

**RCM Technologies, Inc.**  
**Third Quarter 2024 Earnings Call**  
**November 8, 2024**

## 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*

**Frank Kelly**

## PRESENTATION

**Kevin Miller**

Good morning, and thank you for joining us.

This is Kevin Miller, Chief Financial Officer of RCM Technologies. I'm 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, 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 the call over to Brad Vizi, Executive Chairman, to provide an overview of RCM's operating performance during the second quarter.

**Bradley Vizi**

Thanks, Kevin. Good morning, everyone.

Third quarter growth was led by Healthcare and Engineering, as both businesses continued to ramp in their respective end markets. Though Q3 should always be considered the lens of seasonality, the breadth of progress in each of our businesses is inspiring as we continue to land new clients while maintaining and expanding existing ones. Sustainable progress never comes in a straight line. However, the resilience of our platform and commitment of our people across several continents has allowed for consistent progress throughout the cycle and in the ever evolving world.

Our strategic construct allows us to not just deliver over the short term, but to provide a sustainable long-term path for the Company. It is our philosophy throughout the organization to aim to evaluate the impact of today's decisions many years into the future. As we head into the final quarter of 2024, RCM Healthcare is positioned to close the year on a high note with all operating units demonstrating momentum.

Our K-12 client roster continues to grow with new partnerships already yielding strong results. The K-12 staffing marketplace presents an evolving landscape with heightened demand for behavioral health support and specialized services that meet the diverse needs of today's students. This growth is a testament to our team's commitment to delivering high quality providers and addressing children's unique requirements across our partner districts. Additionally, our OPWDD division has demonstrated extraordinary potential providing a long runway for expansion in the years ahead.

Looking forward, we are excited by the robust pipeline of international nurses waiting on priority dates. Once cleared, present a strategic pillar to accelerate growth as we meet increasing demands across our healthcare and education clients. With these developments and the continued success of our recruitment team within the correction space, we are confident in our trajectory toward a record 2025, reinforcing our standing as a leader in healthcare and education staffing solutions.

In Q3, our Life Sciences, Data & Solutions division demonstrated strong performance characterized by robust client engagement, successful project completions and a strategic focus on expanding our service offerings. Performance in the quarter was supported by effective cost management and increased operational efficiencies. Continued investment in technology and process improvement has allowed us to optimize resource allocation as we continue to build the business.

During the quarter, we welcomed several new clients across the pharmaceutical and biotech sectors and in our RPC Group, underscoring our reputation as a trusted advisor in navigating complex market dynamics. Our focus on delivering high-quality tailored solutions resulted in a 99% retention rate among existing clients. Feedback indicates strong satisfaction with our strategic insights and execution. We continue to deliver successfully on our managed solution initiatives and have started two new projects.

Our HCM team successfully implemented and went live with the most modules since its inception. The demand for our consulting services in Life Sciences, specifically in the area of data integrity, has accelerated as clients increasingly seek data-driven insights to inform decision making. We are proactively expanding our capabilities in these areas to align with market needs. As we approach Q4, we remain committed to our strategic goals. We plan to invest further in our sales team and training to enhance our capabilities and support our growth trajectory. Additionally, we will continue to monitor industry trends closely to anticipate client needs and maintain our competitive edge.

Overall, our Q3 performance reflects a solid foundation and a positive outlook for the remainder of the year. By leveraging our strengths and addressing emerging challenges, we are well positioned to continue delivering exceptional value to our clients and stakeholders in the life sciences sector.

Transitioning to engineering, starting with energy services, after a strong Q3, energy services is on pace to exceed 2024 budgeted revenue and EBITDA numbers. In the U.S., we have been awarded another major substation project on the East Coast that will contribute to New York's grid modernization as part of the renewable energy build out. In Europe, we were awarded an additional project contributing to the energy transition in Germany. Finally, in Puerto Rico, we have a robust pipeline of significant projects in 2025.

As a result of our strong performance executing turnkey projects among the largest utilities in the world, the EPC Group developed strong relations with some of the largest construction companies, affording us the opportunity to further build the business through a new channel. In addition, the evaluation of possible partners in Europe and LATAM is in progress to fuel growth in energy services for many years to come.

Also of note, at this year's CIGRE Paris session, energy services presented together with a large U.S. utility an innovative technical paper of a future-oriented microgrid substation and demonstrated the latest technologies for digital project management to improve client cost position to increase project execution quality.

In process & industrial, the RCM Thermokinetics office has delivered the first of two modular evaporation systems for a zero carbon chemical manufacturing customer. The engineering team is completing two ethanol plant optimization and expansion studies that integrate the RCM TK patented energy integration design enabling clients to lower their carbon intensity score. The need for ethanol plants to expand has evolved into a marketing campaign that employs engineering and equipment designs not typically used in the ethanol space. TK Engineers bring a wealth of petroleum engineering knowledge, which has become the basis for the launch of the TK Next Campaign, new ethanol expansion technology.

The office expects its first equipment order from the campaign in November expanding a plant from 85 million gallons per year to 105 million gallons per year. The project will have a 12 to 18 month ROI providing a compelling value proposition to the client. The team has completed a detailed process design and firm proposal for a planned SAF facility for a U.S. based customer. This project has a tentative Q1 equipment order schedule. A large engineering order is utilizing engineering and lab resources to develop novel solution chemistry for a customer planned lithium facility in the U.S. Equipment for this facility is scheduled for purchase in late Q1.

This project is a good example of the strength of the TK team and the supporting test center. Two major customers are in the final stages of either exclusivity or partnership agreements with TK. One client has used TK exclusively to support the proprietary CO<sub>2</sub> capture conversion plans for seven years. The test center continues to exhibit strong utilization through the end of 2024 and into 2025. The team remains focused on continuation of their emergence as a market leader in responsible and sustainable chemical process design.

Within aerospace and defense, the engineering business is thriving as we continue to build our infrastructure within the three new clients we secured in Q2 2024. Headcount has more than doubled in two of these new clients in Q3. Our estimate of realizing a significant increase in gross profit for 2024 compared to 2023 still holds true and the revenue run rate has now increased by well over \$100,000 per week. The RFIs, RFQs and MSA expected were finalized, and therefore, we have experienced an aggressive increase in headcount, revenue and profit which we expect to continue to grow through Q4 2024.

We have realized much anticipated increases in customer requirements in Q3. Our world-class trusted recruitment team continues to successfully execute, which has allowed us to experience twice the amount of new hires in Q3 compared to Q2. As anticipated, we have been awarded a new multiyear contract in Q3 with one of the largest aerospace and defense OEMs. This award will allow us to drive and expand our model-based expertise, software systems, logistics, mechanical and avionic expertise throughout 2024, 2025 and 2026.

We have also been awarded a large contract with another eVTOL manufacturer in our aftermarket arena, which is expected to help the Group recover and deliver a strong 2025. We also continue to build within our current client base due to challenges they are facing with expansion in their direct workforce caused by smaller and shorter time frame contracts. The first three quarters of 2024 set us up for a much improved Q4 and beyond.

Now I will return the call to Kevin to discuss the Q3 2024 financial results in more detail.

**Kevin Miller**

Thank you, Brad.

Regarding our consolidated results, consolidated gross profit for the third quarter of 2024 grew by 3.2% as compared to 2023 from \$17.3 million to \$17.8 million. Consolidated gross profit for the third quarter year-to-date grew by 5.7% as compared to 2023 from \$55.1 million to \$58.2 million. Adjusted EBITDA for the third quarter grew by 9.5% from \$5.1 million to \$5.6 million. Adjusted EBITDA for the third quarter year-to-date grew by 10.5% from \$17.7 million to \$19.6 million. As for our segment performance in the third quarter of 2024, healthcare gross profit grew by 11.1%, engineering gross profit increased by 5.1%, life sciences data & solutions gross profit decreased by 13.1%.

As for healthcare, our healthcare third quarter revenue, school revenue grew by 16.3% from \$17.3 million to \$20.2 million. On our last call, we talked about a record number of new school contracts heading into 2024, 2025. While we're pleased with 16.3% growth, several new contracts started slow and have demonstrated a steepening ramp as the year progresses. We remain optimistic that school revenue for the 2024 and 2025 school year ending in June 2025 will yield growth in the neighborhood of 20%.

Non-school revenue was \$6.4 million as compared to \$7.6 million. However, if we remove a large long-term care group where we deliberately reduced services, revenue was flat at \$5.6 million in both periods. We do expect a healthy sequential growth to non-school revenue in the fourth quarter of 2024. As for the fourth quarter of fiscal 2024, consolidated results, we remain optimistic that we will see attractive consolidated Adjusted EBITDA growth as compared to fiscal 2023.

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

**Operator**

With that ladies and gentlemen, if you would like to ask a question, you may press star, one on your telephone keypad. Once again that's star, one on your telephone keypad to ask a question.

First up Bill Sutherland. Your line is now open.

**William Sutherland**

Thank you. Hey, guys. I wanted to, Kevin, just stay on healthcare for a second.

**Kevin Miller**

Sure.

**William Sutherland**

You're saying that for the quarters corresponding with this current school year, you are looking for the school revenue to grow 20%. Let's say in the second quarter next year.

**Kevin Miller**

Yes, in the neighborhood of 20%, I think, is what I said. But yes, now just to be clear, the current school year that we're in now is the third quarter of this year, the third and fourth quarters of 2024 and the first quarters of—first two quarters of 2025. School years generally run from July through June. When we get to the end of the 2024, 2025 school year, we're optimistic that the revenue growth school year to school year will be in the neighborhood of 20%, yes.

**William Sutherland**

You had said that on the last call that this is due to having 20—an additional, more than 20 school districts averaging \$0.5 million each, and additional school districts for (inaudible).

**Kevin Miller**

Yes. No, we've added much more than—we've added more than 20 new contracts, considerably more than 20. Now some of those will turn out to be small and some of those will hopefully start strong. We signed a lot of new—not as many new school contracts prior to the last school year, but some of those that started off small, last school year are now we're seeing some nice traction this year. I don't know that we're going to see 20 new schools become \$500,000 a year client. I don't think that's exactly what I said. I think we talked about getting to over 20 schools being above \$500,000.

But at any rate, we expect some of these new school contracts to be significant for this school year. We expect some of them will be small and some of them will grow even more in '25, '26, but I think the most important takeaway is that our school revenue, both with new contracts and existing contracts, is growing very nicely and we don't see any reason why that won't continue this year and for the subsequent school years to come. We just think it's a really good market. We think we're really good at executing with schools.

**William Sutherland**

Right. I had that. I'm glad you clarified that about the—you said that it was 20 school districts at least versus 15 last year that would have \$0.5 million. I didn't mean to make it sound like you won that many. That's great. What did you say finally, I didn't quite hear the comment about non-school? Did you say something about the fourth quarter for non-school?

**Kevin Miller**

Yes. We think when we compare our non-school revenue in Q4 2024 to Q3 2024, we're going to see a nice pickup. That's in spite of the fact that we're deliberately winding down our services with one of our largest - one of our formerly largest clients in the non-school business and we significantly curtailed that business. But we have several new clients in the non-school arena. If at some point, we can start getting more of our foreign nurses in, well, look out, we're going to really turbocharge that.

**William Sutherland**

Right. I was just impressed because it's not the narrative I'm hearing from a couple of the players in just the pure healthcare nurse business. Last one for me is just any commentary around the cash picture as we head into this quarter and maybe into the first part of next year?

**Kevin Miller**

Sure. We expect good cash flow in Q4. We've got a few things that sort of hurt the third quarter, but there are several of which I believe will turn around in the fourth quarter. When you look at Q4 and Q1 of next year on a combined basis, we should see cash flow that you typically see from us. We've got a nice start to Q4, but we'll see how the next seven weeks goes.

**William Sutherland**

It's mostly just focusing on the DSO picture?

**Kevin Miller**

Yes, look, when you see our DSOs spike, it's not necessarily the day-to-day clients. Most of our clients pay quite well. But from time to time, we're going to see little spikes. I don't know if you had a chance to read the K, but I put a little bit of color around where the receivables were at 9/28 to sort of explain why they're probably at least \$10 million higher than I think that they would otherwise be. But we're excited about the cash flow, and we think we'll see good cash flow in Q4 and good cash flow in Q1.

When you look at this Company, over a long period of time, the cash flow is excellent, right? If you look at the last 17 quarters, we averaged about \$5 million cash flow per quarter. But when you look at one quarter or two quarters, sometimes you see cash flow that's not great. But when you look at it over a period of time, you'll see really strong cash flow and we expect that to continue.

**William Sutherland**

Okay. Great.

**Kevin Miller**

I'm talking about cash flow from operations obviously.

**William Sutherland**

Yes, okay. Thanks again.

**Operator**

All right. Next up, we have Alex Rygiel of B. Riley Securities.

**Alex Rygiel**

Thank you and good morning, gentlemen. Nice quarter.

**Kevin Miller**

Thank you. Thank you, Alex.

**Bradley Vizi**

Thanks, Alex.

**Alex Rygiel**

A couple of quick questions here. Brad, from a bigger picture standpoint, as we think about 2025, it definitely sounds like the organic growth rate in EBITDA is going to be accelerating. Any macro thoughts on at what rate we can think about EBITDA growth in 2025?

**Bradley Vizi**

Yes. Look, we try to construct and think about the business as we're not overly relying on the macroeconomic backdrop, right? We have multiple drivers in place to propel earnings each subsequent year. What I'll say with respect to potentially guidance, I'll stick the script a little bit and harken back to the statement I gave you five years ago and kind of stuck with. We fully anticipate at least low double-digit

earnings growth from our collection of businesses over the long term. That's what we've delivered, and I think that's what we're going to continue to deliver. But as we close out this year and move into next year, we're feeling pretty good about all three of our businesses.

Frankly, I hate to use the R word, but I think we could see a record year or two amongst them because the reality is, especially from our vantage point, we strive every single year to be a record. Because we're in really big markets. They're growing, right? We've got some talented folks. I hope that answers your question as directly as it satisfies your question in a way that's consistent with what we've said in the past.

**Alex Rygiel**

Definitely does. Looking at your practices in the past, you've gotten aggressive at certain times in buying back stock. You started to buy back some stock in the last few quarters. But maybe talk about your interest level here in using a lot of this free cash flow here to more aggressively buy back shares.

**Bradley Vizi**

We bought back a lot of stock. As you know, I think we're pushing probably about half the outstanding at this point. From time to time, I ask myself, how much more is out there realistically. I think we're in a good spot where it comes to, yes, sure, buybacks are always on the table. But at the same time, we're very happy to delever, have no debt on the balance sheet, be opportunistic and be smart with capital. At the end of the day, that's how you create value. You definitely don't want to go at it with a mindset that money is burning a hole in your pocket or certainly capacity to draw money is. You want to have a very disciplined framework for what you deploy capital when the opportunity presents itself, you move on it. That's the philosophy we've operated with and that's the one we're going to stick with.

**Alex Rygiel**

With the recent election this week, any unique outcomes that you think could develop that bode well for the Company?

**Bradley Vizi**

Yes. When you just look at the whole hard and social infrastructure backdrop, it's really hard—and the size of our Company, it's really hard to believe that this isn't a positive development. Even at a bare minimum, you just simply look at clarity around corporate taxes, potential for them to even decline further, depleted stocks with respect to defense and continued investment in aerospace.

Again, literally trillions of dollars that need to be spent hardening great infrastructure and our social structure and I think probably one of the greatest or really crisis of our career, my career, certainly, that I've observed is frankly, just the disregard of our social infrastructure has fallen into. It's hard to see material funds diverted from any of those areas. I'm quite optimistic with respect to recent developments.

**Alex Rygiel**

That's great. Nice quarter. Thank you.

**Operator**

All right. As a reminder ladies and gentlemen, you can press star, one on your telephone keypad if you have a question, press star, one on your telephone keypad if you have a question.

All right. Next up we have Frank Kelly.



**Frank Kelly**

Good afternoon, gentlemen. Good quarter. I have just one item that popped up that jumps out. We've covered the DSO and that runway. But on the P&L, other expense net for the quarter was \$620,000. Could you shed some light on what exactly that is?

**Kevin Miller**

It's mostly interest expense, Frank. The Q is out, so you can certainly see the details in the Q, but I can just tell you that \$490,000 is interest expense and \$127,000 is loss on foreign currency transactions, which tends to be pretty haphazard in terms of one quarter it's a gain, one quarter, it's a loss. Some quarters, it's small, some quarters, it's big. But the \$619,000, breaks out to \$127,000 is a loss on foreign currency and \$492,000 in interest.

**Frank Kelly**

Right. Is the assumption we can make that once we have this turnaround in cash flow that's either a, happening or will happen in the balance of this Q that we'll chase down that \$30 million to kind of—

**Kevin Miller**

Frank, obviously, there are other capital decisions that will influence our debt. But if you want to just take in isolation, our goal and belief that we can bring our receivables down and bring our debt down then, yes, the interest expense would come down and hopefully, interest rates will come down as well. That will help if interest rates come down as well in a meaningful way. They've come down a little bit lately, but not in a meaningful way.

**Frank Kelly**

All right. That's it. Thanks. Keep up the good work.

**Kevin Miller**

Thanks, Frank.

**Operator**

All right. At this time, I'm seeing no further questions in queue. As a final reminder everyone, you can press star, one on your telephone keypad if you would like to get a question in. That is star, one on your telephone keypad.

All right, gentlemen, I'm still not seeing any questions in queue.

**Kevin Miller**

Thank you for attending RCM's third quarter conference call. We look forward to our next update in early March.

**Operator**

With that, ladies and gentlemen, this does conclude your call. You may now disconnect your line. Thank you again for joining us today.