quarter, and the outlook for continued growth is encouraging as its project opportunities expand and the company builds its brand in the electric utility service market.

OEGs telecommunication platform, Gibson Technical Services' revenues increased 22% in the quarter, primarily due to the increase in 5G upgrade activity, providing services to rebuild existing telecommunication facilities by adding additional fiber and installing 5G radios to increase the capacity and speed of cellular services. We are largely providing this service to customers in indoor environments, predominantly large venues, while continuing to construct 5G facilities in outdoor environment on a lesser scale.

During the quarter, GTS began to mobilize on our previously announced RDOF program awards from Charter and TEC in 4 states: Louisiana, Alabama, North Carolina and Mississippi. These multiyear contracts require upfront costs to secure property to stage equipment, offices and hiring of staff and contractors to begin construction.

In Virginia, we conducted the walkout of the existing telecommunication infrastructure necessary to facilitate design of their state funded rural broadband program. These mobilization costs, coupled with the delays in RDOF project construction start dates due to multiple supply chain issues, including local jurisdictions being overwhelmed with required permitting and utility allocate requests, coupled with the lack of construction materials, resulted in a shortage in margins for the quarter.

Additionally, the aftermath of Hurricane Ida caused project delays in Mississippi and Louisiana as resources were utilized to restore services due to damaged infrastructure. However, the positive news is the supply chain issues are beginning to abate in the fourth quarter. And as we enter 2022, we expect RDOF project construction to be at full throttle with little or no delays.

The IMMCO tuck-in acquisition into GTS has resulted in immediate synergies, resulting in a significant increase in engineering, design and drafting our cable television and RDOF programs.

As a result, in the quarter, IMMCO added more than 200 additional workstations and 200 new employees, increasing to 400 new employees by year end. In 2022, IMMCO will

expand to provide wireless and utility-scale solar engineering and design services, which will further enhance both synergies and increasing profitability for OEG and its shareholders.

Overall, revenues for the third quarter more than doubled sequentially. We recorded a quarterly gross profit for the first time since the fourth quarter of 2020 and increased our backlog by \$115 million to \$411 million, which is a leading indicator towards our path to profitability.

I will cover our segments in more detail. But first, I would like to turn this call over to Dan Ford, who will review our financial results for the quarter. Dan?

Daniel Ford^ Thank you, Jim, and good morning, everyone. It has been a pleasure serving as the CFO for Orbital Energy Group these past many years, the last several partnered with Jim. I'm confident Nick will be a great addition, and I'm delighted to help Nick and OEG through the transition.

With that, I will review the GAAP financial results for the third quarter of 2021. Please note the electric power and solar infrastructure segment now also includes IMMCO, which was acquired in July.

Total revenues for the third quarter were \$30.9 million compared to \$16.3 million in the second quarter. The 90% sequential and 127% year-over-year increase reflect both acquisitions of GTS and IMMCO and the gradual economic recovery from the COVID-19 pandemic that positively affected our Orbital Power and Orbital Gas operations.

Gross profit for the third quarter of 2021 was \$3.8 million. This compares to a gross loss of \$1.2 million in the prior quarter and gross profit of \$2.4 million in the third quarter of 2020. The sequential improvement reflects growth at GTS and the addition of IMMCO, coupled with improved margins for Orbital Power and Eclipse Foundation Group. The year-over-year improvements reflects the additions of GTS and IMMCO, improved margins at Orbital Power and overall growth in revenues across the operating segments.

For the second (sic) [third] quarter of 2021, SG&A was \$13.7 million compared to \$15.7 million in the second quarter of this year and \$7.2 million in the prior year quarter.

The sequential decrease in SG&A is due to a decrease in equity vesting expense of \$3.2 million, SARS expense of \$0.9 million and equity-based acquisition closing costs of \$0.6 million, offset by increased SG&A associated with GTS and IMMCO operations of \$1.1 million and increases in SG&A for ramp-up activities at Orbital Power of \$0.3 million and Orbital Solar of \$0.3 million towards preparation to meet increasing backlog demands.

The year-over-year increase is related to the ramp-up at Orbital Power Services group, which included increased payroll insurance costs, start-up costs of the Eclipse Foundation

Group and SG&A associated with the acquired operations of GTS and IMMCO, partially offset by cost-saving measures in the Integrated Energy Infrastructure Solutions segment.

Operating loss in the third quarter was \$11.7 million compared to \$18.3 million for the second quarter and \$6.3 million for the third quarter of 2020. The operating loss was due to the previously mentioned items. Net loss for the quarter was \$10.1 million compared to \$8.2 million in the previous quarter and \$3.2 million for the third quarter of 2020. For further details, please refer to our 10-Q filing.

Turning to our balance sheet. We ended the quarter with cash, cash equivalents and restricted cash of \$12.4 million. Cash used in operating activities for the third quarter was \$14 million compared to \$951,000 in Q3 of 2020.

The increased uses of cash during the third quarter were primarily associated with the net loss for the quarter, excluding \$3 million of noncash items, increases to current accounts receivable of \$9.4 million, increased contract assets of \$1.1 million, offset by increased accounts payable of \$1.6 million and accrued expenses and compensation of \$1.8 million.

During the third quarter of 2021, the company sold 10.4 million shares of its common stock at a price of \$3.65 per share for gross proceeds to the company of \$38 million before deducting commission and estimated offering expenses. We have \$112 million of remaining capacity to issue common or preferred stock or public debt under our S-3 registration with the SEC.

This source of liquidity will help -- allow OEG to fund growth opportunities, including acquisitions that will contribute to the successful execution of the company's strategic growth plans. With that, I'll now turn the call back over to Jim.

James O'Neil^ Thank you, Dan. I joined this company about 2 years ago to transform, at the time, CUI Global from a service provider to the natural gas industrial market into a service provider to the electric power, telecommunications and renewable infrastructure markets.

Last year, and into early 2021, we built the foundation for our strategy by organically starting Orbital Power, Inc. and Eclipse Foundation group, service providers primarily to investor-owned utilities, electric cooperatives and municipalities, and the opportunistic acquisition of Orbital Solar Services, a utility-scale solar EPC company, which served as a strategic platform to capitalize on future opportunities in the renewable market.

We laid this foundation despite a sub-\$1 stock price and COVID setbacks. OEG's real transformation began in April of 2021 with the acquisition of Gibson Technical Services, which will serve as our telecommunications platform to increase profitable revenues, both organically and through synergistic tuck-in acquisitions.

Since the GTS acquisition, we have completed 2 strategic tuck-in acquisitions, IMMCO, an engineering and design company, and more recently, Full Moon Telecom, a testing

and commissioning company, extending our Orbital telecommunications platform, service capabilities, customer base and geographic footprint.

OEGs priority now is to pursue an electric power T&D platform acquisition. Once this platform is acquired, our transformation to a full-service provider of infrastructure services to the electric power, telecommunications and renewable markets will be complete.

We will then focus our efforts to grow revenues in our electric power and telecommunication platforms organically and through synergistic tuck-in acquisitions, increasing backlog, primarily comprised of predictable recurring revenues under multiyear agreements with our customers.

Capital spending to upgrade and reconfigure the nation's electric transmission and distribution infrastructure is at an unprecedented level and will remain robust for years to come. According to the American Society of Civil Engineers' 2021 Infrastructure Report Card released in March of this year, the majority of the nation's electric grid is aging with some components over a century old, which is far past the 50-year life expectancy.

There are approximately 600,000 miles of backbone electric transmission lines and 5.5 million miles of electric distribution lines in this country, and 70% of this infrastructure is well into the second half of their lifespans.

Electric distribution is a key failure point in the electric grid in terms of system reliability and accounts for 92% of all service interruptions, a result of aging infrastructure and severe weather events. Concurrent with the aging grid dynamic and according to a December 2019 report by Resources For The Future, in the coming years, you will have an economy more dependent upon the electric transmission and distribution system as the country becomes more electrified as it reduces its dependence on fossil fuels.

This results in the electric utilities potentially facing challenges and meeting higher electricity demand, which might require upgrades to infrastructure in order to accommodate the additional load.

OPI is estimated to increase its service capabilities 400% during the year, expanding geographically and providing both overhead and underground distribution construction services under multiyear master service agreements throughout the South from Texas to the Carolinas. We expect OPIs growth opportunities to continue into 2022 at a similar pace that we've experienced this year.

Orbital Solar will begin construction on the first of 2 utility-scale solar projects next month, with the second project construction start date in February of next year. Slide 7 of our earnings presentation contains links for both of these projects that provide additional information.

Our utility-scale solar project pipeline is robust, and we anticipate additional project awards that will contribute construction revenues next year. As a result, Orbital Solar is expected to deliver significant financial results compared to this year, where the solar industry in general was tepid primarily due to COVID-19 impacts.

GTS is now well-positioned to commence construction on major project awards and is expected to be in full construction mode going into next year. Our recent tuck-in acquisition of Full Moon further establishes GTS as a full-service provider of the end-to-end solutions to our 5G and wireless customers.

Going forward, when GTS completes a 5G upgrade and installs new 5G radios, Full Moon can then provide the required RF testing, commissioning and turn up services. A full-service solution deploying a 5G network is welcomed by our customers and is providing additional opportunities for services in the Southeast U.S. with the opportunity to expand geographically in the future.

We continue to see unprecedented opportunities with our wireless and broadband customers for the foreseeable future and believe the market momentum we are currently experiencing will continue throughout 2022 and beyond. We expect future RDOF awards in the coming months.

We also expect to make several additional acquisitions into our telecom platform, GTS, in 2022 and continuing effort to expand our service capabilities as originally planned in order to create even more strategic synergies, thereby maximizing profitability and shareholder returns.

The Infrastructure Bill recently passed by the House and Senate provides additional meaningful opportunities for Orbital. This bill includes \$65 billion for broadband access, with roughly 2/3 of that figure earmarked for the deployment in rural and other underserved parts of the country, and another \$65 billion to improve the nation's electric grid, building new power lines and expanding renewable energy. These areas are right in the wheelhouse for Orbital Power and Solar.

In summary, we are excited about the opportunities in front of us. The mega trends unfolding in electric solar and telecom, provide us with meaningful opportunities as we execute on our strategy of acquiring companies to rapidly build scale and increase our geographic footprint with the objective of delivering on our 3-year financial targets, including a revenue CAGR of 20%, 10% EBITDA and 12% return on invested capital. That concludes our prepared remarks. Now I would like to open the call for questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Jeffrey Campbell with Alliance Global Partners.

Jeffrey Campbell^ First, I wanted to say happy trails to Dan and that I really enjoyed working with you, and best of luck in the future.

Daniel Ford^ Thank you, Jeff.

Jeffrey Campbell^ First, a quick question, what's the timeline of the \$410.6 million in backlog as noted on Slide 3?

James O'Neil^ The timeline as far as how much is going to burn out next year?

Jeffrey Campbell^ Right. Is that a twelve month backlog? Is it part of it?

James O'Neil^ Yes, that's a total backlog. And I would say that the majority of that, other than the RDOF work, which that kind of lays out over a 3- to 5-year period. So I would say that's about 1/3 of the backlog. So that's going to lay out evenly over 3 to 5 years. But the rest of it would be -- I would say, most of the rest of it is twelve month backlog. And Dan, would you agree with that?

Daniel Ford^ I've actually got that disclosed in the Q and I'm pulling it up right now.

Jeffrey Campbell^ Yes, I can look forward to it. I wondered if you could comment further on the Orbital Solar Services and what you see through the division in 2022. Slide 8 notes a surge in utility-scale solar interest.

And against that, we're seeing industry reports that suggest that utility solar may be particularly impacted by the current component shortages and logistical bottlenecks. So I wanted to get a little more color on your view.

James O'Neil^ Yes. I mean, that's a good point, there are some, obviously, supply chain issues that are pervasive, not only with us, but throughout the country. They had a piece on 60 Minutes last night that showed there were 80 cargo ships outside LA with a 0.5 million containers that were yet to be unloaded, which was a record level.

But yes, so it's pervasive not only for the solar industry, but everywhere. But look, we believe that we have -- certainly, we've already secured the materials necessary for this project that's starting in December.

I believe there's a pathway to get the materials for the second project that's starting in February. We are in negotiations on another project that we hope to be awarded and move to construction.

I have not heard of any supply chain issues with those 3 projects. But that's not to say there won't be any going forward. However, I do see some abatements of supply chain issues. I think we are starting to see some materials flow to the market, which is a good thing.

Jeffrey Campbell^ Okay. That's helpful.

Daniel Ford^ Jeff, circling back to your first question, the 12-month backlog is \$191.5 million. So that's October 1 for the next couple of months. And then the 18-month backlog is \$270.4 million.

Jeffrey Campbell^ Okay. Great. And Jim, I'll ask one last one. Can you just help investors understand what the TD acquisition that is obviously of great importance to management. What's that going to provide that the rapid organic growth in Orbital Power will not?

James O'Neil^ Well, that's a good question. I mean, when you buy an established company that has a systems processes and people largely being the management oversight, you can span -- you can grow quicker off that base platform. I mean, look at what we're doing at Gibson, right?

I mean, Gibson is just -- their backlog has gone up significantly. They have the bandwidth to grow the company both organically and through acquisition. And we see the same opportunities with an electric T&D platform as well that you can use kind of as the home base of the mothership to grow the business organically and then through tuck-in acquisitions.

Because they've got the people processes, systems and track record for growing the business to where when you grow a business organically, you're trying to bring in one piece at a time. And it's just a lot slower and, frankly, more inefficient, not that we haven't done a good job with Orbital Power greenfielding, and it just takes a lot longer than when you buy a successful company that's already gone through those growing things and that can scale more rapidly.

Jeffrey Campbell^ And if I could just ask one final one, I didn't mean to lie, but part 2 of the third one. When you're thinking -- it sounds like what you're saying here is that you want to make this acquisition because you see a lot of business and potential in front of you and you want to get after it. I'm wondering where you see the greatest portion of that business over the next couple of years.

And what I'm really thinking about here is, for example, the huge resistance to the NECEC power line from Quebec to Massachusetts that's meant to wield completely green power, it seems like that high-definition -- the high-voltage power line side continues to get a lot of [NMA] resistance.

I'm wondering where you feel the most successful growth is for you as you make this acquisition. And I'll leave it at that.

James O'Neil^ Yes, I'm going to -- that's a great question. And I think our focus is going to be on recurring revenue, which would be the electric distribution substation, the smaller transmission work.

And there's a lot of smaller transmission work that requires significant maintenance that is very recurring in nature. The bigger projects that you mentioned, that there is -- again, it almost behaves like the solar markets where there's a lot of cyclical to it and being able to predict certain projects will be approved and awarded to contractors or go to construction, there's a lot of uncertainty there.

Operator^ Our next question comes from Eric Stine with Craig-Hallum.

Eric Stine^ So maybe just start with Orbital Power Services and the previous questions just on the company that -- or type of company that you may be looking for. Any thoughts on kind of what the limiting factors have been to this point? I mean, obviously, you've had your plate full with -- on the telecom side. Curious, is it multiples out there? Is it finding the right company? Or is it just prioritizing your time?

James O'Neil^ Well, I mean, look, we've got a lot of great companies that want to join our team. But I think the limiting factor for us today is our balance sheet and stock price.

But I think as the company evolves and we make some of these acquisitions that are in front of us, such as the T&D platform, that will resolve itself, and then we'll be able to move forward with, I think, an acquisition program that would be at the pace at which I would expect it to be. And I think that will happen sometime into next year. But right now, I would say that our headwind is our balance sheet and stock price.

Eric Stine^ Got you. Is that -- I mean, clearly, that's kind of your top objective. Is that -- do you think that's a 2022 event for Power Services?

James O'Neil^ I hope so. I mean, that's our top priority. So we're going to try to get that done, try to get a deal done as quickly as we can because of the opportunity that could be ahead of us, that are immediate, that we want to capitalize on. And so certainly, we want to bring best scale of the company in-house as quickly as we can.

Eric Stine^ Yes. Okay. Maybe just sticking with that theme and moving over to telecom with Gibson in place, I mean, is that something where, I mean, we should expect more kind of the smaller acquisitions that are complementary in terms of IMMCO, Full Moon and others and maybe just thoughts on is it capabilities, is it geographic expansion or maybe a combination of both?

James O'Neil^ It's a combination of those as well as in addition to -- of new customers. And yes, they're typically going to be the smaller acquisitions that the multiples you pay are going to be a lot less. And the synergies are going to be more significant. And obviously, trying to differentiate from our competition in the eyes of our customers is extremely important.

So the fuller suite of services that we can provide and total solution to our customers is extremely important. And so when you buy those expanded capabilities like you do with

Full Moon and IMMCO, that also brings in new geographies and customers that they have historically been working with. So it's very synergistic.

Eric Stine^ Got you. Okay. Maybe last one for me, just on turning to solar. You recently announced the Jingoli joint venture and I think a lot of that is because of the bonding capabilities. Any way to quantify or just talk about how maybe the lack of having that in place to this point has limited your business and what it means going forward?

James O'Neil^ Well, look, the only area of our business that we bond is on solar, right? And so if we get to a position to where we're doing multiple projects, then we're going to need that bonding capacity. And so that's very helpful to team with Jingoli there, but it's also because they can provide the high-voltage solutions we need today, building the substations and the interconnect to the grid.

And so we can bring a total solution to the customer that we didn't have before. So it's very synergistic -- it's a very synergistic partnership for us. And -- but the bonding is important because that would have been a limitation to us if we were trying to execute on 3, 4, 5 solar projects at one time.

Operator^ I'm showing no further questions in queue at this time. I'd like to turn the call back to Jim O'Neil for closing remarks.

James O'Neil^ Thank you, operator, and thank all of you for listening today. I'd like to remind you that we are participating in a pair of investor conferences this week. Tomorrow, we will be holding virtual one-on-one meetings during the Craig-Hallum Alpha Select Conference.

And on Thursday, we will be participating in the Three Part Advisors Southwest IDEAS Conference in Dallas. If you would like to schedule a meeting, please contact your Craig-Hallum representative or Three Part Advisors. And we look forward to speaking with many of you when we report our fourth quarter and full year 2021 results in March, and following up with you on today's call. Have a great day, and we'll talk to you soon. Bye now.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.