

**Q3 2018 Ecology and Environment, Inc. Earnings Call
June 13, 2018**

C: Gerry Gallagher; Ecology and Environment, Inc.; President, CEO

C: Peter Sorci; Ecology and Environment, Inc.; Acting CFO

P: Peter Rabover; Artko Capital; Analyst

P: Randy Mehl; Stewardship Capital; Analyst

Operator: Good morning and welcome to Ecology and Environment Inc.'s third quarter 2018 investor conference call. Today's webcast is being recorded. The slide deck can be accessed on the investor relations page of E & E's corporate website at ene.com.

At this time, I would like to turn the call over to Mr. Gerry Gallagher.

Gerry Gallagher: Good morning everyone, and thank you for joining us to discuss Ecology and Environment's financial results for the third quarter of our fiscal year 2018. I am Gerard Gallagher, E & E's President and CEO. Joining me on the call today is our Acting Chief Financial Officer, Peter Sorci. After finishing our prepared remarks, we will be happy to open up the call to take your questions.

Let's go to Slide 1. Please note that certain statements made in the course of today's conference call may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve certain risks and uncertainties, and it is important to note that the company's actual future results could differ materially from such forward-looking statements. The company cautions investors not to place undue reliance on any forward-looking statements made during the course of this conference call. Ecology and Environment disclaims any obligation to update any forward-looking statements made today.

Let's go to Slide number 2. Although, we are very pleased with the continuing improvements in the business climate in South America and the return of our operations there to profitability, the overall and consolidated results for Q3 are disappointing due to a lagging revenue delivery in the U.S. We will get to the details of that in just a moment. Consistent with the prior two quarters, delays in client procurement processes, contract awards and obtaining client authorizations to proceed continued to have a negative impact on revenue delivery. I will speak to this further a little later in the presentation. Let's first turn it over to Peter Sorci for a review of our quarterly and year-to-date results.

Peter Sorci: Thank you, Gerry, and good morning everyone. Before I review our results, please note for purposes of this presentation that revenue less of subcontract costs is the key revenue metric for our business, because it represents revenue that we generate strictly from our consulting services and it excludes pass-through revenue that we collect from clients and payout to subcontractors. When we mention revenue or revenues during this call, we are generally referring to revenue less of subcontract costs. I will begin with a review of our quarterly results.

On Slide 2, you can see that our consolidated net income was \$164,000 or \$0.04 per share for the third quarter of 2018, down from \$252,000 or \$0.06 per share for the same quarter last year. Consolidated revenues of \$20.1 million in the current quarter were down 3% compared to the same quarter last year.

Year-to-date results are summarized on Slide 3. Our year-to-date consolidated net loss was \$71,000 or \$0.02 per share as compared with income of \$822,000 or \$0.19 per share for the prior year. Consolidated revenues of \$60.8 million in the first 9 months of fiscal year 2018 were down slightly from the prior year.

In December 2017, the U.S. government enacted comprehensive tax legislation, referred to as the Tax Cuts and Jobs Act, which significantly revised U.S. corporate income tax regulations, including among other things, lowering U.S. corporate income tax rates, and implementing a territorial tax system. Enactment of the new legislation resulted in net one-time adjustments that increased the company's income tax provisions by approximately \$0.4 million and effectively reduced year-to-date earnings by \$0.10 per share.

Next, I will review our results by business segment. In our public filings, we report results for business segments based on geographic regions in which we do business. A breakdown of revenue less of contract costs and net income by geographic region is provided in the next two slides.

Slides 3 and 4 provide comparative quarterly and year-to-date results for our U.S. and South American operations. In general, our segment results for the current quarter reflected trends that were consistent with the first two quarters of the current year, that is growth in revenues and earnings from our South American operations were offset by lower revenues and net income in the U.S.

First, I will address our U.S. operations. We maintained an allowance and other accrued liabilities for potential settlements related to government contracts. Favorable settlements of longstanding contract liabilities maintained by the company resulted in \$1.1 million of additional revenue during the first 9 months of last year. The company did not record any similar adjustments during the current year.

Excluding these settlement adjustments, revenues from U.S. operations decreased 9% and 7% during the current quarter and the first nine months of the current year compared with the same periods last year. The year-to-date decrease was primarily due to lower project activity resulting from the following factors. First, we have experienced a trend of longer periods being required by various prospective commercial and federal clients to make contract award decisions; and second, we have experienced a trend of longer periods being required by certain current clients to fund projects, define project scopes, and schedule project work.

Next, I will address our South American operations. During fiscal years 2016 and 2017, our South American operations were adversely affected by unstable economic conditions and depressed commodity prices affecting the energy and mining sectors. Improvement in economic conditions that began during fiscal year 2017 has continued in the current year, particularly in Brazil and Peru. In addition, management in South America and the U.S. collaborated on new or improved business development and cost management initiatives, resulting in a stronger operating platform in South America. During the first nine months of fiscal year 2018, these initiatives resulted in additional business opportunities, and as you can see in Slide 5, significant improvement in revenue and earnings.

Slide 6 shows operating cash activity for the first nine months of 2018 compared with 2017 as well as cash balances at the end of these periods. During the current year, our cash position has again improved continuing the positive trend over the past three fiscal years. This accumulated cash balance

remains an important resource for funding potential acquisitions and other strategic investments to meet our growth objectives.

And now, I will turn it back to Gerry to finish our presentation.

Gerry Gallagher: Okay, we are on Slide 7. Thanks Peter. As we have seen all along the way in fiscal year 2018, market drivers and challenges for our business continued to evolve. Leadership and funding of government environmental programs is shifting from the federal level to states and local governments. And for this reason, we are putting a lot of emphasis on developing opportunities in various states and metro regions that are more economically active with environmental requirements and programs.

In the second quarter, E & E was awarded new basic ordering agreement contracts with the States of Minnesota, Texas, and the State of Washington for providing services such as environmental planning, public engagement, site assessment, and restoration services. In the third quarter, we were awarded another contract vehicle with the State of Texas, specifically tailored to hurricane recovery planning services as well as a new contract with the Navajo tribe for investigation and remediation of contaminated tribal lands in New Mexico and Arizona. And most recently, E & E was awarded a contract with the State of Colorado for addressing infrastructure resiliency. The addition of these new state government and tribal contractual relationships will be important for us going forward as they come online and produce work streams.

Civil infrastructure opportunities in the U.S. are expected to increase, and E & E is pursuing a number of opportunities in this arena at both state governments and municipal levels, and these are primarily in the transportation sector. We do expect ongoing federal and state cleanup of legacy pollution and funding of these efforts to continue and therefore expect that the prospects for our projects continuing in this area to be good. We are looking forward to completing negotiations on our new EPA site assessment basic ordering agreements and their contributions to revenues in the coming quarters. Federal government priorities and funding of programs has become clearer since the budget was passed by Congress in March. We are also seeing increasing opportunities for work with the U.S. military on installation facilities planning and infrastructure resiliency planning going forward, and we expect to get some of that work. Okay, that's what we are doing in our government sectors.

Now, let's talk about the private sector, which for us is primarily energy. In the energy infrastructure sector, we do see investment in liquefied natural gas, or LNG export terminals, renewable energy development and electric transmission infrastructure continuing. Historically, energy development, particularly, midstream natural gas has been the source of E & E's largest environmental projects. This sector has caused us some real frustration over the past couple of years, as investment by energy companies in some of these areas has been weak. We are somewhat encouraged that some of the LNG export terminal licensing projects that we are involved with are now beginning to move forward. The need for new midstream infrastructure such as pipelines and LNG port terminals is growing and we cautiously expect activity in this sector to increase in the coming year.

There is increasing interest in offshore wind development, particularly off the East Coast U.S., but in other areas as well. Our work on the Vineyard Wind project off of Massachusetts, as well as the New York State Offshore Wind Master Plan and other new project assignments have put us on a solid path for being a leader in this emerging renewable energy sub-sector in the U.S.

In South America, the economy and business climate continues to recover and we are experiencing an increase in new business opportunities in the energy and civil infrastructure sectors and we have been diversifying our pursuits into other areas as well, such as renewable energy and ecological restoration. We are beginning to see some renewed investment in deepwater oil development in Brazil which has resulted in some new projects for our operations down there and an uptick in mining development activity in Chile that is sending some work to our operations in that country. Should economic conditions continue to improve in South America, our opportunities to compete for and obtain work in these areas should continue to improve as well.

Let's go to Slide 8. Slide 8 shows our backlog at the end of the third quarter 2018 or fiscal year 2018 compared with the end of fiscal year 2017 and the end of Q3 in 2017. As you can see, firm backlog has reduced somewhat over the past year and a portion of what we expect to deliver within the next 12 months increased somewhat at the end of Q3.

Let's go to Slide 9. E & E continues to work toward our strategic objectives with a forward view for alignment with marketplace opportunities we see being important for our future within the next three to five years, and for achieving both organic and acquisitive growth. In addition to focus on the sector and service areas shown on the slide, we have been working to secure new avenues for work at the regional and local levels within the U.S. with a focus on specific communities and opportunities they contain.

I would also mention that increasing our strategic partnerships with other firms for pursuing work is rapidly becoming an important avenue for us in opening up new and sizable opportunities for tapping new sources of revenue and getting some growth. Our objective is to access a fuller range of marketplace opportunities through strong partnerships rather than through conventional prime subcontractor type relationships. In recent months, we have been putting different types of joint venture arrangements in place with both large firms and small firms in bidding projects where we might not otherwise have had a competitive shot.

And as I described in prior quarters this FY, in addition to exploring and developing opportunities for mergers and acquisitions, we are putting great emphasis on recruiting new talent into the company for doubling down or making progress in areas of strategic interest.

Let's go to Slide Number 10. To summarize, we have continuing challenges in our U.S. operations, but we also see significant opportunity in several of our markets and we are pursuing them rigorously.

Results from our South American operations are improving and we are cautiously optimistic about continued improvement for the remainder of this year and for fiscal year 2019. Our liquidity position continues to strong and we continue provide a return to our shareholders with 61 consecutive semi-annual dividends and a yield of around 3.5% for our most recent dividend paid in February.

One last thing I want to mention, you may have seen our announcement last week that JoAnn Shea will be joining E & E in August as our Chief Administrative Officer. Ms. Shea will have the overall responsibility for operations of finance, IT and human resources and will report to the CEO. With 30 years of experience, she comes to E & E after having served 20 years at CH2M Hill. Most recently, Ms. Shea was Vice President of Finance at CH2M and twice served as the Acting CFO of that company.

We are very excited to have JoAnn join our leadership team at E & E and look forward to her strong leadership in the organization for helping us to achieve goals of accelerating growth and improving performance. That concludes our prepared remarks.

And with that, I would like to open it up for questions.

Operator: Thank you. And our first question comes from Peter Rabover with Artko Capital. Your line is now open.

Peter Rabover: Hey, guys. I guess a couple of questions. One, I saw this quarter that you had increased your indirect expense about \$600,000 in marketing and that seems to be, I guess, the majority of the decline in profits and maybe you could talk to us a little bit more about that, what the return on investment in that is. Thanks.

Gerry Gallagher: Okay. Well, I appreciate the question. Well, as I have described here in our remarks, we have not been getting the work we need from a couple of our core markets in the energy and federal sector, and we are having to work pretty hard to open up some new avenues for getting the work we need. So we are, I think, making good progress on that. As I described, we have secured a number of new contract vehicles that I think are going to help us out. So, I think the efforts -- the additional efforts that are going into those over the long-term are going to be important for achieving our objectives and it comes with a bit of a cost.

Peter Rabover: Okay. It sounds like you guys have made some progress on your internal control stuff as I just read in the Q, and so should we expect it to be certified in your financial statements for this year once you publish the 10-K?

Peter Sorci: Yes. We've made significant progress on remediating our material weakness, and by year end we do expect to be able to announce that we have completely remediated the material weaknesses.

Peter Rabover: Okay, great. And then maybe you guys can talk about your capital allocation strategies and you guys keep building up cash in the balance sheet, and what do you guys think about that? And I guess what your board thoughts are on that as well given the new make up with the board?

Peter Sorci: So, yes -- we have been accumulating cash with the objective and strategy of investing in the future of this company, and what we do -- the strategy is to look at potential acquisitions and to make other investments and some of which Gerry talked about in the increasing non-marketing costs. That is the strategy going forward and we do intend to continue on with those investments.

Peter Rabover: Okay. And I guess just maybe expand on the details of the challenges in some of the markets that you are seeing, I mean, you guys have -- especially in the prior markets, I know you have called out LNG project delays, but you guys have done a lot of work in renewable energy, and those markets seem to be going gangbusters. So, maybe that seems like to be a lot of opportunity that we are not seeing through the results, so maybe you can talk about the challenges here?

Gerry Gallagher: Okay. Well, yes, there have been challenges. And as I spoke earlier in my prepared remarks, historically, our largest projects by far have come in the energy sector and primarily from the siting and the studies and permitting associated with large natural gas pipeline projects in this country.

And over the last couple of years, there has been less of that. So we are not getting as much of that work in here as we have seen in the past.

There is a lot going on in the energy space. So of course, oil prices were down. They are back up again. We are seeing more activity in terms of oil production, but the work that generates the largest opportunities for us is in the natural gas area. LNG export terminals are going forward, not very quickly, there is increasing LNG exports out of the U.S. right now. There is going to be a need for additional export terminals.

What we are experiencing is that is moving quite slowly in terms of the commitment of investments to move those projects forward in earnest. We have a number of LNG port licensing projects that are ours, that are moving quite slowly or stalled, and we expect at least some of them to go forward in the coming year.

In the renewables space, that's changing as well. I wouldn't use the word gangbusters, but it's quite active, for example, in the solar area. In previous years, we had some very large utility scale solar projects. Recently, solar projects are quite small, distributed solar, but we are getting a lot of them, but not the bigger ones, we haven't been seeing those coming forward from investors.

A frontier area, a new emerging area in the U.S. is offshore wind development, that's a very different type of wind development from what we see onshore in this country. We see a lot of interest on the east coast U.S., some interest on the west coast, and we are involved in a number of those projects as I mentioned. And as we go forward, I think that's going to evolve and create some opportunities for us. The energy space is changing and our challenge is to adapt to that and provide the services they are going to be needing going forward.

When oil and gas cooled off for us a few years ago, we have stayed in there, it's going to remain a core sector for us. As it comes back to meet the demands for energy infrastructure needs, it will reemerge differently and it's our challenge to adjust and be relevant and provide the types of services that the next version of it will require.

Peter Rabover: Okay. And then I guess the last one is maybe if you could elaborate on the joint venture opportunities that you had mentioned in your prepared remarks, I would be curious to hear what -- the details on that, I guess, what you guys are thinking etcetera? Thanks.

Gerry Gallagher: Well, I can't tell you what they are, for competitive reasons here, but yes, we have entered into some joint venture arrangements with some other firms, larger firms, engineering firms, where together we can provide a fuller package and be together, more competitive in securing opportunities. We like the joint venture arrangements versus perhaps playing a subcontractor type of role. It provides us more certainty in terms of our level of participation in the project, provides us access to the clients and overall works better as a partnership rather than a prime sub role.

Our JVs that we are working on, and have entered into with smaller companies – including small disadvantaged, designated businesses, mentor-protege relationships, the advantages that the smaller firms have in terms of set-aside work as part of government programs through a joint venture arrangement with small firms – we have an opportunity to participate sometimes in some fairly large

projects with those smaller firms to have sort of exclusive opportunity through those types of arrangements, it opens those opportunities up to a larger firm like us as well.

Peter Rabover: Great. Thank you so much for all the color. I appreciate it. I will hop off the line then. Thanks.

Operator: Thank you. And we have a question from Randy Mehl with Stewardship Capital. Your line is now open.

Randy Mehl: Yes, good morning. Gerry, it seems -- you seem more encouraged about the outlook for both public and private sector in the U.S., so, a lot more opportunities in front of you. How do you feel about the talent side, so your talent pool and the available talent in the marketplace today?

Gerry Gallagher: I would say we are somewhat encouraged and that we are seeing more opportunities and a little bigger opportunities coming our way. I hope that continues. As far as talent goes, talent is incredibly important for a company like us to retain the good talent that we have and add to it as we evolve what we provide to the marketplace and what it needs, which is also evolving. So, we are always on the hunt for good people who can help in business development and have the resumes, the backgrounds, the capabilities and experience, the relationships that are going to be key for us to get into areas where we see some opportunity. We have an enormous amount of outreach in terms of identifying specific types of talent, qualities, and skills that we need from folks.

The talent recruitment effort in E & E is full bore, which is also important for our company in looking at the next generation of leadership in the company, developing talent from within to play leadership roles in our company as it changes and goes forward and grows and evolves. We need to cultivate the talent internally, bring people up where they have opportunities to move forward in their careers, but also super-important for us is to attract talent in from the outside as far as creating additional prospects for creating that next generation of leadership in the company. We're really interested in people who come in from other organizations, where they have been involved, and where they have been down the path that we want to go in terms of growth in mergers and acquisitions and so forth. Bringing in folks that have been successful, done things maybe differently, different methods, different kinds of ideas, different approaches to solving problems or developing new offerings in the market. Those types of people are very interesting for us as well.

So talent, internal -- developing it internally, attracting it from the outside, taking care of our people, our people are super-important to us, taking care of our people and convincing them to stick around and continue their career with E & E, so that we are all going to be successful together.

Randy Mehl: You don't feel concerned about your capacity to handle the types of work that are coming down the pipe right now?

Gerry Gallagher: In terms of talent, no, I am not concerned about that. We have got a great number of excellent project managers. We have on staff much of the expertise that we need to take on large projects. We do have in some cases, there are specialty requirements of projects where we don't have a particular skill or set of knowledge or geographic presence and we can tap that through relationships with other firms.

And we also make use of -- we have a lot of on-call and on-call type labor, people that can be available to us on a project by project basis. We stayed in touch with those folks if we need to search, if there is a project that has maybe a large field data collection component, where we need a lot of biologists out there and we need people to lead those teams. We have access to people who can come in and supplement our full-time workforce and help us get that done and that's something I think over the last four or five years, our COO has gotten pretty good at.

Randy Mehl: Okay, thank you very much. I appreciate it.

Gerry Gallagher: You are welcome. Thanks for the questions.

Operator: Thank you. And at this time, I am showing no further questions. This concludes today's Q&A session. I would now turn the call back over to Gerry Gallagher for closing remarks.

Gerry Gallagher: Well, thank you everyone for being on our call today. I appreciate that. Appreciate the questions. And I look forward to speaking with you again after our year end and our fourth quarter. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. Everyone have a great day.

END