October 19, 2021 | Company Sponsored Research Report
Initiation of Coverage

Sidoti & Company, LLC
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Williams Industrial Services Group Inc.(WLMS)

Initiate Coverage of Williams Industrial Services Group Inc.(WLMS) With A $7 Price Target And A Moderately Risky Rating

	2020	2021E	2022E	2023E
Mar.	($0.05)	($0.06)A	($0.01)	$0.01
June	0.10	0.10A	0.17	0.19
Sep.	0.04	0.11	0.13	0.15
Dec.	(0.03)	0.12	0.07	0.10
EPS	**$0.08**	**$0.27**	**$0.36**	**$0.45**
P/E		15.6x	11.7x	9.3x
EBITDA (mil)	**$14.6**	**$16.2**	**$18.4**	**$20.2**
EV / EBITDA		8.4x	7.4x	6.8x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. 2020-2023E include annual stock-based compensation expense of $0.06, $0.10, $0.10, $0.10. Sum of quarterly EPS may not equal full-year total due to rounding and/or chare count. NC=Not Covered by Sidoti & Company, LLC.

Year*	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	$539.1	$589.0	$231.0	$187.0	$188.9	$245.8	$269.1	$316.6	$335.6	$349.1
GAAP EPS	($2.78)	($4.59)	($2.12)	($1.70)	($0.76)	$0.05	$0.08	$0.27	$0.36	$0.45

* 2014-2015 include results from the former product manufacturing businesses, which have since been divested. 2016-2018 have been restated to exclude revenue and EPS from discontinued operations.

Description: Williams Industrial Services Group Inc. (www.wisgrp.com) is a provider of infrastructure-related construction and maintenance services to customers in the energy and industrial end markets. The company's targeted end markets include nuclear (77% of 2020 sales), fossil-fuel related project work (11%), energy delivery (4%), and industrial (8%). The United States accounted for 87% of sales in 2020, while Canadian sales were 13%. Headquarters are in Tucker, GA.

NR

Price Target: $7
Price: $4.20
Risk Rating: M

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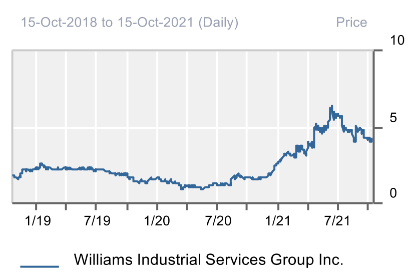
Key Statistics

Analysts Covering	2
Market Cap (Mil)	$111
Enterprise Value	$136
52-Week Range (NYSE	7-2
5-Year EPS CAGR	50%
Avg. Daily Trading Volume	82,000
Shares Out (Mil)	26.437
Float Shares (Mil)	23.347
Insider Ownership	10%
Institutional Holdings	68%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2023E)	$0.36
FCF Yield (2023E)	8.5%
Net Cash Per Share (2023E)	($0.05)
Price to Book Value	3.3x
Return on Equity (2023E)	20.3%
Total Debt to Capital	50%
Interest Coverage Ratio	2.23
Short Interest %	0.3%
Short Interest Days To Cover	1.4
Russell 2000	2,268
Russell 2000 - Last 12 Months	38.2%
WLMS - Last 12 Months	172.5%



Source: FactSet Prices

Williams Industrial Services Group Inc. (WLMS) is in the middle-to-late innings of a turnaround, in our view. Williams's former parent company, Global Power Equipment Group, underwent significant turmoil and transitions during the 2015-2017 timeframe, including restating financials and a liquidity crunch that forced it to divest several businesses, including all product manufacturing product lines. New management took the helm in 2018, stabilized the business, and began to pivot the company towards growth, while continuing select restructuring initiatives, such as implementing enhanced internal controls. Recent milestones achieved include a debt refinancing in December 2020 and uplisting to the NYSE American Stock Exchange in February 2021.

Today, Williams is a streamlined engineering and construction (E&C) contractor. The company's service offerings are all related to infrastructure, and target Nuclear projects (77% of 2020 sales) as well as "other" Energy and Industrial markets (23%), within the U.S. and Canada. Backlog has been growing ($664 million as of 2Q:21) and is expected to continue to grow through year-end 2021. We view WLMS's end-markets as stable. Over time, we think WLMS will work to diversify its revenue mix while keeping operating expenses low.

We think there is further opportunity to improve financials through a future debt refinancing. The company's December 2020 debt refinance was key, allowing WLMS to reduce its cash interest expense and make progress away from distressed lending. However, today's blended interest rate stands at 11%-12%, which is still on the high end. We think WLMS is working to meet milestones needed to refinance to lower interest expense. By our model, every $1 million reduction in interest expense equates to $0.04 in EPS.

We expect robust EPS growth through 2023, driven by SG&A leverage and lower interest expense. Following EPS growth of 60% in 2020, we forecast EPS will grow two-fold in 2021, driven by strong revenue growth, leverage on the general and administrative line (where costs are mostly fixed) and lower interest expense. While we forecast more normalized mid-single-digit revenue growth in 2022-2023, we project the primary earnings drivers (G&A leverage and interest reduction) will persist. Underlying these drivers are $200 million plus net operating loss carryforwards that WLMS can use to offset taxable income.

WLMS's financials are solid. At the end of 2Q:21, Williams held a net debt balance of $25 million ($0.96 per share, 1.9x leverage) and total debt ratio of 50%. We project free cash flow conversion averaging 76% through 2023, driven by the company's capex-light model and improved working capital management.

We initiate coverage of WLMS shares with a $7 price target and a Moderately Risky rating. Currently, shares of WLMS trade at P/E and EV/EBITDA multiples of 9.3x and 6.8x, based on our 2023 estimates. Our $7 price target is based on 15x our 2023 EPS estimate of $0.45, or 10x our 2023 EBITDA estimate of $20.2 million. We anticipate multiple expansion as the company's de-risked financials and operations (cleared up balance sheet and low exposure to fixed-price contracts) start to show benefits, along with the potential for robust EPS growth through 2023 and ESG dynamics. Our Moderately Risky rating is supported by the improving balance sheet, the blue-chip customer base, the contract mix of 89% time and materials (which is lower risk than fixed price), and the recent success with growing and diversifying the backlog.

Company Overview

Williams Industrial Services Group Inc. (WLMS) is a provider of Infrastructure-related construction and maintenance services for the energy, power, and industrial end markets. Services include plant maintenance, modification, construction, and support, which have historically primarily served nuclear power plants (nuclear comprised 77% of 2020 sales). In 2020, the U.S. made up 87% of sales, while Canada made up the remaining 13%.

History

Williams was founded in 1958 as a small industrial coatings contractor based out of Chamblee, Georgia. In 2005, Williams (then known as The Williams Group) was acquired by Global Power Equipment Group Inc. Beginning in 2016, Williams shifted its strategy to narrow its focus to services, and to exit all product manufacturing businesses and to use the proceeds to reduce and restructure its debt. Subsequently, the company divested its Mechanical Solutions segment in 2017. The company also attempted to divest its Electrical Solutions segment, but failed to find a buyer in the midst of that business's deteriorating financial performance. As a result, in July 2018, the Electrical Solutions segment filed for bankruptcy; the filing was for the Electrical Solutions segment only, and not for the company as a whole.

Effective June 2018, Global Power Equipment Group Inc. changed its name to Williams Industrial Services Group Inc. to better align its name with the Williams business (as that was the sole remaining segment of the former three-segment company).

Management

Tracy Pagliara became President and CEO in April 2018, after serving as Co-President and Co-CEO since July 2017. Mr. Pagliara joined the company in 2010 as General Counsel, Secretary, and VP of Business Development. Prior to joining Williams, Mr. Pagliara spent eight years as Chief Legal Officer of Gardner Denver, Inc., a manufacturer of fluid transfer equipment. Mr. Pagliara is a member of the Missouri and Illinois State Bars and is a Certified Public Accountant.

Randall Lay became CFO in September 2019, after previously serving as Executive Vice President, CFO, Secretary and Treasurer of GEO Specialty Chemicals. Prior to that, Mr. Lay spent ten years as VP and CFO of Lazy Days' R.V. Center, Inc. (now a subsidiary of Lazydays Holdings Inc.), which operates RV dealerships.

Industry Overview

The United Stated Nuclear Power Industry spending is $34.2 billion annually, per IBISWORLD, Inc. Williams takes a narrower, more relative view, and estimates its total addressable market (TAM) opportunities at a wide range of $0.7-$2.0 billion annually. We note that the company's TAM includes (1) the U.S. and Canada, and (2) also includes the Energy Delivery and Industrial Services end-markets, which together comprised 23% of 2020 sales. Using the midpoint of the company's estimated TAM of $1.35 billion, and LTM sales of $283 million, we peg the company's market share to be at 21%.

Specific to the Nuclear power industry, barriers to entry are relatively high, owing to the regulatory requirements needed to participate in the space. In the U.S. and Canada, the key regulatory agencies are the U.S. Nuclear Regulatory Commission (NRC) and the Canadian Nuclear Safety Commission (CNSC). Williams is one of a limited number of companies qualified to perform comprehensive services anywhere in U.S. nuclear power facilities. Further, owners of nuclear facilities (i.e., Williams's customers) must qualify contractors to ensure they company with NRC regulations. Thus, the industry value chain is relatively concentrated from a competitive standpoint (WLMS competes with a handful of competitors for nuclear projects) and from a customer standpoint (four customers accounted for 62% of WLMS's overall sales in 2020).

The U.S. is a key participant in nuclear, generating 50% of global nuclear output. Nuclear comprises 20% of energy consumed in the U.S. (compared to 10% globally). Despite well-publicized concerns about nuclear safety, we think nuclear may see perception shift to the positive in the coming years, due to increased demand for clean energy (nuclear is a zero-emission clean energy source), the necessity for electric grid modernization, and carbon emission targets that are essentially impossible to reach without nuclear energy playing a role.

Engineering and construction companies that compete in the nuclear space enjoy a high degree of visibility on upcoming projects. Public utility companies publish their capital programs, and as such, WLMS has knowledge of projects that are coming to market years in advance.

Business Model

Williams has a diverse service offering, including new plant construction, regularly scheduled maintenance work, modification, capital construction and upgrades, and application of coatings, among others. The company operates out of one operating segment.

End markets: From an end-market perspective, 77% of sales are derived from Nuclear work. This includes new plant construction, other capital project services, routine outage work, fuel handling, and decommissioning. Fossil-fuel related project work makes up 11% of sales. Energy Delivery comprises 4%, and Industrial (includes services for Water/Wastewater, Pulp & Paper, Chemical, and Government) comprises 8%.

Geographic mix: WLMS's services are focused primarily on the U.S. (87% of sales) with the balance going to operations in Canada (13%). We note that WLMS's Canadian operations are centralized in the province of Ontario, and entirely focused on Nuclear-related services.

Contract mix: WLMS bids against other contracts based on customer specifications. From a contract mix perspective, 89% of sales are derived from time and materials (T&M) contracts, and the remaining 11% of sales were generated from fixed-price contracts We think this is important, as it can be argued that T&M contracts have lower risk, albeit less profit potential, than fixed price contracts.

Deeper Dive Into End Markets And Drivers

Nuclear work (77% of 2020 sales). The company provides new nuclear construction as well as plant modifications and upgrades, routine maintenance work, and fuel storage and decommissioning.

New nuclear construction (42% of sales). WLMS is part of a joint venture with privately-held Bechtel Power Corporation to construct the only new nuclear reactors being built in the U.S.: Plant Vogtle Units 3 and 4, in Waynesboro Georgia. Sales related to Vogtle made up $113.5 million (42% of WLMS's overall sales) in 2020, and LTM sales of $85 million (30%).

Other nuclear work (25% of sales) can be thought of as a blend of (1) more complex project work and (2) routine outage work. More complex project work includes security upgrades, digitalization upgrades, turbine controls upgrades, and project work related to feedwater. Routine outage/maintenance work is comprised of regularly scheduled and emergency outages, refueling, and shutdowns. WLMS contracts this work through long-term maintenance agreements (five to seven years). Nuclear facilities typically schedule a planned outage about every two years, for 30-45 days to refuel and complete any maintenance that cannot take place while the nuclear plant is online.

We surmise there is a significant disparity between the margin profile of WLMS's more complex project work (which tends to be much more specialized in nature) and its routine outage work (more commoditized). Blending the two together is how WLMS determines its targeted gross margin of 11-13% for Nuclear work.

Fuel Handling and Decommissioning (10% of sales). WLMS also participates in the retiring, or decommissioning, of nuclear power plants. This process can take several years, and involves both the actual teardown of sites, as well as storing spent fuel onsite in dry casks, to allow radioactive contamination to decay to safe levels. WLMS has a strong relationship with the two leading providers of decommissioning services, CDI and Holtec. WLMS expects a greater portion of the "Nuclear" pie to be derived from decommissioning services in the outer years, due to aging U.S. nuclear power infrastructure.

Non-nuclear work (23% of 2020 sales) can be segmented into fossil-fuel related project work, (11%), Energy Delivery (4%) and Industrial (8%).

Fossil-fuel related project work (11% of sales). WLMS provides construction and maintenance services for traditional fossil-fuel (primarily coal and natural gas) power generation.

Energy Delivery (4% of sales). WLMS provides services related to natural gas distribution, transmission and distribution and storm hardening; this business is based in the Northeastern U.S. and Florida.

Industrial (8% of sales). WLMS's industrial services can be segmented into work relating to (1) water/wastewater, (2) pulp/paper, (3) chemical and (4) government/other.

Mix changes expected. As the company executes on its growth strategy, we anticipate changes to the revenue mix as WLMS emphasizes projects in Industrial and Energy Delivery. Over time, we think Industrial and Energy Delivery will both double their portion of the revenue mix, with Industrial making up closer to 20% of sales and Energy Delivery making up 10%. We think Nuclear remains a significant part of the business, and we estimate it will likely comprise about 65% of sales due to the growth of the other end-markets.

Backlog. Williams exited 2Q:21 with backlog of $664 million, up 44% sequentially and 23% year over year. On the 2Q:21 earnings conference call, management discussed approximately $200 million of high-probability pipeline outstanding, of which over $100 million is expected to be booked into backlog by year-end 2021.

2018 Stabilization, 2019 Pivot To Growth

Following a challenging period in 2015-2017, in 2018, the company was focused on stabilizing the business. WLMS divested from its product manufacturing businesses, realigned its leadership structure (with Mr. Pagliara becoming sole CEO effective April 2018), streamlined its overhead cost structure (including moving its corporate office to Atlanta and consolidating corporate headcount) and recapitalized its balance sheet with a 2018 debt refinancing. In January 2019, the company finalized a strategic plan that it detailed by way of an investor presentation. The plan's goal was to organically grow Williams's core business, expand into new markets, and implement improved financial reporting and governance structure. Recent milestones achieved include a debt refinancing in December 2020 and uplisting to the NYSE American Stock Exchange in February 2021.

Uplisting to NYSE American Stock Exchange. Among the strategic plan's initiatives was a goal to up-list from OTC pink sheets to OTCQX in 2019, and then up-list from OTCQX to a larger exchange in 2020. The company executed on both prongs of this plan, as it worked to meet the listing requirements, culminating in an up-listing to the NYSE American Exchange in February 2021. We think this should help WLMS stock attract a broader pool of institutional investors and increased liquidity.

Refinancing. Another part of the January 2019 strategic plan was to refinance the company's term loan and improve its overall debt covenants. In December 2020, WLMS announced it had refinanced its debt. The company entered into a $35 million initial term loan (with a $15 million delayed draw facility) with CION Investment Corporation, and a $30 million revolving credit facility with PNC Bank.

The refinance resulted in a few positives. First, the company was able to improve the interest rate paid. Second, the new debt facilities contained less restrictive debt covenants than the prior debt. Third, the company was able to move its debt facilities away from "distressed lenders" and into a business development company (CION) and a traditional commercial bank (PNC). We think this sets them up well for a future refinance in the out years.

As of 2Q:21, the company's financial priorities are to diversify its backlog, keep operating expenses low as it scales, improve working capital management, leverage its operating structure, and continue to reduce debt.

Recent Results

In 2020, Williams reported EPS growth of 60% to $0.08, compared with $0.05 in 2019. Revenue grew 10%, driven by increased volume in the nuclear decommissioning business and increased project work in Canada. Gross margins held steady year over year at 12.6%, and the company realized G&A leverage on the higher volumes, culminating in operating income growing 76% year over year. This was somewhat offset by a 27% increase in the diluted share count, stemming from a rights offering in March of 2020; a higher share count lowered 2020 EPS by $0.02, per our model.

The first quarter is typically WLMS's weakest from a results perspective because of seasonality. During 1Q:21, WLMS posted a loss per share of $0.06, compared with a loss of $0.05 in the prior year quarter, on lower sales and leverage due to project timing; 2H:20 bookings were lower due to COVID-19 delays, which directed affected 1Q:21 results. Backlog rose 4% sequentially to $464 million, and management alluded to a heightened level of bid activity, giving it confidence to grow backlog substantially in the coming quarters.

Indeed, in 2Q:21, WLMS reported backlog surged to $664 million (up 44% sequentially, or $204 million) on the back of $295 million in new orders during the quarter. This surge was driven by a large project win (we estimate about $200 million) of decommissioning work for Indian Point Energy Center (IPEC) over a multi-year period. WLMS posted 2Q:21 EPS of $0.10, flat year over year, as a 26% rise in sales was offset by a 270-basis point decline in gross margins due to project mix.

Earnings Outlook

On the 2Q:21 call, management reaffirmed full-year 2021 guidance of $310-320 million of revenue, 11-13% gross margins, SG&A of 7.75-8.25% of sales, and $16-18 million of adjusted EBITDA. Given the $5.5 million of EBITDA booked year-to-date, this implies a substantial ramp in the back half of the year. However, we think this is substantial but likely achievable and driven by the aforementioned decommissioning at Indian Point.

We forecast EBITDA growth of 29% in 3Q:21 and 36% in 4Q:21, driven by average revenue growth of 26% offsetting slightly lower gross margins compared to 2H:20. All in, we forecast EPS to grow two-fold in 2021, to $0.27, driven by strong top-line growth, leverage on the general and administrative line (where costs are mostly fixed) and lower interest expense.

While we forecast 2022 and 2023 will have more normalized mid-single-digit revenue growth, we project the primary earnings drivers (G&A leverage and interest reduction) will persist. We forecast 2022 EPS to grow 33% to $0.36, and 2023 EPS to rise 25% to $0.45.

WLMS ended 2Q:21 with $220 million of gross federal net operating loss carryforwards that the company will be able to use to offset taxable income. We note that the company will still have to pay U.S. state and local taxes, as well as taxes on income generated in Canada.

Balance Sheet And Cash Flow

At the end of 2Q:21, Williams held $8 million in cash and $34 million in debt, equating to net debt of $25 million ($0.96 per share, 1.9x leverage) and a total debt ratio of 50%. We note that the 1.9x leverage ratio compares to WLMS's stated target leverage range of 1.0x-2.0x. Debt includes $31 million of senior secured term notes that matures in December 2025, $1 million in short-term debt, and $2 million from the revolving credit facility. The term notes have an interest rate of 9.0% plus LIBOR (with a minimum of 1.0%). The revolver's interest rate is 3.25%

annually. The average blended interest rate on the debt is between 11%-12% by our model, after adjusting for deferred financing costs. We note that WLMS may appear to pay higher than 11-12% if the company carries an average daily revolver balance throughout a given quarter that is higher than the average calculated by taking the beginning and ending balances.

We think WLMS will prioritize debt reduction first and foremost. As the company reiterated on its 2Q:21 earnings conference call, given the cash flow it expects to generate in the second half of 2021, it plans to reduce debt. Depending on the cash generated, WLMS may pay down debt further than the $3.6 million of reduction that we forecast in 4Q:21.

Williams' term loan has an optional prepayment clause, but with a prepayment fee of 3% of the principal amount being prepaid before Year One, 2% before Year Two, and 1% before Year Three. We calculate that if WLMS were to pay off its term debt in full before December 16, 2021, the prepayment fee would be about $0.9 million, essentially offsetting the interest savings it would gain by doing so. Therefore, we think WLMS could likely wait until after this date to prepay any amount on the term loan if it makes economic sense.

Post the company's restructuring, the company transformed into an asset-light business model. Thus, it has minimal capital expenditure (capex) needs; Capex went from $8 million a year in 2014-2015 (1.4% of sales) down to $0.1 million in 2020 (about 0.1% of sales). WLMS may occasionally deploy capex when it is more economical to buy equipment outright rather than rent. The company spent $0.1 million on capex in 2020, and YTD 2021 has used $0.4 million. We project capex of $0.6 million (0.2% of sales) annually through 2023.

2020 marked WLMS's first time in seven years that it was cash flow positive. Given the low capex needs, operating cash flow essentially equals free cash flow for all intents and purposes. We model free cash flow of $6 million ($0.21 per share) in 2021 and $7 million ($0.25) in 2022. Notably, free cash will be pulled down by $2.5 million annually in 2021-2022 as it repays payroll taxes that were deferred in 2020 due to the CARES Act. Therefore, we think 2023's free cash flow estimate of $10 million ($0.36), which implies a FCF conversion rate of 80%, is a better example of normalized cash flow for the company.

By the close of 2023, we model cash of $11 million, total debt of $12 million (net debt of $1 million), a leverage ratio of 0.1x, and a total debt ratio of 15%.

Catalysts

Potential catalysts for WLMS stock include (1) a potential refinancing of the company's debt, once it reaches $20 million in TTM EBITDA, (2) better than expected cash flow in 2H:21, which would enable it to more aggressively reduce debt and lower its interest expense, and (3) the passing of a federal infrastructure bill.

Risks

Execution. Estimating the cost of a job, bidding and executing on the construction is a risk to profitability.

Customer Concentration. Four customers accounted for 62% of revenue in 2020, and 72% in 2019. In addition, three customers accounted for 50% of accounts receivable at year-end 2020, and over 45% at year-end 2019.

Business Cyclicality. The industries that WLMS serves are cyclical in nature and vulnerable to slowdowns in the U.S. and Canadian economies.

Past Accounting Issues. In 2015, Williams identified accounting errors that had resulted in an understatement of the company's cost of sales in 2014 and 2013. Since then, the company took steps to strengthen internal controls, including restating historical financials, and hiring a new CEO and CFO. The company announced that as of December 31, 2019, it had finally remediated the material weaknesses in its internal control environment.

Valuation

WLMS shares are up 173% in the past 12 months, compared with 38% for the Russell 2000 Index. In the past one- and two-year periods, WLMS stock has traded at respective median forward EV/EBITDA multiples of 7.6x and 6.4x.

We do not know of any direct comparable to WLMS. However, our coverage universe includes publicly-traded construction contractors with construction project business models. By comparison, Primoris Services Corp. (NASDAQ: PRIM, BUY) trades at 6.4x EV/EBITDA, Matrix Service Company (NASDAQ: MTRX, BUY) trades at 5.1x, Comfort Systems USA, Inc. (NYSE: FIX, NEUTRAL) trades at 11.0x, Orion Group Holdings (NYSE: ORN, NR) trades at 2.9x. In terms of noncovered contracting companies who have adjacencies in the nuclear space, Jacobs Engineering Group (NYSE: J, NC) trades at 14.6x, Fluor Corp. (NYSE: FLR, NC) trades at 4.2x, and Aecom (NYSE: ACM, NC) trades at 12.6x.

The peer group trades at an average F2022 EV/EBITDA multiple of 8.5x. Currently, WLMS trades at 11.7x and 9.3x our 2022 and 2023 EPS estimates, and 7.4x and 6.8x our 2022 and 2023 EBITDA estimates.

We value WLMS at 15x our 2023 EPS estimate of $0.45, or 10x our 2023 EBITDA estimate of $20.2 million. We think valuation multiples will expand for WLMS stock, as investors credit the de-risked financials (cleaned up balance sheet) and lower risk operations (low exposure to fixed price contracts), coupled with robust EPS growth through 2023, and ESG dynamics.

Our Moderately Risky rating is supported by the improving balance sheet, the blue-chip customer base, the contract mix of 89% time and materials (which we consider to be lower-risk than fixed price), and the recent success with growing and diversifying the backlog.

Table 1: WLMS Income Statement
(in millions, except per share data)

	2019	Mar	Jun	Sep	Dec	2020	MarA	JunA	SepE	DecE	2021E	MarE	JunE	SepE	DecE	2022E	2023E
Revenue	**$ 245.8**	**$ 66.1**	**$ 72.5**	**$ 66.2**	**$ 64.1**	**$ 269.1**	**$ 60.9**	**$ 91.6**	**$ 82.8**	**$ 81.4**	**$ 316.6**	**$ 64.5**	**$ 97.1**	**$ 87.8**	**$ 86.3**	**$ 335.6**	**$ 349.1**
COGS	214.9	59.2	63.2	57.6	55.0	235.0	54.8	82.2	72.0	70.5	279.5	57.4	84.4	76.4	76.8	295.0	306.5
Gross profit	**30.9**	**6.9**	**9.4**	**8.7**	**9.1**	**34.0**	**6.1**	**9.4**	**10.8**	**10.9**	**37.1**	**7.1**	**12.6**	**11.4**	**9.5**	**40.6**	**42.6**
S&M expenses	0.6	0.1	0.1	0.1	0.2	0.6	0.2	0.2	0.2	0.2	0.9	0.2	0.2	0.2	0.2	0.8	0.9
G&A expenses	24.6	6.2	5.4	5.8	6.3	23.7	6.3	6.4	6.0	6.0	24.8	6.0	6.2	6.1	6.0	24.4	24.6
D&A	0.3	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Operating income	**5.4**	**0.5**	**3.8**	**2.7**	**2.6**	**9.5**	**(0.5)**	**2.7**	**4.5**	**4.6**	**11.3**	**0.9**	**6.1**	**5.0**	**3.2**	**15.2**	**17.0**
Int expense	(6.0)	(1.5)	(1.6)	(1.5)	(1.4)	(6.1)	(1.3)	(1.2)	(1.2)	(1.2)	(4.9)	(1.1)	(1.1)	(1.1)	(1.0)	(4.2)	(3.0)
Other, net	2.0	0.1	0.5	0.3	(1.0)	(0.1)	0.4	1.2	-	-	1.6	-	-	-	-	-	-
Pretax income	**1.4**	**(0.9)**	**2.7**	**1.4**	**0.1**	**3.4**	**(1.4)**	**2.7**	**3.3**	**3.4**	**8.0**	**(0.2)**	**5.0**	**3.9**	**2.2**	**10.9**	**13.9**
Taxes	0.3	0.0	0.2	0.3	0.8	1.4	0.2	0.1	0.3	0.3	0.9	0.2	0.5	0.4	0.2	1.3	1.6
Tax Rate	*24.6%*	*NM*	*7.2%*	*22.3%*	*766.4%*	*41.1%*	*NM*	*2.9%*	*10.0%*	*10.0%*	*11.6%*	*NM*	*10.0%*	*10.0%*	*10.0%*	*12.0%*	*11.1%*
Net income - cont ops	**1.0**	**(0.9)**	**2.5**	**1.1**	**(0.7)**	**2.0**	**(1.6)**	**2.6**	**2.9**	**3.1**	**7.1**	**(0.4)**	**4.5**	**3.5**	**2.0**	**9.6**	**12.4**
Disc.	1.2	(0.1)	(0.0)	(0.1)	(0.3)	(0.4)	(0.1)	0.2	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.3)
Net income (GAAP)	2.2	(1.0)	2.5	1.0	(1.0)	1.5	(1.7)	2.9	2.9	3.0	7.1	(0.5)	4.5	3.5	1.9	9.3	12.1
Diluted shares	18.8	20.3	25.2	25.2	24.7	23.9	24.9	26.4	26.6	26.7	26.2	26.8	26.9	27.1	27.2	27.0	27.5
EPS - cont ops	**$ 0.05**	**$ (0.05)**	**$ 0.10**	**$ 0.04**	**$ (0.03)**	**$ 0.08**	**$ (0.06)**	**$ 0.10**	**$ 0.11**	**$ 0.12**	**$ 0.27**	**$ (0.01)**	**$ 0.17**	**$ 0.13**	**$ 0.07**	**$ 0.36**	**$ 0.45**
Discontinued ops	$ 0.07	$ -	$ -	$ -	$ (0.01)	$ (0.02)	$ (0.01)	$ 0.01	$ -	$ (0.01)	$ -	$ (0.01)	$ -	$ -	$ -	$ (0.01)	$ (0.01)
GAAP EPS	$ 0.12	$ (0.05)	$ 0.10	$ 0.04	$ (0.04)	$ 0.06	$ (0.07)	$ 0.11	$ 0.11	$ 0.11	$ 0.27	$ (0.02)	$ 0.17	$ 0.13	$ 0.07	$ 0.35	$ 0.44
Adjusted EBITDA	**12.6**	**1.6**	**5.0**	**4.1**	**4.0**	**14.6**	**0.6**	**4.9**	**5.3**	**5.4**	**16.2**	**1.7**	**6.9**	**5.8**	**4.0**	**18.4**	**20.2**
Margins																	
Gross margin	12.6%	10.4%	12.9%	13.1%	14.2%	12.6%	10.0%	10.2%	13.0%	13.4%	11.7%	11.0%	13.0%	13.0%	11.0%	12.1%	12.2%
S&M	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
G&A	10.0%	9.4%	7.4%	8.8%	9.8%	8.8%	10.4%	7.0%	7.3%	7.4%	7.8%	9.3%	6.4%	7.0%	7.0%	7.3%	7.0%
SG&A	10.2%	9.6%	7.6%	9.0%	10.1%	9.0%	10.7%	7.2%	7.6%	7.7%	8.1%	9.6%	6.7%	7.3%	7.3%	7.5%	7.3%
D&A	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Op margin	2.2%	0.8%	5.2%	4.0%	4.0%	3.5%	(0.8%)	3.0%	5.4%	5.7%	3.6%	1.4%	6.3%	5.7%	3.7%	4.5%	4.9%
Pretax margin	0.6%	(1.3%)	3.7%	2.2%	0.2%	1.3%	(2.3%)	3.0%	3.9%	4.2%	2.5%	(0.3%)	5.2%	4.5%	2.5%	3.3%	4.0%
Net margin	0.4%	(1.4%)	3.5%	1.7%	(1.1%)	0.7%	(2.6%)	2.9%	3.5%	3.8%	2.2%	(0.6%)	4.7%	4.0%	2.3%	2.9%	3.5%
EBITDA margin (adjusted)	5.1%	2.4%	6.9%	6.2%	6.2%	5.4%	1.0%	5.3%	6.3%	6.7%	5.1%	2.6%	7.1%	6.6%	4.6%	5.5%	5.8%
YoY % change																	
Revenue	30.1%	30.6%	1.5%	16.5%	(4.0%)	9.5%	(8.0%)	26.2%	25.0%	27.0%	17.7%	6.0%	6.0%	6.0%	6.0%	6.0%	4.0%
Gross profit	7.5%	3.4%	1.8%	45.4%	0.3%	10.1%	(11.7%)	(0.0%)	24.3%	20.0%	9.1%	16.4%	34.9%	6.0%	(13.0%)	9.4%	4.9%
S&M	(64.4%)	(42.5%)	(15.2%)	95.2%	41.2%	(3.1%)	52.9%	65.0%	68.3%	21.2%	49.8%	(23.6%)	5.0%	6.0%	6.0%	(1.6%)	4.0%
G&A	(32.1%)	30.2%	(16.8%)	14.5%	(23.6%)	(3.5%)	1.8%	18.3%	3.7%	(4.5%)	4.4%	(4.9%)	(2.5%)	1.6%	0.3%	(1.4%)	0.7%
SG&A	(33.5%)	26.7%	(16.8%)	15.4%	(22.7%)	(3.5%)	2.9%	19.5%	5.1%	(3.8%)	5.4%	(5.6%)	(2.2%)	1.8%	0.5%	(1.4%)	0.8%
D&A	(64.9%)	(43.1%)	(25.0%)	(40.3%)	(43.4%)	(37.9%)	0.0%	(19.3%)	8.7%	16.3%	0.0%	22.0%	8.7%	0.0%	0.0%	7.0%	0.0%
Op income	(154.5%)	(67.0%)	52.3%	267.2%	316.0%	75.7%	(187.7%)	(28.3%)	67.6%	79.9%	18.8%	(290.4%)	126.1%	12.0%	(31.2%)	34.0%	11.7%
Pretax income	(107.4%)	(291.9%)	107.9%	(577.4%)	(202.9%)	148.6%	58.7%	0.7%	127.0%	3113.0%	138.3%	(86.6%)	85.1%	20.3%	(36.9%)	36.4%	27.2%
Net income	(107.4%)	(335.2%)	95.1%	(407.4%)	140.9%	94.0%	70.4%	5.4%	163.0%	(534.0%)	257.6%	(75.5%)	71.5%	20.3%	(36.9%)	35.9%	28.5%
EPS cont ops	(106.6%)	(350.0%)	42.9%	(300.0%)	50.0%	60.0%	20.0%	0.0%	175.0%	(500.0%)	237.5%	(83.3%)	70.0%	18.2%	(41.7%)	33.3%	25.0%
EBITDA (adjusted)	9.6%	(37.6%)	23.3%	122.0%	(4.8%)	16.2%	(60.2%)	(2.1%)	28.9%	35.8%	10.7%	170.6%	41.7%	10.2%	(26.6%)	13.5%	9.8%

Source: Company reports, Sidoti & Company LLC estimates

Table 2: WLMS Cash Flow Statement
(in millions, except per share data)

	2019	Mar	Jun	Sep	Dec	2020	MarA	JunA	2021E	2022E	2023E
Net income	$ 2.2	$ (1.0)	$ 2.5	$ 1.0	$ (1.0)	$ 1.5	$ (1.7)	$ 2.9	$ 7.1	$ 9.3	$ 12.1
D&A	0.3	0.0	0.1	0.1	0.0	0.2	0.0	0.0	0.2	0.2	0.2
Amortization of deferred financing costs	-	0.2	0.2	0.2	1.0	1.5	0.2	0.2	0.4	-	-
Stock based compensation	1.7	0.5	0.7	0.6	0.8	2.5	0.7	0.7	3.0	3.0	3.0
Bad debt expense	-	0.0	-	0.0	(0.4)	(0.4)	(0.0)	(0.0)	(0.1)	-	-
Change in receivables	(15.5)	5.6	(14.7)	2.7	17.1	10.7	(1.7)	(1.5)	0.4	(2.6)	(3.7)
Change in contract assets	1.0	(9.2)	5.7	1.9	0.8	(0.7)	(4.6)	0.3	(4.3)	(0.7)	(1.4)
Change in payables	13.7	(3.7)	(2.0)	(3.3)	(1.4)	(10.4)	(0.8)	2.5	0.6	0.6	0.3
Change in accrued expenses	(1.5)	3.2	1.6	2.6	(0.9)	6.5	6.0	(3.2)	0.3	(2.5)	-
Other changes	(5.6)	1.4	(0.2)	(2.6)	1.2	(0.3)	(1.2)	(0.2)	(1.4)	-	-
Cash from operations	**(3.8)**	**(3.0)**	**(6.3)**	**3.2**	**17.4**	**11.2**	**(3.1)**	**1.7**	**6.1**	**7.4**	**10.5**
Capex	(0.2)	(0.0)	(0.0)	0.0	(0.0)	(0.1)	(0.1)	(0.4)	(0.6)	(0.6)	(0.6)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Cash used in investing	**(0.2)**	**(0.0)**	**(0.0)**	**0.0**	**(0.0)**	**(0.1)**	**(0.1)**	**(0.4)**	**(0.6)**	**(0.6)**	**(0.6)**
Change in debt	7.4	(4.5)	4.9	(3.2)	(9.3)	(12.1)	0.7	0.8	(2.1)	(8.0)	(10.0)
Repurchase of common stock	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	-	6.5	(0.0)	-	0.0	6.5	-	-	-	-	-
Other, net	(0.5)	(0.4)	(0.1)	(0.1)	(3.5)	(4.2)	(0.7)	(0.1)	(0.8)	-	-
Cash provided from financing	**6.9**	**1.6**	**4.8**	**(3.3)**	**(12.9)**	**(9.8)**	**(0.0)**	**0.7**	**(2.9)**	**(8.0)**	**(10.0)**
Effect of FX changes	0.1	(0.1)	(0.0)	0.1	0.2	0.1	(0.1)	0.2	0.1	-	-
Net change in cash	2.9	(1.6)	(1.7)	(0.1)	4.7	1.4	(3.3)	2.3	2.7	(1.2)	(0.1)
Cash, beginning of period	4.9	7.8	6.2	4.5	4.5	7.8	9.2	5.9	9.2	11.9	10.7
Cash, end of period	**7.8**	**6.2**	**4.5**	**4.5**	**9.2**	**9.2**	**5.9**	**8.2**	**11.9**	**10.7**	**10.6**
Free cash flow	(4.1)	(3.1)	(6.4)	3.2	17.4	11.1	(3.2)	1.4	5.5	6.8	9.9
Free cash flow per share	$ (0.22)	$ (0.15)	$ (0.25)	$ 0.13	$ 0.70	$ 0.46	$ (0.13)	$ 0.05	$ 0.21	$ 0.25	$ 0.36

Source: Company reports, Sidoti & Company LLC estimates

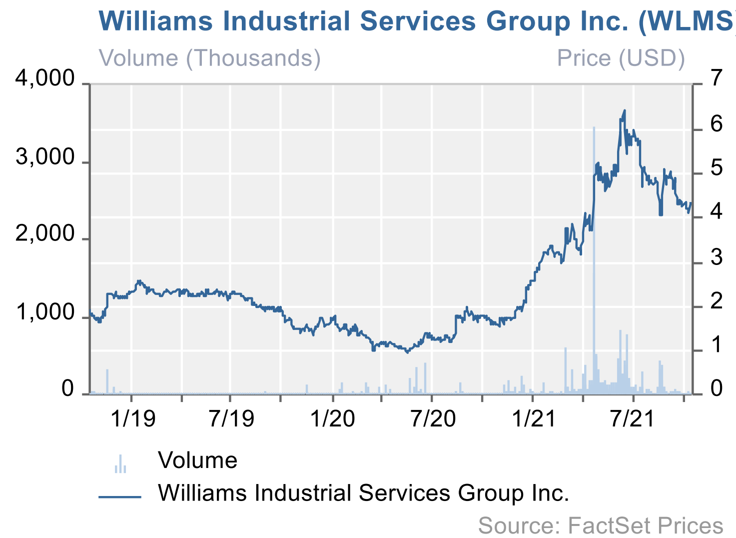
Table 3: WLMS Balance Sheet
(in millions, except per share data)

	2019	Mar	Jun	Sep	2020	MarA	JunA	2021E	2022E	2023E
Cash	$ 7.8	$ 6.2	$ 4.5	$ 4.5	$ 9.2	$ 5.9	$ 8.2	$ 11.9	$ 10.7	$ 10.6
Receivables	38.2	32.7	47.4	44.7	27.5	29.3	30.8	27.1	29.7	33.4
Contract assets	7.2	16.4	10.7	8.8	8.0	12.5	12.3	12.3	13.0	14.4
Other, net	2.5	2.6	3.5	6.2	6.5	6.5	8.1	8.1	8.1	8.1
Current Assets	***55.7***	***57.8***	***66.1***	***64.1***	***51.2***	***54.2***	***59.3***	***59.4***	***61.5***	***66.5***
PP&E	0.3	0.3	0.3	0.4	0.3	0.3	0.6	0.7	1.1	1.5
Goodwill	35.4	35.4	35.4	35.4	35.4	35.4	35.4	35.4	35.4	35.4
Intangible assets, net	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Other, net	8.5	8.6	8.7	6.6	5.7	5.8	5.8	5.8	5.8	5.8
ASSETS	**112.5**	**114.6**	**123.0**	**119.0**	**105.1**	**108.2**	**113.6**	**113.8**	**116.3**	**121.7**
Accts Payable	16.6	12.9	10.9	7.6	6.2	5.4	7.9	6.8	7.4	7.7
Accrued comp and benefits	9.3	12.5	14.1	16.7	15.8	21.8	18.5	16.1	13.6	13.6
Contract liabilities	2.7	3.4	3.2	3.4	2.5	2.0	1.3	1.3	1.3	1.3
Short term borrowings	10.8	6.4	11.4	8.3	0.4	1.2	2.1	2.1	2.1	2.1
Curr portion of LTD	0.7	0.9	0.7	0.7	1.1	1.1	1.1	1.1	1.1	1.1
Other, net	6.7	8.3	9.9	8.8	7.5	7.2	10.2	10.2	10.2	10.2
Current liabilities	***46.9***	***44.4***	***50.1***	***45.5***	***33.5***	***38.5***	***41.1***	***37.5***	***35.7***	***36.0***
LTD	32.7	32.4	32.5	32.5	30.7	30.6	30.5	26.9	18.9	8.9
Other, net	10.7	10.0	9.6	9.0	9.0	8.8	8.4	8.4	8.4	8.4
LIABILITIES	**90.3**	**86.8**	**92.2**	**86.9**	**73.2**	**77.9**	**79.9**	**72.8**	**63.0**	**53.2**
Shareholders' equity	**22.2**	**27.7**	**30.7**	**32.1**	**31.9**	**30.3**	**33.7**	**41.0**	**53.4**	**68.4**
TOT LIABILITIES & EQUITY	**112.5**	**114.6**	**123.0**	**119.0**	**105.1**	**108.2**	**113.6**	**113.8**	**116.3**	**121.7**
Selected data										
Cash	7.8	6.2	4.5	4.5	9.2	5.9	8.2	11.9	10.7	10.6
Gross debt	44.2	39.7	44.6	41.5	32.1	32.8	33.6	30.0	22.0	12.0
Net cash (debt)	(36.4)	(33.5)	(40.1)	(37.0)	(22.9)	(26.9)	(25.5)	(18.1)	(11.4)	(1.5)
Net cash (debt) per share	$ (1.93)	$ (1.65)	$ (1.59)	$ (1.47)	$ (0.96)	$ (1.08)	$ (0.96)	$ (0.69)	$ (0.42)	$ (0.05)
Total debt / capital	66.6%	58.9%	59.2%	56.4%	50.2%	52.0%	50.0%	42.3%	29.2%	15.0%
Net debt / adjusted EBITDA	2.9x	2.9x	3.2x	2.5x	1.6x	2.0x	1.9x	1.1x	0.6x	0.1x
ROA	1.0%	(0.3%)	0.8%	2.1%	1.8%	1.2%	1.2%	6.5%	8.4%	10.4%
ROIC	1.7%	(0.5%)	1.4%	3.6%	3.0%	2.0%	2.1%	10.5%	13.2%	15.9%
ROE	5.1%	(1.3%)	3.5%	9.0%	7.3%	4.6%	4.6%	19.4%	20.4%	20.3%
Book value per share	$ 1.18	$ 1.36	$ 1.22	$ 1.27	$ 1.34	$ 1.22	$ 1.27	$ 1.57	$ 1.98	$ 2.49
Tangible book value per share	$ (1.37)	$ (0.99)	$ (0.68)	$ (0.63)	$ (0.67)	$ (0.71)	$ (0.54)	$ (0.26)	$ 0.20	$ 0.75

Source: Company reports, Sidoti & Company LLC estimates

Required Disclosures

Williams Industrial Services Group Inc. (WLMS-$4.20) NR Price Target: $7 Risk Rating: M



Risks

Execution. Estimating the cost of a job, bidding and executing on the construction is a risk to profitability.
Customer Concentration. Four customers accounted for 62% of revenue in 2020, and 72% in 2019. In addition, three customers accounted for 50% of accounts receivable at year-end 2020, and over 45% at year-end 2019.
Business Cyclicality. The industries that WLMS serves are cyclical in nature and vulnerable to slowdowns in the U.S. and Canadian economies.
Past Accounting Issues. In 2015, Williams identified accounting errors that had resulted in an understatement of the company's cost of sales in 2014 and 2013. Since then, the company took steps to strengthen internal controls, including restating historical financials, and hiring a new CEO and CFO. The company announced that as of December 31, 2019, it had finally remediated the material weaknesses in its internal control environment.

Valuation

WLMS shares are up 173% in the past 12 months, compared with 38% for the Russell 2000 Index. In the past one- and two-year periods, WLMS stock has traded at respective median forward EV/EBITDA multiples of 7.6x and 6.4x.
We do not know of any direct comparable to WLMS. However, our coverage universe includes publicly-traded construction contractors with construction project business models. By comparison, Primoris Services Corp. (NASDAQ: PRIM, BUY) trades at 6.4x EV/EBITDA, Matrix Service Company (NASDAQ: MTRX, BUY) trades at 5.1x, Comfort Systems USA, Inc. (NYSE: FIX, NEUTRAL) trades at 11.0x, Orion Group Holdings (NYSE: ORN, NR) trades at 2.9x. In terms of noncovered contracting companies who have adjacencies in the nuclear space, Jacobs Engineering Group (NYSE: J, NC) trades at 14.6x, Fluor Corp. (NYSE: FLR, NC) trades at 4.2x, and Aecom (NYSE: ACM, NC) trades at 12.6x.
The peer group trades at an average F2022 EV/EBITDA multiple of 8.5x. Currently, WLMS trades at 11.7x and 9.3x our 2022 and 2023 EPS estimates, and 7.4x and 6.8x our 2022 and 2023 EBITDA estimates.
We value WLMS at 15x our 2023 EPS estimate of $0.45, or 10x our 2023 EBITDA estimate of $20.2 million. We think valuation multiples will expand for WLMS stock, as investors credit the de-risked financials (cleaned up balance sheet) and lower risk operations (low exposure to fixed price contracts), coupled with robust EPS growth through 2023, and ESG dynamics.
Our Moderately Risky rating is supported by the improving balance sheet, the blue-chip customer base, the contract mix of 89% time and materials (which we consider to be lower-risk than fixed price), and the recent success with growing and diversifying the backlog.

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