# RCM Technologies, Inc.

## Year End Earnings

## March 16, 2023

## CORPORATE PARTICIPANTS

**Kevin Miller,** *Chief Financial Officer, Secretary and Treasurer*

**Bradley Vizi,** *Executive Chairman and President*

## CONFERENCE CALL PARTICIPANTS

**William Sutherland,** *The Benchmark Company*

**Alex Rygiel,** *B. Riley Financial*

## 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, and 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, 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 file with the SEC as well as our press releases that we issue from time to time.

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

**Bradley Vizi**

Thanks, Kevin. Good morning, everyone.

RCM closed 2022 on a high note despite an increased drumbeat of adverse economic prognostications over the last 12 months. Also of note, Q4 was our second consecutive quarter lapping a year-over-year pandemic-related comparable period as society and labor markets transitioned to a more normalized labor environment. Again, growth and value creation remain a testament to the strength of RCM's client-first platform, secular-end markets, and devoted-employee base.

I will now reflect on progress made within each of our businesses.

In 2022, significant progress was made by RCM's Healthcare division in building school healthcare staffing as policymakers and educators recognized the importance of providing comprehensive healthcare services to students. Many school districts nationwide faced significant staffing shortages, further highlighting underinvestment in the nation's social infrastructure. The pandemic brought increased focus on health and safety in schools, highlighting the need for trained healthcare professionals to care for students. In response, many schools are working to improve their staffing, including hiring more nurses, therapists, and behavioral health providers.

A significant development in school healthcare staffing was expanding mental and behavioral health services. There has been growing concern about student's mental health in recent years, especially considering the COVID-19 pandemic. In cooperation with RCM subject matter experts, many schools recognized the need for additional mental and behavioral health support. These districts worked with our RCM team to hire more mental and behavioral health professionals, including (inaudible) professionals, RBTs, BCBAs, counselors and social workers.

In 2022, there was a significant increase in the number of new school clients that needed RCM to help offer their students behavioral health services. By providing students with access to these services, schools are helping to address a vital need and support the well-being of their students. We believe RCM is positioned to be a critical part of their solution for many years to come.

In 2023, RCM will continue to expand these service offerings. In addition, RCM is also taking proactive measures to tackle the challenge of staffing shortages, high vacancies, and voluntary turnover in hospitals and long-term care facilities through its comprehensive and outstanding recruitment solutions. The demand for such services in nursing and allied is significant as healthcare organizations strive to provide exceptional care while maintaining cost-effective solutions.

To help its clients achieve this objective, RCM is fully committed to offering world-class innovative solutions. These include, but are not limited to, MSP solutions, international recruitment solutions, and extensive recruitment initiatives.

As for Life Sciences and IT, in 2022, we accelerated our transition to higher value services, setting the foundation, advancing our divisional identity, and enabling our team to be self-sufficient. We have begun to solidify our management team. We have successfully placed several building blocks that will allow our division to further expand the relationships with our clients while attracting new ones. We created new building blocks for recruiting, managed services, ACM, data governance, and project management.

As we move into 2023, those foundation blocks will be put to good use. We will take those blocks and combine them to build the next level, including our new HCM managed service practice, our retain an executive search practice, as well as our new assessment initiative for Life Science companies.

On the engineering front, RCM Process and Industrial continues to deliver and confirm a strong growth trajectory. I am proud of the evolution that this team has undergone in 2022 with new leadership and structuring the organization for scale and future growth. The team has kept laser focus on existing customer and vendor relationships while diversifying their client base and building inroads to new and emerging markets.

Performance in 2022 and focus on the future has led to several key partnerships in diverse sets of end markets that will blossom in 2023 and last for many years to come. The creativity, commitment and drive of this team is contagious and uniting adjacent groups within RCM around common customers to provide a greater depth in our scope, our services, and ultimately in our value-added partner.

RCM Process and Industrial made significant progress with our partners in 2022, commissioning several major projects across the globe while placing others on a launch pad that will undoubtedly revolutionize the worldwide impact society has on the environment. Our expertise and patented technological integration and advanced energy saving solutions, including distillation and evaporation, materially lower carbon intensity scores, and ultimately aid in addressing one of the most pressing problems of the 21st century, climate change, while proudly matching each of our customers' specific needs with optimal productivity and profitability.

The formative work performed by this team in 2022 has led to multiple shovel-ready projects which we are already seeing advance in 2023.

Through the opening of RCM Thermal Kinetics Innovation Center in Amherst, New York, we are positioned to design and perform laboratory tests supporting our clients and bringing projects to market more efficiently with less risk and with an enhanced ability to demonstrate, process, output result beyond computer simulation. The Innovation Center houses a state-of-the-art test center, where customers can witness their feed material being separated in the latest distillation, evaporation, crystallization, and specialty processed lab equipment.

We expect the Innovation Center to be integral in supporting carbon-reduction and net-zero emission goals for rapidly evolving renewable technologies within the bioeconomy, sustainable aviation fuel, pharmaceutical, heavy chemical, metals, and food and beverage end markets.

In summary, RCM Process and Industrial has the team in a strategic direction to drive the momentum to accelerate our clients in their pursuit to conquer the most difficult air and liquid separation problems facing in society today. From carbon transformation to heavy oil scrapping, sustainable transportation fuels, clean hydrogen, and many related applications, our patented processes and expertise are key to facilities seeking to achieve environmental compliance and optimize operations at and below net zero.

Continuing with engineering, RCM Energy Services closed the year with record bookings as we become a significant player in the energy transition across the globe. The group made investments in business development and growth strategies to get closer to our clients and bring innovative solutions to support our clients, increasing demand to enhance grid resiliency, grid security, and the modernization of the electrical power grid. The establishment of offices in Florida and Puerto Rico were a part of the strategic step to expand geographically and serve our communities in new and valuable ways.

Our sales funnel has expanded, becoming more balanced as we serve new markets and sectors our full turnkey solutions. The high-quality innovative approach and trusting relationships we have consistently built with our clients remain paramount. The continued growth of our long-term client portfolio is a testament to the team's ability to deliver value safely and efficiently. Being awarded 7 multiyear EPC projects with one of North America's largest utility companies was extremely gratifying to see our clients' trust and our project delivery excellence through these continued partnerships.

The trajectory into 2023 remains growth and performance excellence, building from a position of strength. The energy services team is relentlessly driven by the new and evolving demands we are seeing across the world as RCM becomes a significant player on an international stage, helping the world navigate a multi-decade energy transition.

Finally, I will close with Aerospace. Aerospace substantially exceeded all financial goals and operational objectives in 2022. These objectives were to solidify the base in engineering and aftermarket while adding high-level engineering talent and management expertise across business development, operations, and recruitment. This division has more than doubled in size and enhanced capabilities since mid-2021.

Our strategy continues to encompass investing in highly technical, especially management and employees, to attract new customers, both within our engineering and aftermarket domains. Our targets will continue to include other large OEMs and Tier 1 suppliers to broaden our depth within Aerospace. In 2023, our plan will also be to strengthen our engineering and aftermarket groups within space and air mobility, which helps to diversify our customer base and support our expansion to include other service offerings.

Before turning the call to Kevin, who will cover our financial results in more detail, I will take a moment to touch on our progress on the capital allocation front.

During the fourth quarter, we were able to take advantage of perceived economic tumult and selloff in financial markets to retire over 750,000 shares. Encompassing the 10-week period between the end of the fourth quarter and this call, we were able to achieve a net share count reduction of nearly 1.2 million shares, over 10% of the Company, since the end of the third quarter, while maintaining abundant financial flexibility.

As mentioned on previous calls, we believe that our ability to remain nimble as we scale and react to opportunity in every aspect of the business is an attribute that will enhance the rate at which we are able to compound value over time.

Now, I will turn the call back to Kevin to discuss the Q4 2022 and full year financial results in more detail.

**Kevin Miller**

Thanks, Brad.

Regarding our consolidated results, revenue for the fourth quarter was $70.2 million, growing by $5.3 million on a year-over-year basis. Gross margin in the fourth quarter was 29.1% versus 27.4%, improving by 174 basis points on a year-over-year basis. Adjusted EBITDA in the fourth quarter was $7 million versus $5.3 million, growing by 32% on a year-over-year basis. We're especially pleased with our fourth quarter year-over-year gross profit growth with specialty healthcare growing by $1.9 million, or 21%; engineering growing by $0.6 million, or 12%; life sciences and IT growing by $0.2 million, or 6%.

As we look to 2023 and beyond, we've never been more excited about our potential growth and new initiatives. Of course, after completing a historic 2022, we realize that we have some tough quarterly comps in 2023. We do expect to have a strong 2023, but we expect the sequential growth curve to be more typical, starting slow in Q1 '23 and building from there. While we are optimistic that our 2023 engineering results will beat 2022, we will see lumpy results in Q1 '23. Due to our strong pipeline, we expect a nice jump in Q2 '23 and to build from there.

Based on our current engineering backlog and pipeline, we expect our best second half in a very long time. On a consolidated basis, we expect the first half of 2023 to look similar to the second half of 2022, except for Q3 seasonality in healthcare. We expect significant improvement in the second half of 2023. We're especially excited by new behavioral health initiatives and new school contracts that will kick into gear during the 2023-2024 school year starting in September of 2023.

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

**Operator**

All right. First up, it looks like we have Bill Sutherland. Your line is now open.

**William Sutherland**

Thank you. Hi. Good morning, Brad, Kevin.

**Kevin Miller**

Good morning, Bill.

**William Sutherland**

I wonder if I could just get a couple of numbers. One is if you could give the split in specialty healthcare between education clients and healthcare?

**Kevin Miller**

Sure. Let me just get that for you. Hold on.

**William Sutherland**

While you're searching for that, Kevin, I'm wondering about—there's a lot going on in the healthcare world, certainly apart from education, and I know education is your biggest piece. What are some of the tailwinds and headwinds that you guys are seeing as you map out ’23 in healthcare?

**Bradley Vizi**

Yes, Bill, I'll take that one. I'd say most of the discussion has been around effectively increasing bandwidth. As we discussed in prior calls, recruiter productivity has been a major initiative for us. We should see the benefits of that start to come online this month and as we move through Q2. So, we have pretty good data points 90 days out on that side.

In addition, we are also looking at and making significant investments ramping up our foreign program. Most of the discussion has been the last couple of years, frankly, but I would describe the cadence of the activity has not changed a bit around basically meeting supply in the market. I wouldn't describe demand waning whatsoever.

**William Sutherland**

Okay. Then on the MSP front, Brad, is that a new solution for you? Or, are you just focusing more on it now?

**Bradley Vizi**

We have a major MSP client, and we're looking to ultimately leverage that relationship and evolve it into a more robust offering and build out the portfolio. So, it's been a very successful endeavor for us and certainly an opportunity to expand the division further.

**William Sutherland**

Okay.

**Kevin Miller**

Yes. Bill, in the fourth quarter, our school revenue was about $23.8 million and our non-school revenue was $12 million.

**William Sutherland**

Okay. Thank you. The only thing I noticed in the 4Q print that kind of stood out in the segments was the gross margins for engineering. I'm assuming that it moves around depending on where you are with the project, but it was down a couple of points versus the first three quarters. Then just a huge gross margin for IT in the fourth quarter. Any color there? Thanks.

**Kevin Miller**

Sure. As you pointed out, engineering can jump around quite a bit. We have a lot of fixed price contracts. We have large EPC contracts. The margin can be pretty haphazard, as you know, so there's nothing really in particular to discuss there, other than you should expect to see margins jump around a little bit. That's just historically what we've seen and frankly (multiple speakers) in the future.

**William Sutherland**

Kev, remind me when you guys divested Canadian Power.

**Kevin Miller**

That was in July of ’21.

**William Sutherland**

Okay, so that's out of the numbers last year. Okay.

**Kevin Miller**

Okay. Yes, that's out of the quarterly numbers in both periods.

Then as far as IT is concerned, we're just continuing to push to get higher margins. Obviously, our RPO business impacted the overall margins because the margins are quite high on that business, as you know, the gross margins. We're probably a little bit high in Q4 in terms of where I expect to see it on a go-forward basis, but certainly we'll be above what you're used to seeing for the first three quarters.

**William Sutherland**

Okay.

**Kevin Miller**

Q4 was a bit of a spike, but we'll be consistently beating what we've done in the past in terms of the gross margin of IT.

**William Sutherland**

Great. Last one, impressive of share repurchase going on here, is this probably the major focus of capital allocation for the time being?

**Bradley Vizi**

Yes. I think that's a fair assessment, Bill. Look, I think these things tend to follow kind of economic trends with respect to sentiments around just the economy in general or nerves, and those don't always match up with reality. I think we potentially can stand to benefit substantially from that, and share repurchases is one way to go about it. When you look at the map of these levels, it becomes quite compelling and, frankly, makes the capital allocation decisions pretty easy, at least over the near term here.

**William Sutherland**

Okay. Thank, guys.

**Operator**

All right. Next up, we have Alex Rygiel. Alex, your line is now open.

**Alex Rygiel**

Thank you. Good morning, gentlemen, and thank you for the directional guidance for 2023. Very helpful. But Brad, maybe you could talk a little bit about maybe at the macro high-end level, long-term growth expectations as it relates to revenue growth? And, maybe just talk a little bit about margins long term and directionally how they can go higher?

**Bradley Vizi**

Yes. No, that's a fair and comprehensive question. As we may have spoke before, Alex, on the revenue front, you could really book a lot of revenue in the services business. We are very focused on booking quality, productive revenue at adequate margins that ultimately translate into free cash flow. So, very much returns focused in that regard.

But, I'll also add that there's been a major move over the last several years to make sure underwriting is really paramount in what we do as we continue to move up the value chain and feel more differentiated, high value-add solutions to our client portfolio. We always need to be cognizant of our underwriting and our selection of business.

From a margin perspective, generally speaking, when you balance growth and where we're at in the right cycle of the Company and where we hope to get the Company long term, we shoot for a double-digit operating margin. So, there's certainly upside to where we've been in the past.

But again, there's a bit of a toggle between maximizing that part of the P&L and high-return investments. I would look to something similar to what we've had this last year with some band around that. But long term, we certainly think that we can enhance the margin profile of the Company, and I think you're already starting to see that throughout the divisions for the most part.

**Alex Rygiel**

As it relates to the school healthcare business, can you help us to understand what the intermediate term outlook is for—or, how you're driving growth as it relates to new schools or new school systems versus greater depth inside existing systems versus pricing?

**Kevin Miller**

Well, I can talk a little bit about the school contracts, and Brad can probably talk a little bit about the pricing. But at the end of—I was looking at this yesterday, at the end of 2019 we had less than 30 school customers and only 3 were over $300,000 a year. Today, we have well over 60 school customers, and we have well over 15 that are over $300,000 a year. So, when you look at the growth curve of total clients and what we call the larger clients, ones that are over $300,000 a year or more, that's where we're focused.

We can absolutely see that kind of growth curve continue in terms of the number of schools and the number of schools that we have over $300,000 and over $1 million. There aren't that many $5 million-plus schools out there, but there are hundreds more schools that are $300,000 or more and quite a few that are potentially over $1 million.

So, when you look at the school market, we believe we're the largest healthcare provider to the school market in the country, but we're still just capturing a pretty small percentage of the overall market, and the growth is clearly there. We're just scratching the surface, frankly, on the behavioral health side, which we think is just an explosive market. It's big today, and three or four years from now, it's going to be 10-times that it is today, in our opinion.

**Bradley Vizi**

Yes. I think that's a key point and a good way to kind of articulate it and be scratching the surface of the opportunity. I think you're going to have another meaningful leg of growth to that end market in general from behavioral health. But with respect to driving margins and pricing and so on, pricing isn't really a primary variable that we focus on. We'll see a mix shift depending on the types of professionals we staff and so on. But it really is less a matter of maximizing rate.

We think the education end market has significant legs for a long time. This is an area that's been underinvested in for a long time, and people are just starting to wake up to it, as a result of COVID. Even just coming out of COVID, to be honest with you, it even ramped up a little bit slower than we would have anticipated, but you're really starting to see it full throttle in many ways now, and we anticipate that being reflected in our results as we move forward and get into the back half of this year.

**Alex Rygiel**

One last question as it relates to the energy services business. Obviously, (audio interference) in Puerto Rico and Florida is pretty strategic, given the amount of hurricane or repair activity and infrastructure upgrade that has been needed and is going to be needed in the aerial (phon) to underground activities that are forever ongoing in Florida and other markets. Can you talk about sort of those new geographies and sort of your thoughts and growth expectations, and maybe some of the customs (phon) or services you're providing in them?

**Bradley Vizi**

Yes. This is a great question. We're actually very excited about these initiatives. We've been doing business in Puerto Rico for a very long time, but primarily in the life sciences front. Now, we are increasing significantly in Energy Services there, and in many ways that's a function of the technological capability and really the goodwill with major utility clients in the United States that we've been able to leverage into increase market share in Puerto Rico.

I actually look for that to be, certainly, a bright spot in the portfolio going forward. We had significant success over the last, call it, 90 to 120 days or so, and we actually think that that's very much the beginning. It's exciting as you see the portfolio start to grow because historically, if you look at the geographic concentration of the business, we certainly had a strong hold in the Northeast and throughout the East Coast. Now, we are starting to migrate and follow demographics in a much more meaningful way down in the southeast, south, and out west. So, it's exciting and strategic for a number of reasons.

**Alex Rygiel**

Thank you very much.

**Operator**

All right. At this time, there are no further questions in queue.

**Bradley Vizi**

We'll go ahead and kind of close it out here. Thank you, everyone, for attending the fourth quarter call, and we look forward to our next update in May.

**Operator**

All right. Ladies and gentlemen, that does conclude your call. You may now disconnect your lines and thank you again for joining us today.