RCM Technologies, Inc.

Third Quarter 2023 Earnings Call

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CONFERENCE CALL PARTICIPANTS

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Bill Sutherland, *The Benchmark Company*

Frank Kelly, *Private Investor*

PRESENTATION

Kevin Miller

Good morning and thank you for joining us. This is Kevin Miller, Chief Financial Officer of RCM Technologies. I am joined today by Brad Vizi, RCM's Executive Chairman.

Our presentation in this call will contain forward-looking statements. The information contained in the forward-looking statements is based on our beliefs, estimates, assumptions, and information currently available to us. And these matters may materially change in the future. Many of these beliefs, estimates, and assumptions are subject to rapid changes. For more information on our forward-looking statements, and the risks, and uncertainties, and other factors to which they are subject, please see the periodic reports on forms 10-K, 10-Q and 8-K that we filed with the SEC, as well as our press releases that we issue from time-to-time.

I will now turn over the call to Brad Vizi, Executive Chairman, to provide an overview of RCM's operating performance during the quarter.

Brad Vizi

Thanks, Kevin. Good morning, everyone. Consistent with our prior update, the business cadence continues to accelerate as we move through the year. As such, the fourth quarter will be our strongest, and we expect to exhibit EBITDA growth year-over-year. Also of note, the outlook for 2024 and beyond is bright.

Our ability to parlay our high-value capabilities into long-term partnerships, where we continue to deliver increased value into strategic accounts has taken hold. We believe our collection of high value capabilities is unique to the marketplace, serving as a key differentiator for which to land and expand.

Internally, we continue to build on our unique structure that fosters innovation and increased depth of penetration, within each of our end markets, while increasingly strengthening points of collaboration between groups. Our ability to continue to execute this strategy with increasing success will further fuel (inaudible) future growth into our secular end markets for years to come. Since we last spoke, progress has been made across each of our divisions that I am excited to discuss in more detail, starting with our Healthcare division.

The school year is off to a strong start for our Healthcare team. Notably, we continue to add new school accounts, while growing our presence within our existing client base. We attribute ongoing success to the goodwill we continue to build upon in this end market underpinned by our commitment to supplying highly qualified healthcare professionals to education institutions and other healthcare facilities nationwide.

Behavioral health continues to drive our business at an increasing rate, and we believe, we are in the early innings of this much-needed upgrade to our nation's social infrastructure. Also, with increased demand for behavioral health services, comes the opportunity to further service our clients with other critical healthcare needs, cementing our status as a partner, not just another vendor, which is core to the RCM business model.

RCM Healthcare's tailored staffing solutions, coupled with a rigorous selection process have bolstered our reputation in the education domain, solidifying our status as the leader in this segment of the market, and the gold standard for treating our nation's youth. As we move forward, we remain committed to sustainable growth, innovation and the highest standard of service. We anticipate further expansion into new markets and the development of cutting-edge staffing solutions that meet the evolving needs of the healthcare industry.

Our dedication to improving the quality of healthcare services positions us to continue exceeding the expectations of our stakeholders, driving value for our shareholders, and positively impacting healthcare and education in the years ahead. The ability to build good businesses while serving a critical need in society and strengthening our communities resides at the core of our Company's values.

Our Life Sciences and Information Technology Group continues to emerge as a shining star in the portfolio. Though the macroeconomic landscape in Information Technology was challenging in 2023, including budget reductions across several sectors from high-tech to financial services, our decision to continue investing in market segments demonstrating secular growth has paid off. The Group's overall EBITDA contribution is up nearly 55% year-over-year.

As we continue to double down the winning formula, just this last quarter, we have expanded our Life Sciences practice in regulatory compliance, ERP Design, and implementation. We are building out our organizational change management practice, which will further allow us to support our clients across their entire business landscape, while providing improved value through our current delivery models. We continue to see positive trends entering the last leg of 2023, and have a positive outlook for 2024.

In Engineering, Energy Services strong execution demonstrates increasing leverage in the model, highlighted by continued delivery of milestones on time for several world-class projects, resulting in client satisfaction and solid gross margins. Technical highlights include successfully completing site acceptance tests as part of an eHealth high-voltage application utilizing the IEC 61850 protocol. In addition, we were approached to pursue an offshore high-voltage GIS substation with a large international operating OEM as part of a potential long-term partnership.

Also, several vital deliverables were executed on time for a critical infrastructure project with a major utility client in New York. This project represents a significant milestone in the clean energy transition in the Northeast United States.

In Europe, our newly established office in Germany received recognition, as a strong technical partner to support turnkey projects that will transfer the power supply to a carbon free electric grid.

We are in the late stages of negotiation for our second major project award, demonstrating increasing client confidence. To serve the increased demand for EPC projects in 2024 and beyond, Energy Services will further expand its EPC capabilities in Europe and North America.

We believe the recent addition of a high profile industry veteran to the RCM Energy Services leadership team will accelerate the award and execution of EPC projects in the United States, and further enable us to prudently evaluate new regional areas such as South America.

RCM Thermal Kinetics continues to execute detailed engineering contracts for distillation, evaporation, and dehydration technologies employed in the carbon capture and sustainable aviation fuel markets.

On the equipment side, the office is currently executing three concurrent projects for a zero carbon chemical manufacturing customer, primarily using evaporation and crystallization technologies. The main driver for successfully awarding the orders to RCM Thermal Kinetics is the advanced energy integration techniques utilized in the design.

The RCM Thermal Kinetics engineering expertise related to energy integration of extensive chemical processes has an obvious tie in to these environmentally responsible projects. It is why customers are standardizing on RCM Thermo Kinetics as their process design and equipment supplier. We recently opened RCM Thermo Kinetics testing facility. It is beginning to gain traction.

The coming weeks, two purchase orders are expected from clients requesting process feasibility and product profile testing. The office has greatly strengthened ties to local universities to support staffing of the testing lab through chemical engineering internships.

The customer support offered through process testing has a track record of receiving additional project orders. It provides the benefit of process risk reduction for both the client and RCM Thermo Kinetics. We expect lab utilization to ramp up in 2024 for new customers and testing related to existing customer projects.

In addition to our lab, the engineers are now working on the design of a 30-gallon crystallization pilot Plant. RCM Thermo Kinetics receives a large number of crystallization inquiries. More than any other technology, crystallization projects benefit from the ability to conduct robust piloting trials to produce product samples for our customers. The current schedule would have this pilot testing service ready for client use in May of 2024.

RCM Thermo Kinetics recently presented at the Advanced Bio Leadership Conference in San Francisco. The team has been a member of ABLC for many years and benefits from building relationships with emerging companies interested in developing new processes that require our technologies. Many of our customers today were cultivated from ABLC meetings over the past 10 years. The sales team has also attended the aluminum USA show.

RCM Thermo Kinetics has successfully supplied environmental equipment to aluminum production plants in the United States. The team remains focused on continuing its emergence as a responsible and sustainable chemical process design market leader.

As for our aerospace team, the growth and recovery we expect mid-year has begun to materialize in the third quarter with nine new clients resulting in our weekly revenue rate and headcount increasing nearing our historical numbers. We still believe we have the potential to close three more new clients before the end of the year, totaling 12 for 2023.

We also continue to increase the number of hires quarter-over-quarter with a total of 40 in the third quarter compared to 30 in the second quarter of 2023. Discontinued expansion includes new clients in defense, including sea vessels, land vehicle programs, and new vertical lift customers.

Expanding existing and new clients with our core expertise and new arenas provides us much desired depth and breadth of the organization and firmly positions us for 2024. As the management team within some of our existing clients continues to change, we have utilized our long-term relationships, reputation, and expertise to stay relevant.

We believe we will see traction on one of our most significant awards for a design center well into 2026. We continue to market our digital conversion expertise and methodology within aftermarket and our model-based design prowess, which now expands across multiple clients throughout the United States.

We have multiple contracts with large OEMs finalized and executed in 2023. We also await a large all-encompassing RFP from one of the largest defense contractors providing a vehicle to support this client across all engineering and aftermarket disciplines. We will continue to expand our reach with these clients and prioritize these types of engagements in 2024.

We continue to market the S factor, which broadens our reach beyond S1000D publications into S2000M material management, S3000L logistics support analysis, S4000P maintenance, and S5000F in service data feedback. We are happy to report that we have our first launch client, which we will support in these expanded areas beyond technical publications.

We have reorganized the aftermarket arena to provide opportunities in other areas for our team members, and we have increased our business development team for the first time in two years. We are excited about the opportunities that this team has already uncovered.

Before turning the call to Kevin, I would like to reiterate the financial expectations provided during the third quarter. We continue to anticipate EBITDA growth during the fourth quarter, a resumption toward our long-term objective, which is also in line with our expectation for 2024.

I also want to reiterate that as a general policy, we do not give guidance. However, we felt a more granular expectation as we close the year would be appropriate given the advanced macroeconomic noise in the marketplace.

I will return the call to Kevin to discuss the Q3 2023 financial results in more detail.

Kevin Miller

Thank you, Brad.

Regarding our consolidated results, gross profit for the third quarter was essentially flat year-over-year with $17.3 million in Q3 ‘23 versus $17.4 million in Q3 ‘22. Healthcare gross profit in Q3 ‘23 was $7.5 million versus $9.0 million in Q3 ‘22. There were primarily two reasons for the quarterly decline in healthcare gross profit.

First, we believe that Q3 ‘23 was our first quarter where we derived zero COVID related revenue. To give this perspective, if we remove the estimated impact of COVID, we saw our school revenue grow by approximately 25% in September 2023 compared to September 2022. We experienced similar results in October 2023. COVID also impacts our non-school revenue comp.

Second, we deliberately called the services provided to a multi-location continuing care client in the five boroughs of New York City and Long Island. At the beginning of COVID, we acted as an emergency VMS to this client. As the gross margins from the non-direct revenue shrunk post-COVID, we decided that the contribution margin on that revenue was insufficient for our return model.

On a year-over-year basis, our quarterly revenue decreased by $2.1 million from this client. If we compare Q3 ‘23 to Q2 ;23, this client decreased by $1 million sequentially. The decrease in this low margin business helped us grow sequential gross margin to 30% in Q3 ‘23 versus 27.6% in Q2 ‘23.

We grew engineering gross profit in Q3 ‘23 by 5.2% over Q3 ‘22. The growth and gross profit was primarily driven by increased project debt activity in our Energy Services group and getting our engineering gross margin closer to target levels.

Our gross margin in Q3 ‘23 was 25.0%, a significant sequential improvement from Q2 ‘23 gross margin of 22.9%. We continue to see outstanding results from our Life Sciences and IT group with 38.4% quarterly growth in gross profit year-over-year. We are seeing fantastic results, as we drive more revenue through our high-value, high-margin managed service offerings. We hope there is another gear we can get to in Q4 ‘23.

As we look to our fourth quarter of 2023 and our fiscal 2024, we expect all three segments to show good results, with growth in consolidated Adjusted EBITDA. We estimate Adjusted EBITDA in Q4 ‘23 between $7.6 million and $8.2 million.

Also in Q4 ‘23, we estimate consolidated revenue between $70.0 million and $74.0 million with a similar gross margin profile to Q3 ‘23. More gradually, we estimate Life Sciences and IT revenue between $11.0 million $11.5 million. We estimate engineering revenue between $21.5 million and $23.0 million. We estimate healthcare revenue between $37.5 million and $39.5 million.

Since we have discussed some variability and seasonality in our Healthcare segment, we thought it would be helpful to discuss our weighted-average school days in 2023. Q1 ‘23 was approximately 55 days, Q2 ‘23 was approximately 45 days, Q3 ‘23 was approximately 27 days, Q4 ‘23 is estimated at about 51 days. So that is about a 7% decline in school days when comparing Q4 ‘23 to Q1 ‘23.

While we haven't penciled our first budgets yet, we expect a similar cadence to school days in 2024 except one or two days may shift from Q1 to Q2. We will give 2024 estimates on our next call, as we have our budgets ready for the year.

As for fiscal 2024 Adjusted EBITDA, we will be highly disappointed if we don't see at least low double-digit growth. Our internal goals will undoubtedly reflect a much higher percentage. We are optimistic about growing all three segments in fiscal ‘24 and beyond.

This concludes our prepared remarks. At this time, we will open the call for questions.

Operator

(Operator Instructions)

Our first question is going to come from Alex Rygiel with B. Riley. Your line is open.

Alex Rygiel

Thank you, gentlemen. Very nice quarter and appreciate the added guidance there. Super helpful. Couple of quick questions for you here. First, as it relates to Healthcare, what was your revenue from schools in the third quarter?

Kevin Miller

The schools was $17.4 million.

Alex Rygiel

Thank you. And then your balance sheet is incredibly strong and you talked a bit about expanding into new staffing markets. So maybe, Brad, you could go a little bit deeper on that.

Brad Vizi

Yes, look, Rygiel, as alluded to in the prepared remarks and been pretty consistent with our dialogue over the last couple of years, we have these businesses at a point where we have a lot of confidence in a number of places in the portfolio.

So, we are in a position to be opportunistic with respect to deployment of capital and expansion into new adjacencies. We are not looking to go Greenfield into any new areas per se, simply because there is plenty of opportunity to build on the core of what we do.

So naturally, or first inclination is to do it organically by bolting on talent and to the extent that there is opportunity and organically. With respect to M&A, we are going to react opportunistically and would anticipate it being more of a bolt-on than any type of a major transformational platform type acquisition. So, I don't know if that answers your question sufficiently.

Alex Rygiel

Definitely does. Then as it relates to the engineering segment, can you talk a bit about the backlog there and the outlook for 2024?

Kevin Miller

Yes, we feel pretty good about what is going on in engineering. Like, we have increasing momentum with respect to the metric that we track and the—it is almost like a hybrid pipeline and backlog metric given that we feel is appropriate given the mix of our business. It continues to grow.

So, we are anticipating good things. But engineering inevitably given the nature of the project work, it could certainly deviate, but we do not expect anything substantial. It is a question in our minds as to whether or not it is going to be a pretty good year to a very nice increase year-over-year.

Alex Rygiel

Then lastly, as we think about the first quarter of 2023, you mentioned that there were 55 school days, and then you mentioned that in the third quarter there were 27 and you had no sort of COVID related revenue. I guess my question here is, as we think about the fourth quarter being 51 days, and that is down 7% from the first quarter. In the first quarter, was there any COVID related kind of legacy revenue? In that first quarter?

Brad Vizi

Yes, certainly. But I think, we gave pretty good guidance for Q4, right. So we do not expect any COVID related revenue in Q4. And so far, what we have seen, at least in October, is if we look at our schools, okay, which is our core business in healthcare. Obviously, we do a lot of work outside of schools. But at the end of the day, we are a healthcare school business, that is our core business in healthcare. That grew 25% in September, and it grew 25% in October, and we really think we can build from there.

Alex Rygiel

Great. Thank you very much.

Operator

Our next question is going to come from Ben Andrews from Andrews Capital Management. Your line is open.

Ben Andrews

Hey. Good morning, guys.

Brad Vizi

Hi Ben.

Ben Andrews

Couple of balance sheet type questions, if I may. Understanding the transit account, I always thought it was subcontractor related. Is that have a specific industry or segment flare, is that your engineering segment? Or, primarily what does that tie to?

Brad Vizi

Yes, you got it right. It is tied to engineering and mostly to EPC contracts. So, we have several large EPC contracts where we do the E and the P, but we don't do the C. We don't take inventory of the equipment. We purchase the equipment, but it goes straight from the OEM to the client. So, we never take inventory of that equipment. And so, a lot of that is advanced payments for equipment and construction.

Ben Andrews

Okay. And so, what this ballpark is the revenue stream going to those subcontractors?

Brad Vizi

Well, in terms of the—it is pretty significant, right? So, we have—but it is all pass through. So...

Ben Andrews

So, that doesn't show up your income statement, but then their liabilities or their equipment will show up on your balance sheet?

Brad Vizi

No, not the equipment. The equipment never hits our balance sheet, Ben. Essentially, because we never take inventory of it. It is never our equipment. At all stages, it is owned by our client. So, we are basically moving the equipment and paying for the equipment, but we don't own it.

So, the equipment itself never hits our balance sheet. So, we get a payment in from the client. And then, we get like milestone payments essentially, and we certainly manage those contracts so that we are paid up front so we are not putting out huge sums of money for equipment and construction. So, the money comes in, we order the equipment, we do the work, and then eventually we pay for it. Then more money comes in because these are typically multi-year contracts, they go from anywhere from two to five years.

Ben Andrews

Okay. So, a liability then would already be revenue earned by that subcontractor?

Brad Vizi

Not necessarily. Some of it may be earned, but some of it may not be.

Ben Andrews

Okay. So you can book out further than 12 months?

Brad Vizi

Yes. Obviously, we are not booking any revenue until we actually earn it, based on the progress of the contract and based on the amount of engineering that is been done. Right? So, we do make a small percentage on the equipment and the construction as well, and that also hits our income statement as revenue.

Ben Andrews

Okay. Regarding share issuance, it looks like there was a fairly large share issuance in the quarter, maybe 10% of the market cap. It was clearly larger than any vesting schedule of what was already out there in your queues. What went on in the quarter?

Brad Vizi

Yes, I don't have the exact share numbers in front of me, Ben, but I believe that we had about 100,000 shares issued to probably 20 employees under long-term time-based restricted share awards.

Ben Andrews

Yes, maybe I read it wrong then, because I thought it was 800,000 shares.

Brad Vizi

No, definitely not.

Ben Andrews

Because you finished last quarter a little under eight million shares and I thought I saw 8.8 million shares out right now.

Brad Vizi

No, it is 7.8, Ben.

Ben Andrews

Oh, okay. I'm sorry. I misread it.

Brad Vizi

No problem. I have the queue in front of me. As of yesterday, we had 7,832,393 outstanding.

Ben Andrews

Okay. Thank you guys for all your hard work.

Brad Vizi

Appreciate it. Thank you, Ben.

Ben Andrews

Bye, bye.

Operator

Our next question is going to come from Bill Sutherland with Benchmark. Your line is open.

Brad Vizi

Hey, Bill.

Bill Sutherland

Hey guys. Following up on Ben's question on the shares. Is that still at the top of the capital deployment list for you guys going forward?

Brad Vizi

Yes, look, I mean, we always pretty much anticipate having some form of a buyback in. Naturally, as we take in shares and volume decreases, the magnitude of buyback is inevitably going to wane. However, as you see, we continue to be active. We continue to be quite optimistic about our ability to deliver value at the Company. And so, it is safe to assume we are very much committed to deploying capital through that medium.

Bill Sutherland

Okay. It is certainly has been very effective. Brad, zooming out a little bit on Engineering and thinking about aerospace getting back on its feet and the opportunities, particularly as you brought it out, into defense. But the other areas as well, I mean, how should we think about the kind of intermediate growth for that group overall engineering?

Brad Vizi

Yes, we are quite optimistic about the tech, the future of engineering and you almost look at all three segments, all three units. And with respect to Energy Services, we continue to gain traction. We have a number of very large long-term partners as we continue to build confidence project-after-project.

In some instances, it is a matter of how much we can take on. So really going back to the core of that strategy, leading with technical capabilities that we think are very much differentiated in the marketplace, with respect to kind of our track record and the talent that we have assembled. From there, naturally, as you become a preferred partner, the attachment of incremental work is it can be very substantial.

So, what you are really seeing there in the case of our Energy Services group is really years of comp. We are at a bit of a tipping point with respect to compounding of years of goodwill and kind of earning that trust. So we actually have very high expectations going forward for that business.

With respect to Aerospace, again, a very strong growth orientation to it. We had a bit of a setback, very late last year, last two weeks or so of the year. We are very happy with how the team dealt with it and rebounded adding incremental clients, several of which are very significant and present meaningful opportunity to expand within those accounts. So, again, in terms of the upside in that business, we are quite optimistic in 2024 and beyond.

Then finally, with respect to process, again, a very, very strong technical capabilities and team. We have clearly invested in that business making sure they have all the tools that they need to continue to build on their reputation and ultimately the financial performance of that business. Inevitably, there will always be an element of lumpiness there. That will be difficult to forecast.

However, it is a very IP intensive part of our portfolio and we get paid for that intellectual property. And so, it is an economically very attractive model. So, with respect to saying, this quarter is going to be an excellent quarter versus call it Q3 or Q4, that one's probably the most challenging.

However, the returns are very robust. The team is as strong as it is been. The representation is very much intact. And we believe we'll continue to build on that, and so we are optimistic for its performance as well. But very specifically, we think that that group has troughed having finished up a couple of large projects, and activity is starting to go in the right direction.

Bill Sutherland

So, is that the thinking as you look at your fourth quarter range, likely range for revenue and looks like you are quarter-on-quarter flat to maybe off a little bit. So, is that just the completion phase and your new work starts to ramp in the first quarter of next year?

Brad Vizi

Yes. No question, there is a little bit of that. But, Kevin, do you want to go into very specifically the breakdown within engineering and how we are thinking about that sequential cadence?

Kevin Miller

Sure. I mean, it is difficult to project as Brad said, but what we believe we'll see in engineering next year, is a slow sequential uptick as we move throughout the year, right? So we would expect Q1 revenue to be higher than Q4, Q2 to be higher than Q1 and so forth.

I'm not sitting here projecting any big giant jumps in any particular quarter, but what I would like to see is single digit sequential growth each quarter, right, with obviously there being some upside depending on what happens with all the different irons we have to fire.

As you have been covering us a long time, Bill, so you have seen how engineering can really jump in a quarter and stay up for a while depending on what project we have. But in terms of expectations and what we expect to happen, I would expect to see a sequential uptake each quarter, and then obviously hope to see if we can really boost that with a couple of big projects.

Bill Sutherland

Got you. Okay. Makes total sense. So the—what is the other thing I was going to ask you?

Kevin Miller

And, we need to continue to work on our margins, because it is not just about adding revenue, right. It is about adding quality revenue and gross profit that—gross profit dollars that are driving our return model.

Bill Sutherland

Mm-hmm, okay. Back to healthcare just for a second. I was thinking about the comments Brad you made about behavioral health, really taking off. Is it—I mean, where are you in terms of its importance to you? In other words, is it becoming a meaningful percentage of revenue yet, or you are still just starting that process?

Kevin Miller

I think, it is the majority of the business at this point. And frankly, we anticipate seeing it accelerate. As up know, we have been pretty excited about the story and positioned ourselves for it accordingly the last couple of years. I wouldn't call it on the come, there is certainly a bit of an increasing drum beat. But I think, you call it the last—call it 9, 12-months, I think you are seeing a meaningful increase, and we anticipate that that continuing to go in the right direction.

I think naturally you think about some of the drivers of this from a macro perspective, oftentimes investment behind these type of social infrastructure initiatives are going to come on a lag. And we think that is exactly what we are seeing.

So, very exciting part of the portfolio, no question about it. We think that there is plenty of upside there. We are certainly willing to keep everybody posted as that continues to crystallize.

Bill Sutherland

Okay.

Brad Vizi

And I would add to that Bill that, three years ago our behavioral health revenue three, four years ago was primarily coming from two clients. So today, we have well over 30 that we are providing behavioral health services to. When I look at this behavioral health market for RCM, we are still in the first inning, second at best, right?

So, we just think there is amazing potential there. We just think there is so much growth out there. Now, obviously, there is a lot of competition, there is a lot of other companies that are going after this business, but there is a lot of business out there for us to grab and we think our team is stellar, and we are really excited to grab it.

There is only so much you can grab in one school year, because once the contracts are set for that school year, you are not going to typically add like a $5 million client in the middle of a school year.

But we have a lot of potential to build with the 30 schools that—approximately 30 schools that we are providing behavioral health. Then hopefully when we get the next school year, we will add another 20, another 30, we'll see. It is a really exciting business to be in and we’re pumped about it.

Bill Sutherland

Roughly how many schools are you in now total a year?

Brad Vizi

Probably about 70 where we are active, roughly.

Bill Sutherland

Okay. Thanks for the color guys. Good work.

Operator

(Operator Instructions) Okay. It looks like we have a question from Frank Kelly. Your line is open.

Frank Kelly

Good morning, gentlemen. Great, great, quarter. Great quarter. In particular, life science is heading to 40%, phenomenal, absolutely outstanding. And love to see top line growth there and that unit take over.

Switching over to the balance sheet on actual trade accounts receivable, what can you shed some light on there? It just seems to see that we are losing significant traction since our last call and since year end 12/31/22.

Kevin Miller

Sure. I can speak about that, Frank. We talked a little bit on the last call. So, the receivables relative to where the revenue right now are just too high, the trade receivables - period. And we are doing a lot of different things to get them down and get our DSOs to a better level.

But as I think you—because you have fought these battles before in your career, that when you get into Q3, because our revenue is somewhat back loaded into September, because of the schools being closed in June and July, we are always going to have sort of a wacky-looking receivable/DSO in Q3 because of the cadence of how the revenue hits the income statement. Obviously, you are not going to have any receivables to collect in October relative to September, right, or at least very little. So, that is one factor in Q3.

If you compare Q3 to Q4, to be really frank with you, we had a little bit of a different revenue composition, where we had some clients that just paid a lot faster than we do today. Particularly when you start talking about some of the COVID-related revenue, that money was just coming in very, very fast.

So, the DSOs in Q4 are historically low for us. Certainly a goal is for us to get back to those levels where we were in Q4 and we are working right now to get there. But those numbers are historically low.

And then if you look at the receivables today and the DSOs today, we have a couple of clients that are really good clients, high-margin clients, particularly in the Life Sciences space that just pay a little. Like that industry, it is not uncommon to get contracts where these big companies say, payment terms are 90-days, take it or leave it.

If you want the business, you got to wait 90-days, right? And we have a few clients like that, that are fantastic clients, very profitable. Even with the high DSOs, they fit our return models very, very well. So that is one aspect that is contributing to the higher DSOs.

Then when you flip over to the EPC clients, a lot of the EPC clients and some of the utilities are also slow payers. But the overall cash flow effect of those engagements are excellent. It is just that when you look at the trade DSOs, you just see they don't look great.

But the overall cash economics for those clients are outstanding. So, you have got a couple of factors going on. But I can assure you that we are working very hard to get DSOs at a much lower level where they were in Q2 and Q3. Stay tuned.

Frank Kelly

Kevin, do we have—you said you were talking about DSO numbers. So you know where they are. Where were they in Q2 and Q3?

Kevin Miller

Well, obviously people calculate DSOs differently, right? But you know how I calculate them. They were 84 in Q2. They were 90 in Q3. They were 79 in Q1, and they were at an all-time low in Q4 of 66. So, we need to get—some way, somehow we need to get them a lot closer to that level.

Frank Kelly

Right. Because I think if we look on the flip side of that, on expending capital against debt, there could be a pickup of as much as over a $1 million, $1.2 million EBITDA, if we collect those and turn them down into against the line. Right?

Brad Vizi

Well, it is not going to impact EBITDA. It is really a matter of impacting our interest cost, right?

Frank Kelly

Well, interest cost (inaudible) including EBITDA right? Am I stand corrected or no?

Brad Vizi

Yes, no earnings before interest. So, no, it doesn't impact interest, but your point is a good one. We are very, very focused on cash flow, and the most important measure that we look at this company is return on equity. Like, that's the most important thing and we pride ourselves in having a very high return on equity and this is an important component to it.

Frank Kelly

Great. Keep it up. Thanks for the info.

Brad Vizi

Thanks, Frank.

Operator

And it looks like though Bill Sutherland had a follow-up question. Bill, your line is open.

Bill Sutherland

Yes, I was curious, Kevin, about the tax rate in the quarter and what to think about for the year.

Kevin Miller

Yes, we had a one-time discreet tax benefit in Q3 that helped us out, but it is just a Q3 thing. I think when you start looking at Q4, you are probably looking at consolidated taxes 28% to 29% roughly. Because I think we are going to have a discreet item that's going to work the other way. It is going to bump it up a little bit in Q4. Long term, I think 28% is a pretty good rate for you to use in your model.

Bill Sutherland

Okay. Thanks again, guys. Have a good one.

Operator

(Operator Instructions)

Okay. It doesn't look like we have any more questions, so I'll turn it back over to you for any closing remarks.

Brad Vizi

Okay. Thank you for attending RCM's Third Quarter Conference Call. We look forward to our next update in 2024.

Operator

This concludes your call. You may now disconnect.