RCM Technologies, Inc.

First Quarter Earnings Conference Call

May 8, 2025

CORPORATE PARTICIPANTS

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

Brad Vizi, *Executive Chairman and President*

CONFERENCE CALL PARTICIPANTS

Liam Burke, *B. Riley Securities*

PRESENTATION

Kevin Miller

Good morning and thank you for joining us. This is Kevin Miller, Chief Financial Officer of RCM Technologies, and 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, 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 quarter.

Brad Vizi

Thanks, Kevin. Good morning, everyone.

Consistent with prior remarks, the internals of our business continue to strengthen at an increasing rate. We believe the Company is well positioned based on the thoughtful investment strategy we have deployed and significant reductions in our share count should enhance the compounding of returns to benefit the shareholders. With stewardship as a foundational pillar to our zeitgeist, we believe we are positioned for continued outperformance.

In fact, we have sharpened our focus in cultivating the next generation of leadership as we look through the end of the decade. Not only do we aim to maintain continuity when passing the baton, but assurance that the next generation is simply better than the one before it. I strongly believe this is not only the capstone of one's career and a defining component of their legacy, but fundamental to the longevity and continued success of every organization. I am keenly focused on this being one of our hallmarks as a Company and a strategic advantage when we look back years from now. With great enthusiasm about the present and well into the future, I will now provide an update on the progress of each of our business units.

RCM Health Care is off to a strong start in 2025. More importantly, as we look forward to next school year, the stage is set for continued momentum. Many of our largest school districts are on a robust growth trajectory. Our presence in K through 12, particularly in behavioral health, is stronger than ever as we expand in many existing schools and sign new school contracts for next school year. Also of note, our HIM division is starting to blossom, having cultivated a robust pipeline filled with high potential projects.

With many prospective clients across all our groups and plans to expand our direct sales team, we are poised to seize these opportunities and drive significant growth. As we work towards a strong close of the 2024/2025 school year, planning is well underway for a strong start to the fall. Looking forward, the future of our health care segment is bright. In addition to onboarding new school districts, the hand-and-glove execution of our offshore team has been critical to extending our advantage, allowing us to ensure that children and schools receive the essential care they need. Unlocking efficiencies in our organization has allowed us to double down on our investment in best practices and quality of care, further cementing our position as the go-to provider in K through 12 nationwide. Success in our K through 12 market has opened other direct adjacencies, fueling investment in our sales team to galvanize growth for years to come.

Transitioning to life sciences, data, and solutions. Twenty twenty five has brought significant opportunities for the IT industry in the form of accelerated technological advancements in the areas of artificial intelligence and machine learning. One year ago, only a few clients had an AI-ML strategy. Today, we are seeing system deployments.

We also see a significant expansion of manufacturing across our life sciences client base. Financial highlights in the quarter include the division posting a 40% gross profit while maintaining a solid 23% NOI contribution. This is attributed to strong (inaudible) service contracts, overselling SG&A costs, and consistent delivery management of our projects. Respectively, we are in the early stages of building out our offshore resources based in this division. Continuing momentum with this initiative will be key to helping us maintain and improve our market position for our key practices while being highly competitive in our new BPO payroll offering.

Our focus is revenue expansion and new client attainment. So far, in 2025, the division has opened six new clients, leveraging new service offerings ranging from asset management to design engineering. At the industry level, we are expecting to see shifts in services demand in the life sciences sector over the coming months. Based on increased lead times, organizations are seeking alternative sources of materials and talent, using technology for quality improvement, direct cost reduction, and headcount, automated, manual or repetitive tasks is key for the remainder of 2025. In conclusion, our Q1 results demonstrate the strength of our core services. We have maintained a 90% plus renewal rate while not losing strength in our margins or bottom line.

Turning to engineering. Starting with energy services. Since Q4, we have made significant strides with a strong focus on market opportunities and partnerships. Several substantive multi-year-preferred partner agreements for comprehensive engineering services with increased scope are now in various stages of execution, progressing at an accelerating pace.

We are capitalizing on the momentum we have built over the last several years as RCM quickly becomes a go-to partner in the industry. Opportunities for growth are abundant, driven by multi-decade themes, including grid modernization, grid interconnect, and the proliferation of data centers. Any one of these variables represents strong secular demands. However, I believe that the confluence of all of them is propelling unprecedented exponential growth and the need for innovative turnkey engineering APC (phon) solutions.

Operationally, we continue to mature as an organization. We are quickly graduating from a hard charging entrepreneurial organization with a drive to innovate to one that can effectively channel that innovative spirit to deliver the same distinguished outcomes at scale. Our shared services functions not only facilitate knowledge transfer and best practices across business units but further enhance operational efficiency and capacity to expand. We are seeing synergies across our core recruitment businesses where we have demonstrated a clear competency to satisfy hard-to-sell requirements, then rapidly assimilating our new teammates into our can-do culture. Furthermore, we are in the early stages of scaling up our nearshore and offshore capabilities, piggybacking on decades of goodwill built in these geographies, affording us access to high quality candidate pools.

In summary, our outlook for the business has never been stronger as we believe we are in the early stages of capitalizing on a foundation that was methodically laid over the last five years.

In process and industrial, last quarter, we announced the launch of the RCM Thermal Kinetics office plant expansion program primarily focused on the ethanol industry. The Teekay office is completing the first next project in early May. The project is an intensive process and equipment engineering effort followed by a six-week field coordination and management of installation crews, pipe fitters, and related sub suppliers that will result in a 20% ethanol plant capacity increase. There has been much interest from other ethanol plants in the project. We anticipate our next pipeline to increase significantly once this first project completes.

The plant restarts in early May. Other project activity includes the initiation of a pilot campaign at the Teekay Test Center as a follow-up to an engineering design purchase order related to lithium extraction and recovery from brine extracted from a U.S.-based project. Equipment for this facility is scheduled for purchase in late 2025. As anticipated, the pilot test has yielded data valuable to scale up on the project. An engineering order for a distillation solvent recovery has been received this week.

This order was also a result of six weeks of lab testing to derisk the project. The equipment order is scheduled to immediately follow the eight-week engineering order. There has been a significant uptick in RFQ activity at the Teekay office. Improvements made to the digital presence of the organization is a strong contributing factor to the uptick. The team remains focused on the continuation of their emergence as a market leader in responsible and sustainable chemical process design.

Activity in our aerospace group has increased materially due to the awards on new and existing programs with historical and new clients in Q3 and Q4 2024. The Aerospace and Defense Group has exceeded our business plan objectives for Q1 2025 by over 20% on revenue and almost 19% on EBITDA contribution. Headcount continued to increase through Q1 2025 by an additional 20% with 50 new hires compared to Q4 2024.

As projected, we have realized a significant increase in revenue, gross profit and EBITDA in Q1 2025 with a weekly revenue run rate of about $1 million, a 47% increase in revenue compared to Q1 2024, a 45% increase in gross profit compared to Q1 2024, and an increase of 247% in EBITDA contribution compared to 2024, primarily due to the overall increase in new business and ramp up in our historical client base, and aftermarket recovery contributing to the success. Our vertical lift and technology innovator clients doing business with the U.S. government have led our growth thus far in 2025.

However, we anticipate our continued success in our new service and expertise in supply chain manufacturing and quality engineering with new clients will impact 2025 and beyond. We also continue to experience growth throughout new design programs and engineering with significant growth in the manufacturing environment on long term supportive products throughout the enterprise.

Our recent wins with two existing customers on two large multi-year projects for S1000D conversion have solidified workloads for a large portion of our aftermarket team for years to come. The recruitment team continues to build trusted relationships throughout the client and candidate base, which has allowed this team to continue to exceed all hiring expectations throughout the quarter. In Q1 2025, we began integrating new tools and technologies to enhance our differentiating factor of intellect and speed to market amongst our competitors.

We expect the new multiyear contracts executed in 2024 to help drive and expand our model-based expertise, software, systems, logistics, avionics, and aftermarket expertise throughout 2025 and 2026. We have also added three new clients in Q1 2025 with customers requiring our expertise in the supply chain manufacturing and quality engineering realm and with manufacturing engineering support.

In summary, we anticipate the anticipated growth with our existing and new aerospace and defense clients in 2025 has begun to be realized. Most of our clients continue to need the support of a cost effective, high quality, flexible workforce in this current environment because of shorter term contracts with budgetary constraints. We look forward to continuing to build on our momentum throughout 2025.

Before turning the call over to Kevin, it is worth noting that we have retired a little over 300,000 shares year to date, bringing combined repurchase over the last five years to just under half (phon) shares outstanding while maintaining a clean balance sheet with significant financial flexibility and resilient organic growth. Though the disconnect in our share price remains a head scratcher, we will continue to act with alacrity when Mister Market offers to swap his dollar bills for our quarters.

With an abundance of ambivalence and increasing enthusiasm about the future, I will return the call to Kevin to discuss the Q1 2025 financial results in more detail.

Kevin Miller

Thank you, Brad.

Regarding our consolidated results, consolidated gross profit for the first quarter of 2025 was $22 million, which grew 7.9% over Q1 2024 and yielded our highest gross profit over the past 12 quarters. Adjusted EBITDA for Q1 2025 was $7.8 million as compared to $6.2 million for Q1 2024, growth of 14.4%. Adjusted EPS for Q1 2025 was $0.63 as compared to $0.53 for Q1 2024, growth of 18.9%. As for our segment performance, the first quarter of 2025, in health care, gross profit for Q1 2025 was $12.2 million compared to $11.1 million for Q1 2024, growing 10.2%.

Gross margin for Q1 2025 was 28.2% as compared to 29.0% for Q1 2024. School revenue for Q1 2025 was $37.3 million compared to $31.9 million for Q1 2024, growth of 16.7%. Nonschool revenue for Q1 2025 was $6.0 million compared to $6.3 million for Q1 2024. However, if we remove a large long term care group where we deliberately reduced services, revenue would be $5.5 million versus $5.1 million. In engineering, gross profit for Q1 2025 was $6.2 million compared to $5.5 million for Q1 2024, growing 12.4%. and our best engineering gross profit quarter in our history.

Gross margin for Q1 2025 was 19.2% compared to 23.4% for Q1 2024. Gross margin in the first quarter of 2025 was lower than normal, primarily for two reasons. We had significant past due construction revenue from our EPC contracts and our energy services group. If we normalize gross margin for construction labor past due revenue only, gross margin was approximately 22.7% versus 25.8%. We also experienced significant growth from our aerospace groups, which has lower gross margin, but a very reasonable operating margin.

As a reminder, our engineering gross margin can be volatile, but we generally expect normalized gross margins between 22% and 26%.

In IT, life sciences and data solutions, gross profit for Q1 2025 was $3.6 million compared to $3.8 million for Q1 2024, declining by 5.3. Gross margin for Q1 '25 was 39.7% compared to 37.0% for Q1 2024.

Regarding our balance sheet, we made good progress on our accounts receivable DSOs in Q1 2025 with about 74 days compared to about 92 days for Q4 2024. Our accounts receivable reduction helped us generate $16.7 million in cash flow from operations.

We also reduced our net debt by $12.0 million to $18.2 million for Q1 2025 as compared to $30.2 million for Q4 2024. We are optimistic we can keep our DSOs under 80 days going forward. We expect to continue to deliver at least low double-digit growth in Adjusted EBITDA throughout fiscal 2025. Also, while we don't necessarily expect the fourth quarter jump in Adjusted EBITDA that we saw in fiscal 2023, we believe Q4 2025 will produce our highest Adjusted EBITDA quarter for the year.

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

Operator

And with that, ladies and gentlemen, you may press star, one on your telephone keypad for questions. That is star, one on your telephone keypad to join the question queue.

First up, we have Liam Burke. Liam, your line is now open.

Liam Burke

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

Kevin Miller

Good morning.

Liam Burke

Brad, I know you're primarily services, but there's a lot of political policy uncertainty out there. Is any of that moving into your business or any of that a concern for you in any of your business lines?

Brad Vizi

No, Liam. Thanks for the question. Unfortunately, Kevin or I have yet to come across Smooth or Holly. Generally speaking, you know, macroeconomic environment, we try and think about setting the business up as—to the extent that it does impact us. We can navigate around it, but generally, you know, lever ourselves to secular themes for which we can take advantage of.

So, I'll tell you, you know, it's my job—every night before I go to bed, I have five things on my mind. The macroeconomic environment has never been one of them. So haven't seen any issues so far.

Liam Burke

Great. That's great to hear. And Kevin, you talked about gross margins on engineering and walked through the delta. Looking at Healthcare, it looks like you're growing your more profitable business and the legacy business as being a one-off. You had a slightly lower year over year gross margin. Is that just working through the old legacy business?

Kevin Miller

No. It's more of a just sort of quarterly noise that you're going to see. There is a little bit of a mix shift there in terms of, you know, some of our nursing contracts that are maybe a little bit lower gross margin than some other contracts, behavioral health, for instance. But, you know, it's kind of the normal noise that you would expect to see from quarter to quarter. Nothing really specific other than maybe a little bit of a bump in some new nursing contracts or existing nursing contracts even that have a little bit lower gross margin than the behavioral health.

But, there's no, like, trend there where we expect any significant erosion in margin as we're sitting here today. And I would expect that Q2 will be a little bit better than Q1.

Liam Burke

Okay. So we'll think of it more as operating in a range similar to your other businesses?

Kevin Miller

Exactly. Exactly. And we usually—and we gave some guidance on general ranges on our last call, and health care certainly fell within that range.

Liam Burke

Super. Thank you, Brad. Thank you, Kevin.

Operator

All right. Once again, ladies and gentlemen, that is star, one to join the question queue. Star, one to join the question queue. And at this time, I'm not seeing any further questions in queue. So just as a reminder, that's star, one on your telephone keypad.

All right, gentlemen. I'm still seeing no questions in queue.

Brad Vizi

All right. All right. Thank you everyone for attending RSIM's First Quarter conference call. We look forward to our next update in August.

Operator

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