

S&P Global
Market Intelligence

**Bowman Consulting Group
Ltd.** NasdaqGM:BWMN

Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Megan, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group Second Quarter 2024 Conference Call.

[Operator's 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 filings 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 service billing. You can find this information together with the reconciliations to the most directly comparable GAAP information in the company's earnings press release and 8-K filed with the SEC and on the company's investor website at investors.bowman.com. Management will deliver prepared remarks, after which they will take live questions from published research analysts. Throughout the call, attendees on the webcast may post questions for management to answer on the call or in subsequent communications. But there will be no live Q&A from the webcast attendees. Replays of the call will be available on the company's investor website. Mr. Bowman, you may begin your prepared remarks.

Gary Bowman

Thanks, Megan. Good morning, and thank you for joining the Bowman Consulting Group Second Quarter 2024 Earnings Call. With me this morning, Bruce Labovitz, our CFO. I also want to welcome all of our new employees, including everyone who joined us recently from Element Engineering in Colorado and the FCS Group in Washington State. This morning, I'm going to start off with some introductory comments, after which Bruce will discuss our financial results. I'll then come back on the line for some additional remarks about our trajectory into 2025 and end with Q&A. Okay. During the 3 months ended June 30, 2024, we generated record quarterly gross and net revenue, surpassing \$100 million in a single quarter for the first time. While short of expectations, it is a meaningful advance toward our goal of a \$500 million annual gross revenue pace within our first 5 years as a public company. The acquisitions we made during and after the quarter expanded our geospatial business and increase our public sector revenue, add capabilities around renewable energy engineering and they broaden our growing national water services practice.

I'm pleased with the evolving position of the firm in the marketplace and the strategy that we're using to grow the business. It gives me great confidence in our collective ability to execute on our long-term vision. So during our quarterly calls and as we meet with investors, we spend a lot of time distinguishing between organic and acquired revenue and the associated growth rates. It's sometimes a tricky distinction to make because while we're highly acquisitive and much of our growth has been through acquisition, we are also both committed to and highly proficient at post-closing integration. By the time an acquired firm reaches its 12-month anniversary closing, it is often challenging to distinguish it within the overall organization and even more difficult to disaggregate it from our overall results of operations. In most cases, we have, by that time, integrated the systems, individual practice areas and professional staff throughout Bowman. While this enables us to be efficient at work sharing unconstrained by geographic boundaries or legacy affiliations, it makes reporting on organic and acquired growth to challenge.

As opposed to seeing this as a negative, it's an aspect of our approach that we're proud of and that we believe distinguishes this from many of our peers and adds value for our shareholders. Bruce will present a deeper dive into growth rates in his presentation. But suffice it to say, we believe our diversification efforts have been extremely impactful. With this, I'm going to turn the call over to Bruce to discuss financial results. Bruce?

Bruce J. Labovitz*Executive VP & Chief Financial Officer*

Thanks, Gary. Let's turn to Slide 4. A quick reminder, we refer to net service revenue, net service billings and net revenue interchangeably. This is a non-GAAP revenue metric that eliminates pass-through billings associated with subcontractors and outside production costs. Since pass-through billings are generally without markup net revenue is meaningful because it reflects margin contributing revenue generated by our workforce. Reconciliations of all non-GAAP metrics we'll discuss are available in the press release we issued last night. Let's start with the quarter. Gross revenue for the second quarter was \$104.5 million, which, as Gary mentioned, is a milestone for us. Net revenue was \$94 million, representing a 27% increase over second quarter 2023, with a 90% net to gross ratio, which shows growth of net revenue is keeping pace with the growth of gross revenue. Gross margin was slightly improved during the quarter at 52% compared to 50% last year, with SG&A holding steady at around 52% of net revenue. Net loss before tax increased by about \$1 million to a loss of \$3.2 million from a loss of \$2.2 million.

Net loss after tax increased by approximately \$1.4 million to a net loss of \$2.1 million. Our tax benefit in the quarter was approximately \$1.2 million after accounting for the unwinding of our uncertain tax position relating to Section 174 R&D expensing, -- more on that in a bit. Adjusted EBITDA was up 21% or \$2.4 million for the quarter at \$13.4 million, which is a 14.3% margin on net revenue, not where we had hoped it would be, but up 20 basis points over first quarter 2024, nonetheless, so in the right direction. We're committed to holding overhead, and we're taking actions to ensure our labor is rightsized for our adjusted revenue projections, which positions us for higher margins in the second half. Fortunately, this does not require extreme or dramatic action to accomplish. Turning to the first half of 2024. Gross revenue for the 6 months ended June 30 was \$199.4 million. Net revenue was up 27% or \$38.3 million at \$179.7 million as compared to the first half of 2023. Gross margins for the 6 months was slightly improved at 52% compared to 51% last year, with SG&A up around 1 percentage point at 52% of net revenue.

Net loss after tax increased by approximately \$2.8 million to a net loss of \$4.6 million. Adjusted EBITDA was up 23% or \$4.8 million for the 6 months at \$25.5 million, which is a 14.7% margin on net revenue. Let's turn to Slide 5. Non-cash stock compensation was just under \$6.1 million in the second quarter, down nearly 12% from the second quarter of 2023 and nearly 23% from the first quarter of 2024. We're currently projecting non-cash stock compensation for 2024 to be in the range of \$24 million to \$26 million, including accruals for 2024 related awards that will not be issued until early 2025. I'll point out that the number in the future expense table in the stock comp footnote of the 10-Q is limited to issued awards only. Let's turn to Slide 6. Based on net losses in the quarter and the 6 months, basic and diluted EPS are the same in each period at -\$0.13 for the quarter and -\$0.24 for the year. Basic and diluted adjusted EPS, also a non-GAAP metric, were both -\$0.03 for the 3 months, and they were +\$0.17 and +\$0.16, respectively, for the 6 months.

Let's turn to Slide 7. Second quarter gross revenue by vertical was impacted by the introduction of Surdex as their revenue was allocated to the emerging markets vertical. This resulted in a slight dilution of the other verticals with building infrastructure at 53%, transportation at 18%; power at 19% and emerging markets at 9%. Surdex related revenue will continue to be included in emerging markets for the remainder of the calendar year. Let's turn to Slide 8. Now I'm going to take a few minutes to discuss organic growth in a bit more detail. In our earnings release, we reported organic growth consistent with how we've reported it in the past. This approach to organic growth eliminates acquisitions from the acquired revenue bucket after their 12-month closing anniversary and reclassifies their prior period revenue as nonacquired. We then compare the results. On June 30, 2024, the acquired revenue pool included Excellence, Dennis, CFA, Blankinship, High Mesa, Hess-Rountree, TCE, Speece Lewis, Surdex and more. Richter, Fisher, Pomona, MTX and Infrastructure converted to non-acquired.

Based on that approach, the underlying disaggregated organic growth of net revenue in the second quarter by vertical was 33% for emerging markets, 17% for transportation, 10% for power and effectively 0% for building infrastructure, resulted in the reported weighted average of just around 6%. By the same approach, the underlying disaggregated organic growth of net revenue by vertical for the first 6 months of 2024 was 57% for emerging markets, 23% for power, 15% for transportation and around 2% for building infrastructure, resulting in a weighted average of just around 10%. This quarter, however, we went a little

further and evaluated organic growth for the first half of 2024 in 2 additional ways. First, we looked at it on a pro forma as adjusted basis, whereby we increased the base of revenue in the first half of 2023 to add pro forma first and second quarter results for the companies acquired during the second quarter of 2023. This effectively normalized their revenue for the period, although it no longer ties to our reported revenue. For the first half of 2024, we again eliminated revenue from the companies acquired after the second quarter of 2023.

Second approach, we looked at it on a pro forma as eliminated basis, whereby we eliminated all revenue from acquisitions completed in both 2023 and 2024 from both 2023 and 2024 revenue. This effectively created a level playing field of revenue for the first half of '23 and '24 based on the end of 2022. In the first case, pro forma as adjusted organic growth of net revenue disaggregated by vertical for the first half of 2024, was 57% for emerging markets, just under 20% for power just under 15% for transportation, a negative 1.4% for building infrastructure with a weighted average of 7.1% for the 6 months. In the second case, pro forma has eliminated organic growth of net revenue by vertical for the first half of 2024, was 50% for emerging markets, 9.7% for power, 11.4% for transportation, a -10% for building infrastructure with a weighted average for the 6 months of 14% for nonbuilding infrastructure, a -1 overall. Keep in mind, this approach ignores all organic growth associated with acquisitions from the first half of 2023 and beyond. Let's turn to Slide 9. Transitioning to the balance sheet.

We had approximately \$71 million of net debt at the end of the quarter with \$23 million in cash and over \$72 million available on the new revolver. Our debt to adjusted EBITDA ratio was just under 1.4x on a trailing 4-quarter basis. There's no distress with respect to our capitalization and capabilities to continue to invest in growth. With respect to cash flow, we generated \$5.6 million of cash from operating activities during the 6 months, which is roughly 2.5x last year's results. CapEx spending was roughly \$7.5 million or 3.7% of gross revenue during the first half, which I will point out is the total of the purchase of property and equipment and property and equipment acquired under finance leases lines on our statement of cash flow, important that you have these 2 together. We're pleased with our 70% free cash flow conversion from adjusted EBITDA after CapEx. Shares outstanding on June 30, 2024, was \$17.6 million. As of today, including subsequent acquisitions, buy box and withhold to cover activity and activity under our incentive bonus plan accounts approximately \$18 million with approximately \$1.3 million of those shares being subject to forfeiture.

There is an additional 700,000 shares of performance stock units, which vest based on total shareholder returns over the next 4 years. Those are not included in today's outstanding share count. Returning to R&D. We reversed the uncertain tax position this period in anticipation of finalizing our 2023 returns in October. Between diminishing likelihood that the Senate would act on the house resolution to repeal the tax change retroactively and increasingly unfavorable guidance, we decided it was time to unwind the position. The reversal alone had no effect on the P&L with only reclassifications between long- and short-term liability accounts on the balance sheet. The only real net impact was the reversal of approximately \$5 million of previously accrued penalties and interest through our tax provision. In the future, if the tax is repealed, we will adjust our accounting accordingly. Otherwise, this is case close. Let's turn to Slide 10. As Gary mentioned in the release yesterday, backlog is up 19% year-over-year and 5% as compared to the end of last quarter. The distribution of backlog on June 30 was 48% building infrastructure, 27% transportation, 18% power and 9% emerging markets.

This relative increase in transportation after the increase for emerging markets is reflective of some of the issues we've been having with transportation starts. Let's turn to Slide 11. Lastly, as detailed in the press release, we're revising and narrowing our outlook for 2024 net service billing to a range of \$375 million to \$385 million and are likewise adjusting our outlook for adjusted EBITDA to a range of \$58 million to \$63 million, implying a midpoint margin of around 16%. While we're not pleased with having to lower guidance for the first time as a public company, we look forward to the reset and the ability to return to our old patterns with respect to guidance. As always, that guidance does not contemplate additional acquisitions we expect to announce between now and year-end. Gary?

Gary Bowman

Thank you, Bruce. Now let's turn to Slide #12. Before opening the call to Q&A, I want to take a few minutes to address markets, share some recent successes and awards, touch on areas of our business where we are excited about for the future and reassure everyone that we're laser focused on the performance of our operations. In 2022, we acquired Anchor consultants. That's a small company in Philadelphia focused on bridge and marine engineering. This acquisition and its talented staff laid the foundation for what is now a flourishing expanded Ports and Harbors Group. With added depth of leadership, this submarket of our transportation vertical is now proving to be an extremely promising practice area. The group has been very active lately with several wins up and down the East Coast from private and public port operators, both as a prime and as a team member, along some of the biggest firms in the industry. Leveraging our extensive skills and geographic information systems or GIS for short, our ports and harbors Group is providing delivery to clients utilizing sophisticated integrated technology that has distinguished us as a leader in port asset conditions tracking, assessment management.

Ports & Harbors, there are interesting micro economies and to themselves, exhibiting diverse demands for land and water-based infrastructure, logistics, safety and sustainability planning. I'm really excited about the inroads we're making the successes we're seeing and the potential for the future of our ports and harbors practice. Over the past couple of years, the growth in our capabilities related to geospatial, high-resolution imaging, mapping and GIS services has kept pace with the other practice areas at Bowman. We've gone from being a terrestrial-based surveying firm to one that offers multiple altitudes of geospatial imaging, LiDAR and scanning, including both aerial and underwater. Accelerated by the recent addition of Surdex, we've added a variety of new scanning services to our portfolio. As an example, aerial scanning to methane emissions provides enormous long-term potential. By combining GIS, high and low altitude scanning and terrestrial-based mobile mapping, we've developed a comprehensive end-to-end methane detection, documentation, remediation planning and information management offering that is well aligned with numerous federal state and local funding opportunities available over the foreseeable future.

The combination of multiple acquisitions, including 1519 surveying spatial acuity MTX, XLE, Surdex and others has enabled us to credibly pursue this long-lived opportunity. Elsewhere throughout the company, we're seeing interesting transitions and evolutions in markets. As an example, the demand for usable data center land is voracious in commercial and residential land owners along major overhead electric quarters are utilizing us to assess the viability of land-use modifications. Climate change and alterations of historical weather patterns have led to significant storm preparedness and response assignments in areas that have and have not been susceptible to extreme weather in the past. As a real-time example, just yesterday, it was announced that Tropical Storm Debbie was predicted to dump 4 to 10 inches more rain on Charleston than the City experienced a mere 9 years ago during what was then categorized as a 1,000-year storm -- we have a very active presence in Charleston. We recently added senior executive-level leadership to our team with extensive experience in climate change, sea level rise and coastal resiliency.

As public utilities and their municipalities struggle to attract professionals to manage their operations, demand for utility services and staff augmentation has increased. As an example, we were just awarded a 5-year contract valued at approximately \$10 million to embed staff within a local jurisdiction in California. This was a direct result of our infrastructure engineers acquisition in 2023. In Austin and Houston, we were recently selected for county roadway projects valued at more than \$1 million with the opportunity to add construction management and inspection services known as SEI as the project progresses. The SEI opportunity in Texas is a result of skills exported throughout the company from our Chicago operation. Also in Texas, we were recently awarded a 2,500 acre solar engineering project, which is a result of other renewables oriented acquisitions such as SEI and more. In Arizona, a significant heap leach construction support and quality assurance assignment is just one of several recent substantial mining wins. While building infrastructure has lagged in terms of organic growth over the past 12 months, we have both experiential and anecdotal evidence that causes us to foresee a likely rebound ahead.

In both Texas and Arizona, we were recently awarded new engineering contracts for single-family master-planned communities valued at over \$2 million. We expect forthcoming reductions in rates to reignite subverticals of the building infrastructure market, particularly multifamily and build for rent housing. Convenience stores, quick service restaurants and even big-box retailers are active with many of our well-known national brand customers engaging us with new projects. Our growing national MEP practice is poised to benefit from recent EPA regulatory changes to HVAC refrigerant standards. Fire Protection, part

of our buildings practice catalyzed by the acquisition of Fisher engineering last year has been notified of a new NaVfac assignment to perform surveys of hazardous materials, storage facilities worldwide, including Marine Corps bases in the Continental U.S. and Japan. This is a good example of our complementary philosophies of not expanding our footprint internationally and serving customers anywhere any time as needed. We were also recently notified of a pending award to perform small- and medium-scale spill and fire testing to support alternative fire protection approaches for aircraft hangers.

The public sector clients we are working for in fire protection provide tremendous crossover synergy opportunities. Okay. Now let's turn to Slide 13. The bottom line to all of this is that our growth plan is working. Every day, we're winning assignments that, while not necessarily newsworthy individually are collectively propelling our growth. I've been in the industry a long time, and my experience tells me this is the time for adjacent diversification across complementary verticals and skill sets. And that's what I'm committing to advancing at Bowman as we grow. And while the growth opportunity I've outlined is promising, we all recognize that must be accompanied by a sustainable improvement in bottom line results. This is a business for our success is built around a right-sized workforce and rationalized overhead. We constantly assess our workforce and overhead considering evolving visibility to both short- and long-term revenue, customer demand and quality assurance. As needed, we have, we are currently and we will, again, in the future, adopt our cross structure to changing circumstances as they evolve. With that, I'll now turn the call back to Megan for Q&A.

Question and Answer

Operator

[Operator's Instructions]

Your first question comes from the line of Aaron Spychalla with Craig Hallum.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Gary and Bruce. First for me, last quarter, you kind of noted you were looking for a very strong year for building infrastructure and now calling out organic contraction in the first half. Can you just kind of talk about what's changed in the past few months? What end markets are you seeing slowdown the most? And what areas are you may be excited about data centers in the past that we've talked about? I'd appreciate that.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I'll say we still do believe in the aggregate that building infrastructure is going to be a strong performer. I mean, it's when you start to assess it in very granular detail between organic and acquired, we are investing in it. We think it's a good place to be. It's not something we want to withdraw from. So we do think that there's going to be strong performance there.

Gary Bowman

We're selling work in multifamily and -- but it's being booked, but being put on hold, waiting for a more promising or a more favorable interest rate environment. So that's what we're -- we are seeing optimism amongst our clients, but they're both rationalizing their business models for a new interest rate environment and sitting tight -- waiting for the interest rates to decrease.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

These sort of general, I think, confusion of late, even the last few months in the marketplace between impacts of discussion of changing evolution in the trajectory of rate discussions, a lot going on, certainly in the geopolitical world and uncertainties. And those have impacted us more quickly, I think, than circumstances like these in the past have, but I think they're temporary. As you think it's still a promising market. Data center is obviously very strong. We've got big box retailers who are issuing new orders for new stores. We've got a lot going on in health care. We got a lot going on in the MEP world and as talked about in terms of sort of preparing for transitions in regulatory environments, and fire protection, all in that group. But they are definitely the submarkets of multifamily, certainly urban commercial, which doesn't really dramatically affect us our drag area.

Gary Bowman

A market that was very strong for us up until a year ago, was the build-for-rent market, and that has really slowed down. What we hear from our clients in that market that they're poised to reignite once interest rates start coming down.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Understood. And then on transportation, you noted multiple large projects where you've been selected that are still working through final contracting and notice to proceed. Can you just give a little bit more detail on what items are causing those delays? How confident you are that they'll start up in the second half and that they'll -- are they still to be added to backlog? And what could this mean for kind of segment growth as we look towards '25.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. So the process in that is you submit, you get awarded -- broad strokes here. You get awarded, then you go through a negotiation. So you've submitted a price target and a characteristic of your package, but then you still have to go through a negotiation, get the contract executed and then get a notice to proceed. That just has seemed to take longer in the last 6 months more recently. They don't get added to backlog until they're contracted. So there's the process of getting a contract and getting it into backlog and then getting everybody at the authorities wind up to proceed. In some cases, as Gary talked about with shortages of personnel, things are just sort of dragging a little bit longer than we anticipated with some of these larger projects.

Gary Bowman

We are in touch with these DOT clients continuously and they give us a lot of reason to be confident that it will indeed commence in the second half of this year.

Operator

Your next question comes from the line of Andy Wittman with Baird.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

I guess I just had a question here about -- Bruce, you mentioned that like some of the multifamily award, it sounds like you've got the contract, but there was like the developers are kind of holding off and waiting for interest rates or something else to happen before you are able to get to work. So in a situation like that, where you have the contract, but the job isn't moving yet you don't have the notice to proceed. Does that still wind up in backlog? Or do you need also the notice to proceed, beautiful, comfortable putting that in your backlog number?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

So a little bit different in the multifamily world. You don't get the same sort of big contract number. It generally comes in phases more so than like a single big contract with one notice to proceed. But our philosophy is when it's under contract and there is a reasonable determination that is going to proceed. It goes into backlog.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Got it. Okay. So given all of this and given your comments in the prior answer about just how things are taking a little bit longer, is it a fair assumption to think about the backlog that you are reporting this quarter is maybe extending out in time? Or do you think the burn rate will be consistent with historical averages.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I think there may be. On the long end of what is normally in the backlog, so you sort of figure that 70%-80% of your backlog turns in a 12-month period, the rest of it turns a little longer. Maybe the turns a little longer part, turns a little longer than it normally than it otherwise was and that maybe there's a small portion of the -- of that current portion still turns within the 12 months, but it might be a little bit later in the 12 months right now than previously. But I don't -- I mean it's delaying, but we do continue to backfill with shorter-term projects that come and go out of backlog. So yes, there's probably a little bit of an extension there. I don't know that I would say it's like, okay, now it's 2 years as opposed to a year.

Gary Bowman

That's part of the reassessment of the second half of the year is okay, contemplating that there may be a little bit of drag in that backlog.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Yes, that makes sense. I just thought I would ask you to just comment on kind of your outlook for free cash flow this year, Bruce. I don't know what you're thinking, but I thought maybe a good form to kind of talk about what your expectations are on that end.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

So everybody -- I talked to 4 people, I get 5 definitions of how they think about cash flow conversion and free cash flow. In the absolute sort of simplest sense is saying, well, adjusted EBITDA net of net of CapEx, we're running in that 70% range on an adjusted EBITDA to cash flow. Things are going to get a little bit impacted this year by the change in the tax for us, if you think about having to write a big advance of our taxes this year. So that's going to have a short-term negative impact on cash flow conversion from adjusted EBITDA because that portion of real money that goes out the door for tax is going to go up. But if you think about it on a GAAP basis, not accounting for timing change, I think we're still consistent with where we are today going forward.

Operator

And next question comes from the line of Brent Thielman with D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Bruce, I guess hoping you could create maybe a little more of a bridge of the EBITDA this year versus last and some of the moving pieces within that? I mean if I kind of go back and tally up the deals you guys have done since the second quarter last year, it's around kind of \$60-plus million in annualized net service billings, but we're up \$2.5 million in EBITDA from last year. So I understand some of the moving pieces you've given from an organic perspective, but maybe just around the EBITDA, what's working against you and what's working for you? Because I would have thought we'd seen a bigger increase just in those deals.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. I mean I think what's working against us is we're not hitting the revenue that we expected the labor force we have to be able to generate and that we our cost structure is designed for a higher revenue base and we are addressing how to optimize that cost structure in a somewhat adjusted revenue expectation. So I think that the answer is that we're a little out of whack on our conversion of labor to revenue and associated profitability.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. And obviously, there's an implied kind of back half ramp in EBITDA here, and it seems like a lot of that -- and correct me if I'm wrong, is contingent on converting this sort of transportation awards or backlog being in August now, is there any evidence in the business that's happening? Gary, I heard you give a couple of signals there, but any other details that kind of give you confidence that that's going to convert here in the second half versus maybe pushing it.

Gary Bowman

I suggest it's slightly a little bit differently, Brett, that the revision in our outlook contemplates that we think there is some delay in revenue. And we do have a strong we have a strong base of business. We have a strong demand from clients a good backlog, and we do feel that there is -- the reason we've

adjusted to where we have is that, that is visible to us at this point in time and believe that's achievable. We don't need additional cost structure to generate additional revenue. So we think we can -- that the increase in pace in the second half with upside from some of the things that we think are scheduled a little later than we think, coming in a little sooner than we think.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. And just the last question is you've evolved the business here in the last few years and agree the diversity has benefited you in the long run. But it seems as though you are taking on larger sort of assignments. Does that mean we should sort of expect more lumpiness? Is that the new normal in the business? Or do you sort of consider these kind of isolated issues?

Gary Bowman

I think they are isolated issues that frankly may be -- there may be a little more regularity to the isolation. We are growing. We are getting bigger. We are taking on bigger assignments. Impact to them can have bigger short-term effect. They can also -- but they're also very productive in the long run to have. So I'm not sure I would call it the new normal it may be a little more extreme. But I think there is -- in all honesty, there is some likelihood that some bigger projects could have -- and I think this period where we are transitioning, there can be some more impact from them. We will get to the other side of that where there are enough of them and they are the norm and they really don't have effect. I think we're in that sort of growth spurt where they could for the short term, have a little bit more visibility, if that makes sense.

Operator

Thank you. Your next question comes from the line of Alex Rygiel with B. Riley.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

Gary and Bruce. A couple of quarters here. With the softness in organic growth, are you seeing any pressure on billing rates? And any thoughts directionally on gross margin over the next couple of quarters?

Gary Bowman

We're not seeing pricing pressures downward. That's not been an issue that we're seeing in the marketplace.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

And then I don't think this question really came up yet. Net service billing growth is up kind of 27% year-over-year. Your backlog growth is only up about 19%. So what do you think organic growth inside backlog is right now?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I'm only pausing because it's a little complicated in some respect, it depends sort of set when it delivers at what point in the life cycle of an acquisition in terms of whether they're in their first year period or not from the way we think about it -- there is, I'm not exactly sure how to parse it out in terms of what organic growth is in backlog other than to say, I expect that it's slightly consistent overall with our mid-single-digit organic growth rate.

Operator

[Operator's Instructions]

Your next question comes from the line of Jeff Martin with Roth MKM.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

I wanted to drill down a little more on transportation segment. Those new awards, are those existing markets? Are those new markets? And is funding the primary issue? Or are there other factors that are delaying the starts?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Not funding at all. That's really not the issue. And when you say new markets, they're existing geographies. They're generally existing clients. Sometimes they are new services within the portfolio of things we do because the authorities are expanding the range of things that they're subcontracting and outsourcing. So we are continually adjacently expanding the capabilities in those markets.

Gary Bowman

Yes, I just reinforce what Bruce said, the big contracts that were sitting tight to get notice to proceed on. They are in markets that we've been serving.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

And then you've owned Surdex almost 4 months now. I know that's not a long time, but just was curious if you could provide an update on one integration into the ability to take their services across your business lines?

Gary Bowman

We're very pleased with the pace and progress and integration and also very pleased with some of the synergies, even this early on. There's been a good bit of cross-selling. The folks are very excited about the cross-selling opportunities -- and I mean I'm hearing anecdotally that some of the folks that maybe have initial some reluctance to go to a new provider. That being ourselves are seeing successes and getting over that reluctance. So we're quite pleased with the prospect of synergies.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

Great. And then one more, if I could. You mentioned a market focus and labor adjustments. Just was curious if you could elaborate on that one. And two, what kind of time line do you anticipate that to be over?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Well, Jeff, we're looking at -- we want to be able to deliver improved margin by -- during the course of the rest of this year, particularly fourth quarter would be evidenced, we're not going through and making huge adjustments. It's assessing where we can be better at labor sharing as opposed to growing labor. It's looking around and deciding where we -- where and how we can optimize the -- what we call the revenue factor on our business units by addressing how we utilize labor around the system.

Operator

Your next question comes from the line of Aaron Spsychalla with Craig Hallum.

Aaron Michael Spsychalla

Craig-Hallum Capital Group LLC, Research Division

I just had one I just had one follow-up on guidance. Can you just talk about how you're thinking about the split between third and fourth quarter? Are you still trying to be somewhat conservative on 4Q just given some of the issues last year? And then maybe just a breakdown on organic growth in guidance. It seems like it might be kind of mid- to high single digits, but just wanted to confirm.

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Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. So I think at the moment, we're kind of looking at the third and fourth quarter relatively ratably maybe a slight marginal higher third than fourth, but not dramatic, certainly. As I look ahead kind of at year-end at the midpoint of the guidance and I think about on the pro forma as adjusted basis that we talked about in the call, maybe in the 6% to 6% to 8% organic rate for the year. That's not going to tie to our actual revenue, right, because we're doing a sort of a pro forma basis, but that's about mid-single digits.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Right. Okay. No, I think that's helpful to just kind of try to parse that out, Thanks for that.

Operator

Mr. Bowman, I turn the call back over to you.

Gary Bowman

Great. Thanks, Megan. Just to wrap up, we've had a very successful run in our first 3 years as a public company. But that said, we are not going to rest on our laurels. We've got a lot of work to do to achieve our profitability and long-term organic growth goals. Rest assured that both operational excellence and organic growth are and will continue to be a primary focus for both myself and our entire leadership team. So I want to thank everybody for the participation in this morning's call. Good morning.

Operator

This concludes today's conference call. You may now disconnect.

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