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Earnings Call

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Presentation

Operator

Good morning. My name is Jasmine, and I will be the conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Third Quarter 2025 Conference Call. [Operator Instructions]

Please note that many of the comments made today are considered forward-looking statements under federal securities laws. As described in the company's filing with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed, and the company is not obligated to publicly update or revise these forward-looking statements.

In addition, on today's call, the company will discuss certain non-GAAP financial information such as adjusted EBITDA, adjusted net income and net servicing billing. You can find this information together with the reconciliations to the most directly comparable GAAP information in the company's earnings press release filed with the SEC on the company's Investor Relations website at investors.bowman.com.

Management will deliver prepared remarks, after which they will take questions from research analysts. Replay for the call will be available on the company's Investor Relations website.

Mr. Bowman, you may begin your prepared remarks.

Gary P. Bowman
Founder, CEO & Director

Thank you, Jasmine. Good morning, everyone. Thank you for joining our third quarter earnings call. Bruce Labovitz, our CFO, is here with me this morning.

I'm going to start today's call with a welcome to all new Bowman employees who joined us this quarter. After my introductory remarks, I'll turn the call over to Bruce, who will cover our financial performance. I'll then end the call with closing statements before opening it to Q&A.

Turn to Slide 3. The third quarter marked an important milestone in our continued evolution. For the first time, we surpassed a $500 million annualized gross revenue pace. This is a meaningful achievement, and the fact that we are ahead of schedule on this milestone, demonstrates both the strength of our business model and the capabilities of our skilled team of professionals.

For the third quarter, we delivered 11% year-over-year growth in both gross and net revenue and a 7.6% growth in adjusted EBITDA while maintaining healthy cash flow generation and a solid balance sheet.

Our net revenue for the quarter was $112 million and was supported by strong activity in transportation and power and utilities and energy. Together, these end markets grew over 20% during the quarter and account for more than 40% of our top line.

Importantly, our backlog grew nearly 18% year-over-year to $448 million. This sustained growth reflects continued demand across our end markets. Our book-to-bill ratio continues to be above 1, a clear indicator of the momentum we are seeing as we head toward the end of 2025 and into 2026. In fact, bookings in the fourth quarter are once again outpacing the prior quarter.

We've worked hard over the past year to regain our footing, and I'm proud to report that today we are a larger, more efficient, and more resilient organization than ever before. Our growing base of recurring public sector work and a solid foundation of private demand positions us well for the years ahead.

With that, I'm going to turn the call over to Bruce to review the financials in more detail. Bruce?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

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Great. Thank you, Gary, and good morning, everyone. While the third quarter marked an important milestone for Bowman in terms of reaching the $500 million annualized gross revenue rate, it also represents our achievement of 2 basic commitments we made to our shareholders this time last year, to prioritize GAAP profitability and to improve our conversion of earnings to cash.

This year, we've been hypervigilant about delivering on these 2 basic commitments because unlike political, macroeconomic and labor market uncertainties, these are outcomes we control. We're pleased to have delivered on these commitments.

For the third quarter and the 9 months ending September 30, we dramatically increased GAAP net income to $6.6 million and $10.9 million, respectively, compared to net income of $700,000 (sic) [$800,000] and a loss of $2.9 million for the same period last year.

Concurrently, we more than doubled our cash flow from operations to $26.5 million from $12.4 million, affirming the capital efficiency of our effort. We achieved this improved performance in part through consistent and sequential growth in billed revenue throughout this year with an 11% year-over-year increase in net revenue in the third quarter with no erosion of our net to gross ratio.

Organic net revenue, which excludes revenue from acquisitions closed after September 30, 2024, grew 6.6% for the third quarter and now stands at approximately 11% through 9 months. Also contributing to our improved profitability was our ability to achieve the benefits of scale with revenue growth rates that outpace overhead growth rates.

To that end, as revenue grew year-over-year, total overhead, we define as COGS and SG&A, was down 290 basis points as a percentage of net revenue for the quarter at 89.5% and down 500 basis points for the 9 months at 89%. This disciplined approach to overhead growth will be a significant contributor to sustained positive GAAP earnings and an industry-leading margin profile.

Turning to some non-GAAP metrics. Adjusted EBITDA in the quarter increased by 8% to $18.3 million, representing a 16.3% margin on net revenue with adjusted EPS of $0.61, doubling Q3 2024. Through 9 months, adjusted EBITDA is up nearly 25% to $53 million and a margin of 16.6% on net revenue, a 150 basis point year-over-year expansion with adjusted EPS of $1.26, again, doubling adjusted EPS in the same period last year.

Absolute growth in revenue was broad-based with Transportation up 20%, Power, Utilities and Energy up 17% and Building Infrastructure up 8%. Natural Resources & Imaging, to which we allocated all Surdex related manned aerial and high-resolution mapping revenue last year saw a slight decline as we now allocate that revenue in a more deliberate manner across verticals.

On an organic basis, Building Infrastructure grew 6%, Transportation grew 10%, Power and Utilities grew 13% and Natural Resources & Imaging grew around 1%.

In previous quarterly calls, we've been asked about the relative gross margins of our primary verticals. We've suggested we believe they are relatively equal apart from Transportation, which has a lower contribution margin based on the nature of its primarily cost-plus contracts.

To corroborate this assertion, we calculated the gross margin of each vertical for the third quarter, during which gross margin was 53% and concluded that our representation was accurate. During the quarter, gross margins by vertical were 56% for both Building Infrastructure and Power and Utilities, 57% for Natural Resources & Imaging and 46% for Transportation.

With Building Infrastructure, gross margin is benefited by more fixed fee contracting. With Natural Resources & Imaging, gross margin is advantaged from a disproportionate use of labor leveraging technology. With Transportation, we enjoy meaningfully longer and larger government contracts that have lower labor multipliers, but generally generate higher utilizations and overhead leverage along with lower turnover costs. We will include this gross margin analysis in our quarterly presentations going forward.

We ended the quarter with a record $448 million backlog, up 18% year-over-year, with 38% of that backlog from Building Infrastructure, 30% for Transportation, 23% from Power and Utilities and 9% from

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Natural Resources & Imaging. This imbalance relative to revenue should indicate continuing diversification of our revenue mix, but it's likely not as dramatic as the percentages in backlog today reflect.

Operating cash flow totaled $10.2 million for the quarter and sits at $26.5 million year-to-date, both more than twice last year's levels. While we are pleased with this significant increase in conversion, we're confident there is room for continuing improvement.

Our balance sheet remains a strength and provides a solid foundation for growth. We ended the quarter with $16 million in cash and $57 million drawn on our revolver and net debt of approximately $105 million with a net leverage ratio of 1.5x trailing 12 months adjusted EBITDA.

After quarter end, we expanded our revolver to $210 million from $140 million, adding PNC Bank to the existing Bank of America and TD Bank syndicate. As a result, we have roughly $150 million in available liquidity for investment in growth initiatives.

Our internal innovation incubator, the BIG Fund, continues to produce high-value ideas and opportunities that present the prospect of tangible returns for us long term. We're actively engaged in advancing concepts that accelerate revenue growth through the deployment of proprietary AI-enabled asset control kits, which extend engagement with clients throughout the asset lifecycle.

With concepts that expand the application of the proprietary technology tools we acquired in the recent ORCaS acquisition, which drastically reduced the time it takes to perform repetitive feasibility and planning functions, thereby unlocking additional labor utilization.

Also concepts that connect all Bowman operating systems and platforms with AI-enabled capabilities, which empower employees to ask Bowman plain English questions, the timely informed answers to which improved business acquisition efforts and streamline proposal generation, estimation and profitable project execution.

Lastly, we're working on ideas that modify, extend and evolve the inherent capabilities and uses of our high-end geospatial assets to expand their applications, improve the quality of capture, extend revenue opportunities, shorten delivery times and increase return on investment.

All investments in innovation are measured against defined return thresholds, ensuring innovation spending meets the same rigorous financial discipline as acquisitions. To date, we have expended a little bit over $300,000 on advancing these ideas, the cost of which are not added back to adjusted EBITDA and the benefits of which are not yet contemplated in our current projections.

And while not a BIG Fund project, we also completed the upgrade of our accounting and enterprise management platform this quarter, an effort that consumed a meaningful amount of time and energy, but will be a solid foundation for our next phase of growth. These costs will likewise not add back to adjusted EBITDA.

It wouldn't be an earnings call if I didn't reference tax, so here it goes. Following enactment of OB3, we filed method change notifications with the IRS that allowed us to unwind our uncertain tax position with retroactive audit protection. The change in law and associated adoption by Bowman of the new standards released approximately $52 million of deferred tax assets and other non-current liabilities on our balance sheet and released $3.5 million in P&I accruals, which had previously run through the tax expense.

In addition to committing to GAAP profitability and cash flow conversion, we also committed to the reduction of non-cash stock compensation as a percentage of revenue. For the first 9 months of 2025, stock-based compensation totaled $14.2 million or 4.4% of net service billing, down from 7.3% a year earlier. Excluding about $1 million of pre-IPO related issuances, adjusted stock-based compensation was approximately 4.1% of net revenue.

As we've discussed in the past, these pre-IPO grant expenses represent the run out of GAAP costs related to awards issued prior to our IPO in 2021 and are not part of normalized long-term incentive costs. We expect total non-cash stock compensation for 2025 and '26 to be roughly $19 million and $20.5 million,

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respectively, which is consistent with our pledge to reduce equity compensation as a percentage of revenue while balancing its benefits for recruiting, retention and efficient capital allocation.

Thank you for your continued confidence in Bowman. With that, I'll turn the call back over to Gary.

Gary P. Bowman
Founder, CEO & Director

Okay. Thank you, Bruce. As Bruce mentioned, our improved profitability and working capital management once again drove strong cash flow this quarter, with cash conversion now at about 50% year-to-date. Our margins and cash efficiency place us solidly in line with the best performing firms in the E&C space.

Now let me take a few minutes to share a summary of our market performance and outlook as we move into 2026. Transportation remains one of our most stable and resilient end markets, delivering double-digit growth year-to-date. Our expanding client base spans a broader range of state and municipal transportation agencies than ever before.

We're deeply engaged across state DOT programs and large local agencies throughout the Pacific Northwest, Midwest and East Coast, where our teams are supporting multiyear bridge, roadway and multimodal infrastructure programs.

Our long-standing relationship with DOTs continue to be a key competitive advantage, creating recurring opportunities as agencies seek partners with both specialized technical expertise and the capacity to scale across geographies.

We currently have strong bridge and roadway pipelines with backlog visibility through 2026. We continue to benefit from recurring construction management and inspection programs with multiple state agencies, including a major multiyear assignment with Illinois.

Our ports and harbors practice, which is part of our Transportation segment, continues to gain momentum with coastal and port authorities, extending our reach into critical intermodal and maritime infrastructure projects in regions, including Houston, Philadelphia and the Pacific Northwest. We have a growing active backlog in ports and harbors with anticipated wins continuing through 2026 in existing and new geographies.

Overall, we expect transportation to maintain steady, healthy growth. Less than 25% of IIJA funds have been released so far for permitted transportation projects, which we believe, coupled with state programs, ensures multiyear nationwide demand runway. We expect transportation will continue to provide the backbone of stability and recurring revenue across our portfolio.

Our Power, Utilities & Energy division continues to be our fastest-growing market, up 38% year-over-year and driven by national investment in electrification, renewables, grid modernization and data infrastructure.

The recent acquisitions of Sierra Overhead Analytics, ORCaS and Lazen Power Engineering significantly enhance our strategic positioning within this high-growth market. Sierra and its affiliate ORCaS, expand our capabilities in technology-enabled engineering, adding automation, precision mapping, hydrology and optimization tools that improve project delivery and efficiency across renewable energy, data center, and utility scale infrastructure design. These digital solutions strengthen our ability to provide faster, smarter and more cost-efficient design workflows to clients in the power and energy transition space.

The addition of Lazen establishes our platform in high-voltage overhead transmission line design, immediately positioning us to compete in one of the fastest-growing recurring revenue segments of the power industry. Lazen's expertise enhances our credentials with major utilities and transportation operators, transmission operators, while complementing our advanced geospatial and aerial imaging services for power corridor mapping.

Together, these acquisitions broaden our reach across the generation to grid continuum, connecting our existing strengths in site design, renewables and data centers with the infrastructure that delivers power across the U.S.

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Looking forward, Power, Utilities & Energy represent a long-term growth engine for us. We expect continued revenue and margin expansion in 2026 as integration matures, our national footprint expands and our clients increasingly turn to us for end-to-end power infrastructure solutions.

Our well-balanced Building Infrastructure business grew by just over 8% year-over-year in gross revenue, reflecting solid execution in public and mixed-use work that continues to balance softer conditions in the residential space.

While some private development remains slightly constrained by interest rates, we see clear rebound potential emerging in mid- to late 2026 as financing conditions improve. Our current Building Infrastructure projects continue to generate long-term revenue visibility through 2027, and we remain well positioned to capture renewed private sector growth as market conditions improve.

Our Natural Resources & Imaging segment remains a steady performer and margin stabilizer, representing roughly 11% of our net service revenue. We have robust visibility into 2026 in this market, supported by recurring federal programs and strong municipal demand in water, environmental and geospatial services.

Automation and recurring federal mapping programs will continue to underpin growth in this segment, and our geospatial and remote sensing services continue to enhance efficiency across our broader business. Operating margins in this market remain among the highest company-wide, and we expect growth to be driven by technology-enabled delivery and long-term public sector funding.

Now I'd like to address the current operating environment, which includes the government shutdown. While the shutdown is causing some delays in project progression, invoicing collections within select federally supported programs and federally adjacent projects, our direct exposure to federal contracts remains limited, and we are not experiencing any unusual cancellation activity.

Most of our public sector work is performed for state and local governments, which provide a natural buffer to extended interruptions such as the current government shutdown. We continue to monitor this particular situation closely, noting that the longer the shutdown continues, the more likely it is to extend near-term revenue somewhat further into the future.

Looking ahead, our focus remains clear. We'll continue to convert backlog into revenue while improving utilization and project delivery efficiency. We will aggressively leverage technology and innovation to enhance margins and scalability, and we'll deploy capital strategically through disciplined M&A and organic growth derived from continued investment in people and systems.

We're reaffirming our full year 2025 guidance. We're also initiating 2026 guidance of net revenue between $465 million and $480 million and an adjusted EBITDA margin between 17% and 17.5%.
With that, I'll now turn the call back to Jasmine for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Laura Maher with B. Riley Securities.

Laura Maher

So some of the larger specialty contractors have mentioned total solutions packages. Do you see this creating competitive pressure in your data center business?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

No, I don't think that that's going to impede on any of the work that we do. I think it's similar to any trends in design build or that don't necessarily compete with other industries. I think it's a big market. And even when firms offer complete solutions, they end up subcontracting a good portion of that to specialized contractors like us anyway. So I don't think that's a real threat.

Gary P. Bowman
Founder, CEO & Director

I agree with that.

Laura Maher

And then one more. On M&A, are there specific service lines or regions where you still see gaps relative to your growth objectives?

Gary P. Bowman
Founder, CEO & Director

Yes. We're really focused on some of these markets that we've been focused on expanding into for years now, especially transportation, certainly power and energy and data centers and also water-related opportunities as they come along. No specific regions we're focused on. We find the, I'd say, usual suspects appealing Texas, California, the Southeast, but we're not particularly focused on any particular region in the U.S.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

It's more service line and skill set focused than it is geographically focused.

Operator

Our next question comes from Andy Wittmann with Baird.

Andrew John Wittmann
Robert W. Baird & Co. Incorporated, Research Division

I guess I'll start with some top line questions here. It looks like the fourth quarter guidance here for '25 is implying a bit of a revenue acceleration to something in the double digits. So I think that's right. Bruce, I was just wondering if you could comment on which end markets you think will pick up the growth rate here as you move into fourth quarter and what gives you confidence in that?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. The pick up is a couple of days' worth of work. It's not -- I don't know that I would necessarily say it's anything extraordinary. We think that across the board, we've got a healthy backlog of work that's making its way through. Sales are strong and a lot of the sales have been strong in what we consider to be

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shorter-term turn contracts, areas we can earn revenue relatively quickly. So we have a good sense that with what would be a couple of days' worth of improvement in the fourth quarter, we can grow revenue.

Andrew John Wittmann
Robert W. Baird & Co. Incorporated, Research Division

A couple -- sorry, Bruce, the idea of a couple, you're saying there's more work days in the fourth quarter of ['20]?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

No, I'm just saying that we have -- it's -- the amount of revenue that is to be accelerated is the equivalent of just a couple of days' worth of work. So a couple of improved utilization weeks here and there.

Andrew John Wittmann
Robert W. Baird & Co. Incorporated, Research Division

Got it. That makes sense.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. We don't do the days of the quarter game. Like we -- quarters do have extra days and more holidays, but we really just think of them as quarters.

Andrew John Wittmann
Robert W. Baird & Co. Incorporated, Research Division

Yes. That's what I thought. That's why when you were talking about days' worth of work, I was trying to make sure that -- basically you're saying get a little bit more utilization out of the people. And what's really great about that, that accrues to the margins even better. So got it. So that makes sense.

And then I guess just kind of related to that, in the performance in the third quarter, I thought I'd ask a little bit about margins there, too. And your business mix is changing a lot as you've been diversifying. So I just was wondering -- and maybe I missed a little bit of the comments at the early part of the conference call, but did you comment on the margins? I guess they were down slightly year-over-year. Was that like investments in growth? Was that utilization rates? Was that mix? Every quarter is kind of its own thing, but I wanted to try to understand that a little bit better as it compared to the prior year.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. I think, Andy, every year, as you said, every quarter is a little bit different. We talk about how we time labor sometimes can impact margins. You have to prepare for what's coming next. And so sometimes we'll get a little bit heavy on labor in a quarter in anticipation of stronger growth in the next quarter.

We are not downsizing labor at the moment, contrary to employment reports that have come out. We're in the hiring game. And so when labor becomes available, we take it. The margin change, there is a couple of hundred thousand dollars' worth of revenue on this fixed set of labor. So we talk about our bands today is a 16% to 18% margin. We'll fall in there between periods. And so I don't think there's anything to read into a 40 basis point change between last year and this year in margin.

Andrew John Wittmann
Robert W. Baird & Co. Incorporated, Research Division

And then I guess there's a similar question that just happened since you gave us initial guidance for '26. Your margins are either up a little or up a little bit more to the 17% to 17.5% range. Obviously, this is, I think, a good year to be able to get the margins up there. And I was just wondering kind of what the knobs are to get you there next year. You talked about the overhead leverage. I have to imagine that's a big part of it.

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But what other things? Is mix in your favor? Maybe, Bruce, why don't you just kind of fill us into what do you think is going to drive the year-over-year margin expansion in '26?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. In large part, I think it is improved overhead leverage, right? We continue to be very focused on growing revenue faster than we grow overhead. And so there's additional margin expansion to be had from that. There's also improved utilization of our labor. As we look at next year and we look at the mix of work, we think we can do it at a slightly higher revenue factor, which is our internal measurement of the efficiency of our labor. And so we gain a little bit of margin, which is somewhat embedded in that total overhead when you think about it, because we kind of combine those -- that together. But it's really a combination of the way we are utilizing geospatial technologies and technologies that exist today to advance the efficiency of the workforce and grow revenue quicker than we're growing overhead.

Operator

Our next question comes from Alex Rygiel with Texas Capital.

Alexander John Rygiel
Texas Capital Securities, Research Division

Very nice quarter there. As it relates to data centers, can you talk a bit about bidding opportunities and how you see that progressing sort of in 2026 versus maybe 2025 and 2024? Are you seeing the sort of bidding opportunities or new project opportunities to be greater than the prior year? Or is the average project or contract size kind of greater than they have been in the past year? Just a little bit of color on that.

Gary P. Bowman
Founder, CEO & Director

Yes. Alex, it's certainly tailwinds in that market. So there are continuing greater number of opportunities. The facilities are getting larger. Really as the data centers, we've spoken to this is, with AI as opposed to before the lack of being critical to be located proximate to fiber just provides a lot more opportunities for data centers spread out across the country. We're seeing lots of drivers to locate data centers near natural gas to power them. And our acquisition of e3i, as an example, just has expanded our network. So that in itself expands our opportunities.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

I think Alex, the other thing that's -- that data centers have become the hot ticket item for landowners. And so to some extent, there's a little bit of a phantom amount of data center work that occurs within our Building Infrastructure portfolio. Because when landowners come to us and say, what are the options -- we want our project to be a data center, right? Because everybody wants their project now to be a data center.

There's feasibility work we do within that Building Infrastructure segment related to data centers. But until it becomes a data center, it doesn't really become part of the kind of what we call the data center portfolio of revenue. So there's a little bit of -- because there's an increased availability of opportunity for lands to be data center, there's more activity in it.

Alexander John Rygiel
Texas Capital Securities, Research Division

And to take that another step, clearly, landowners in the past have seen sort of solar as being a big opportunity. How do you see your solar business right now and sort of as we think about the next 1 to 2 years?

Gary P. Bowman

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Founder, CEO & Director

For the next year, we're seeing it very strong. It's really being driven by the, I guess, a moment in the tax credits next year that's driving a lot of demand to accelerate planning of projects to get a critical mass of the project done before the middle of next year. So we see it very strong in 2026, certainly likely to taper off in 2027, but we're well positioned in that market and the development of solar projects is not going to go away. So we see a very strong 2026, cautious outlook after that.

Alexander John Rygiel
Texas Capital Securities, Research Division

And then lastly, your M&A activity this year has been, I don't know, a little bit slower than the last few years. Any comment on that and how we can think about M&A activity in 2026?

Gary P. Bowman
Founder, CEO & Director

We're still committed to M&A. We got a strong pipeline of opportunities. I think we've shifted maybe more focus of our M&A to really focus on strategic opportunities. And certainly, with the new revolver in place and that dry powder really positions us for some strong M&A activity towards the end of this year and certainly into 2027. So we're still fully committed to inorganic growth to supplement our organic growth.

Operator

Our next question comes from Aaron Spychalla with Craig-Hallum.

Aaron Michael Spychalla
Craig-Hallum Capital Group LLC, Research Division

Maybe first on Building Infrastructure. Can you kind of talk about how you're thinking about growth in that segment in 2026? It sounds like there's some crosscurrents between some of the subareas. And just maybe talk about your ability to kind of move labor kind of as projects kind of ebb and flow in that segment.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Well, the -- nice thing about our business is the skill set that we apply to Building Infrastructure is transferable to many of our other markets. So we do move that labor around readily. We're seeing with the interest rate decline, we're seeing projects come off the shelf earlier in the year and was a little more localized geographically.

As we come into the end of the year here, we're seeing it more broadly across the geographies that we're located in. So we're probably looking at in 2026, maybe as we allocate labor, I would bet the directionality would be some labor allocated toward the Building Infrastructure as opposed to away from it.

Aaron Michael Spychalla
Craig-Hallum Capital Group LLC, Research Division

All right. And then maybe on OpEx, just -- there was an earlier question, but kind of a pickup in SG&A this quarter. Is there some kind of allocation of projects and timing there? Is that kind of in advance of growth moving forward or just opportunistic? Maybe just a little bit of color on that.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. One of the reasons we talk -- we try to talk about total overhead as opposed to the SG&A relative to COGS is that our labor and operations, depending on utilization will be allocated a little bit more towards COGS or a little bit more towards SG&A in any given period depending on the proportion of direct and indirect labor.

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I wouldn't say there's anything consequential that's really driven SG&A higher. It's going to grow as we grow. The question is can we meter it at a lower pace than revenues growing. So I really look at it as the overall all-in is down as a percentage of revenue, and that's really what we're focused on.

Aaron Michael Spychalla
Craig-Hallum Capital Group LLC, Research Division

And then just maybe one last one. I mean, on labor, how are you feeling about availability there as you grow the business moving forward?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

We have a very aggressive talent acquisition group. So it's a labor challenged market. I mean, in a good way, there's a challenge to find staff, but they're out there. And we have a good machine to recruit, onboard them. So it's -- we're well positioned to bring all the labor that we need.

Gary P. Bowman
Founder, CEO & Director

And actually it's why we are so focused on developing labor leveraging innovation within the organization, not to shrink the labor pool, but to not have to grow it as dramatically as otherwise.

Operator

Our next question comes from Jeff Martin with ROTH Capital Partners.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

I wanted to dive into a specific segment of the backlog. If you look at power and utilities, it looks like it's on a trajectory to double from where it was in the middle of 2024. Where are you seeing the strongest backlog growth there? And is this the segment that you're most focused on for M&A?

Gary P. Bowman
Founder, CEO & Director

We're seeing it certainly in the linear projects, the transmission corridors -- we've included data centers in there now. So our data center activity certainly is growing that. Is it -- I wouldn't say it is the primary focus of M&A, but it is one of a couple of primary power and utilities, energy, certainly transportation if I pick areas that we're really focused on and the opportunities that really -- we find exciting.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

And then just how would you characterize the environment in terms of the timeliness of projects? And by timeliness, I mean, starting on time, no delays, no weather delays, no other factors driving. because I know Transportation is a bit of a wildcard. I mean the large projects that can come on, they can get pushed out a month or 2, they can get pushed out a little longer. If you could just give an update of kind of how that's progressed this year. I know going back several quarters, Transportation kind of caused some disruption for you. So any insight there would be really helpful.

Gary P. Bowman
Founder, CEO & Director

We did have some projects that got delayed in the starts. They didn't go away, so this business is lumpy. That's why we guide to a year, not a quarter. So there's -- we have seen some delays in starts here recently. But just that's only attributed to project-specific issues, nothing in the macro economy or in the funding of transportation driving that.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

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And then how would you characterize the M&A environment from a valuation standpoint? I know when you allude to strategic acquisitions, I assume those being larger than you've done historically. So just curious how you're seeing the competitiveness of those more strategic level acquisitions out in the market today?

Gary P. Bowman
Founder, CEO & Director

It's competitive. I'll say no more competitive than it has been over the last year or so. But these strategic kind of opportunities, they drive a lot of attention. So it's -- we have to sharpen our pencil. We have to sell ourselves, but it's -- we're winning out on our share of nice strategic opportunities.

Operator

Our next question comes from Jean Veliz with D.A. Davidson.

Jean Franco Veliz
D.A. Davidson & Co., Research Division

Just a quick question on some of the comments you made about hiring. So you guys are -- said you're in hiring mode. And then I just wanted to sort of understand with some project delays and this growth that you're experiencing, how would you characterize sort of the growth cadence in 2026 versus previous year? Should we expect some -- maybe a higher pickup in the first half of next year versus this year, I guess?

And how should we think about EBITDA margins given that there could be some increase in SG&A? Or I guess, should I think about differently as you progress through the year, do those efficiencies start to kick in? And when would they kick in?

Gary P. Bowman
Founder, CEO & Director

I think one thing we're hoping for, for next year, the first half of this year was a relatively chaotic time with a lot of disruption associated with uncertainty around tariffs and other economic issues. And so I think that, that stifled the first half a little bit. So hopefully, ex that factor, we'll see a little bit more balanced growth first quarter, second quarter of next year into third and kind of through the end of the year. So I think our cycles are relatively the same. Hopefully, there'll be maybe a little bit more calm with rates lower and some of the transition issues behind us. Are you there?

Jean Franco Veliz
D.A. Davidson & Co., Research Division

In terms of the EBITDA margins, yes -- thank you so much for all the comments and color. But I just sort of wanted to understand a little more with the pickup in projects or expected work, I guess, going into the fourth quarter, should we see it kind of come down to second quarter levels in terms of SG&A? Or it should be more in line with what you experienced this quarter?

Gary P. Bowman
Founder, CEO & Director

I think it will be in between.

Jean Franco Veliz
D.A. Davidson & Co., Research Division

Makes sense. And just, I guess, into 2026, going back to my first question, should we expect more efficiencies that you talked about have a greater impact in SG&A sort of from the start of 2026? Or will that develop more as you head into the second half of 2026. Any color or comment around that helps.

Gary P. Bowman
Founder, CEO & Director

Yes. I would expect it to be more beneficial on a relative basis in the second half of the year, but still be beneficial in the first half of the year.

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Operator

There are currently no questions registered. [Operator Instructions] There are no questions waiting at this time, so I'll pass the conference back over to the team for any closing remarks.

Gary P. Bowman
Founder, CEO & Director

Thank you, Jasmine, and thank you, everyone, for joining us on this call this morning. We're really looking forward to finishing out the year on a high note and certainly looking forward to a banner 2026.

So thanks for all the employees who are listening for all you're doing and for all the investors for the faith you put into us and for the analysts for staying in touch with us.

With that, I'm going to wrap it up. Good morning, everyone.

Operator
Ladies and gentlemen, that will conclude today's conference call. Thank you for joining.

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