NV5

27th Annual Roth Capital Partners Investment Conference Presentation Transcript

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Moderator: Good afternoon, I'm Jeff Martin. I'm the Director of Research and Senior Research Analyst covering NV5 and it is my pleasure to have Dickerson Wright, Chairman and CEO and Alex Hockman, President and Chief Operating Officer. Go ahead.

Dickerson Wright: Thank you everyone. I truly appreciate everyone showing up because I know we had Martin Franklin presenting on Jarden at the same time, which is very interesting story, so we appreciate your interest in NV5. A little bit about us—we are in the engineering space. Many of you might know of our company, 29 offices around the country, our corporate office in Florida. The key thing about us though we feel is our strong management team. We started this company and many of the people including Alex have been with the company for 10 plus years, our HR, our legal, our M&A, all of them would be anywhere from 15-20 years. And this is what we do, we are a small public company that grows by organic growth—driven by organic growth and mergers and acquisitions. We have five core structures in the company, a very flat organization and the key with us being a vertical organization is we want our leaders to be driving the business. So when we do an acquisition we grow, and we have the strongest person running that firm.

Analysts have picked us to go anywhere—analysts recently put us at $17.00 a share and as high as $21.00. We went public at $6.00 a share and we've had continuous growth and earnings and profitability and as we grow the share count we grow the management space. One of the key things is our management has skin in the game. We have our money in it, I have my money in it, our management owns 47% of the company and we continue to grow. We've had a—on our stock performance—we have grown 300% since our IPO price and the stock is currently trading around $15.00 a share. We went public at $6.00 a share with a warrant. We had a successful warrant call, so we've been growing the company and I think our strategy seems to be working. We have pushed our management team to hit $300 million in revenue by the year 2016 and through our growth and acquisition track we are right on that track.

A little bit about our team. Just quickly in almost every one of these you'll see the "PE" after the name because we are engineers, that's our space. We're not pure financial guys, not a financial play, but the key thing is again that almost everyone here has been with us for many, many years and as I say it's kind of a SPAC but with our own money because it is our management team that we believe in. I just heard the presentation next door but we really do "bet our jockey" and our team knows how to work together and knows how to do this.

Where are we? This is a little dated but this is the stock performance. We went public—a very small offering—and thank you to Roth Capital for taking us public. We went out at $6.00 and had a warrant. Market cap at the time we went public was only $25 million, and where we are today, this is dated, but our stock is about $15.00 a share now, with a market cap around $85 million so we've been growing and the appreciation has been well over 125%.

We have filed a shelf. We don't intend to do an equity raise unless we have a specific reason to do it—unless we can grow accretively and immediately by doing that—and as I said we've had our successful warrant call and there is no overhang of warrants right now. All of our stock is in the float and there are about 6.29 million shares. Just a little bit, I apologize because this is dated, we're going to have our fourth quarter earnings call around March 25th and we are going to be giving guidance on, I believe we will see in this slide but, we will guidance that we want to do what we say we are going to do, we want to grow as we said we're going to grow and hopefully you will see that we are comfortable with the analysts' guidance that we've had. And we got a recent update from our analyst showing our shares at $17.00, projecting a $17.00 stock shortly. So let's go to the next one.

This is the guidance that we gave, we're at the end of the fourth quarter, we finished last year 2013 at about $68 million, we're giving guidance that we will finish 2014 in the range of $102-108 million, we are comfortable with that, and that shows a 49% to 58% year-over-year growth and of that growth 9% of it was organic. We're also giving guidance on earnings per share being 84 to 94 cents. So we're sticking to our plan and we're trying to do what we said we're going to do.

Backlog once again dated. A very good backlog in our business, which is engineering service business, is about 65%. This is a backlog of $80.7 million and of course will be updated in the first quarter but our backlog is running well over 70% to 75%. So our fourth quarter, when we release earnings and revenue, that comes off the backlog and we have to add another successive quarter, so it's a true backlog, it's not soft, it's what we intend to build as a percentage of our budget. Now I will hand it off to Alex to talk about operations.

Alex Hockman: In 2003 my firm was acquired by Dickerson. We're an engineering services technical company but we operate in various verticals. The first is infrastructure and in the infrastructure vertical we have everything from civil engineering, design engineering, ridge design, waste water, we have a group that is evolved in survey as well as a portion of it is in construction management for what we term as horizontal projects, runways, bridges, anything that is directly related to the infrastructure development of the community. Our next group is CQA, that stands for construction, quality and assurance, there are many provisions whether be it code mandated provision or a DOT. When any project that is being built undergoes a certain amount of mandatory testing services or inspection services and that falls under the CQA vertical. So you can see how the two verticals already start to jut out. We have one that'll be involved in the design and we have another vertical that has an expertise in executing the inspection services related to that type of construction. We have an energy vertical and in energy it is providing services to energy producers. We are primarily in transmission related services, as well as the LNG community. Our program management is divided into two categories, one is dealing with what we term vertical construction and the vertical could be anything from a hotel or hospital that is ready to be renovated, and we will step in, we will come up with construction schedules, cost estimates and then manage the entire process so that when a block of rooms has to be taken out of commission we will able to set up the dates, develop the logistics in order for that job to be properly executed.

Finally our environmental, it's not environmental at risk. None of our services are at risk type services. We're providing indoor air quality services, we're looking at opportunities that we have with clients even in the case of a renovation for example when carpets are placed and adhesives are being used there is a time you'd have to wait until it's safe for occupants to go into the room to use it for day to day services. So we have a comprehensive indoor air quality service along with other type of environmental services that have to deal with as it relates for example to energy when a pipeline is being implanted they will go check to see if there are any endangered species, any wetlands that the project may interfere with.

So you can see that with the vertical structure that we have, we're involved in a project from the time of conception through design, through construction and then we have post construction activities. So as a result we're not really affected by economic swings. For example oil and gas, we're seeing that has had absolutely no negative impact on our operations.

In terms of the mix, energy is by far the largest that we have right now but it is pretty much an even split amongst the verticals with the exception of the environmental, that is a smaller piece. One of the things that we look for particularly within the organizations that we acquire and as we go forward within our existing operations is the constant process of cross selling amongst these verticals. So when we acquire a company, the company may have a certain amount of fees that are being sub-contracted, it's still part of your gross revenue but within our vertical structure we can now take that revenue and have that be internal revenue. So many times what we will see is that while we continue to have organic growth we're actually realizing much more internal revenue by the fact that we're no longer having to sub-contract their services to a third party. Perhaps Dickerson would like to finish on the acquisitions.

Dickerson Wright: Just a little bit about the acquisitions and this gives kind of the history of it and by chronological order and by discipline, we acquired JLA in January 2015, actually February 1st, that is our most recent. In infrastructure, our biggest acquisition that became our platform in infrastructure to build the company was Nolte Associates and in construction quality assurance we acquired Kaderabek early on. We actually started the company with an acquisition from a French company, Bureau Veritas, their construction quality assurance service line. So you can see, I won't go through each one of them, but our latest one that was in program management and again that was JLA. Each of these are designed to complement each other. We constantly have deals going on, usually at any one time we have 10 deals in a pipeline of which 6 have signed non-disclosure agreements, and two or three are under due diligence. So look for us to be very acquisitive, look for us to build that, and to drive our budget, in both, as Alex was referring to, our key operations and for mergers and acquisitions. You can talk about performance excellence if you like it.

Alex Hockman: Sure, one of the things that we've been able to accomplish is when we acquire a company there are two things that essentially take place. The first is we evaluate the company and its operation where we have principles heavily involved in looking at acquiring or purchasing general liability insurance and professional liability insurance and focusing on non-core business issues. We take those responsibilities through our shared service line, so we're now able to have an operation that has had a focus on the full 360 degree of operations and now they are able to focus on what they are really motivated to do. So that's our professional service line, that gives operations more time to either be billable or to focus on sales. And with that what we've been able to accomplish is about a 13% organic growth which is far above the industry standard and in doing so we are also able to then integrate these companies into our platform. We use Deltek as an ERP and a lot of the smaller companies that we acquire may have all different types of scattered accounting systems, now we bring them all into one accounting system. So financial reporting is done at the shared service center, so they are getting monthly reports whereas perhaps before they were relying on the secretary to generate reports through smaller accounting systems.

So we're able to now implement our internal controls and have them focus on growing the business and as you can see what we mainly accomplish is again increased organic growth rate above the industry average and we're also able to then manage the risk internally within our operation. It may not have only been possible for them or feasible for them to use legal staff that's outside because most of the firms aren't going to have attorneys in-house. So we've been able to take and also have a much greater risk avoidance policy within these organizations and all that has helped us promote the bottom line.

Dickerson Wright: So what is the macro industry? We have been asked this question many times. The overall industry is about $651 billion, we think we're in a sweet spot because there is a tremendous deterioration of infrastructure and it doesn't really matter for the economic cycle. People have to drink water whether it is good economy or bad economy, people have to dispose of waste, people need to drive over a bridge, so infrastructure. We are in a spot where when the pendulum swings, we're known. We made a very good announcement today on the infrastructure on a very large contract for Caltrans where we will be delivering $23 million in build fees over three years. So we have strong growth trends, and the key thing Alex touched on is our ability to cross sell.

We have a full time person that's engaged in cross selling knowing what we are doing in every office. When we first started we were subcontracting services at about a 30% rate, so offices wouldn't know and they would go to another company outside to do it. And now even as we grow and our revenues have doubled, our sub-consultant services are down to 20%. So we continue to do that, we want to drive the growth and I think you can see that we are performers, we try to do what we say, we're in a very fragmented market. I've asked the question to people, how many engineering firms are out there? And we know there are 144,000 to 145,000. We have more opportunities to grow, being a public company it is very important because we give an exit strategy to those founders that are private, we are able to not get involved in internal valuations in companies because all of our stock is judged by the public, it's useful currency in our doing deals and it does another thing, it creates not just key employees but fellow shareholders deep in the company.

So we think that we are in a very good position, we want to stay focused on what we are doing and I think our results are showing that. So I thank you for your time.