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Market Intelligence

**Bowman Consulting Group
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Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Tia, and I will be your conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group Third 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.

[Operator's Instructions]

Replays of the call will be available on the company's investor website. Mr. Bowman, you may begin your prepared remarks.

Gary P. Bowman
CEO & Chairman

Thank you, Tia. Good morning. Thank you for joining the Bowman Consulting Group's Third Quarter 2024 Earnings Call. With me this morning is Bruce Labovitz, our CFO. I want to take a moment now to welcome all our new employees, including everyone who is joining us from ExelTech Consulting in Washington State. This morning, I'm going to start off with some introductory comments, after which Bruce will discuss our financial results. Then I'll come back for some additional remarks about our trajectory into 2025, and we'll end with Q&A. You'll find our quarterly highlights on Slide 3. For the third quarter, we reported over \$100 million of net revenue, a first in the firm's history. This is a noteworthy accomplishment given that our revenue in 2020, that was the last full year prior to our IPO, was \$103 million. This is an exciting time for us as we continue to advance toward our frequently discussed goal of reaching \$500 million in gross revenue annual run rate within our first 5 years as a public company. The continuing strength of our markets across all divisions and services resulted in healthy year-over-year growth of net service billings and adjusted EBITDA during the quarter. Interest rates came down for the first time in nearly 5 years, which reenergized the building infrastructure market. And as we had hoped would be the case, several large transportation awards that we have been waiting on finally got underway late in the quarter.

In July, we affected a change in leadership within operations. We promoted Dan Swayze to the role of Chief Operating Officer, and he's hit the ground running. We expected Mike Bruen to settle into the newly independent position of President, engaging him in oversight of non-day-to-day operations and strategy of the company. Once in the role, however, Mike decided it was not what he wanted, and he elected to retire from Bowman after nearly 30 years with the company. In the interest of both clarity of leadership and timely reassignment of responsibilities, Mike resigned from both his leadership and governance roles immediately upon announcing his retirement. For now, we do not intend to refill or reassign the position of President. The job of leading day-to-day operations is now squarely in Dan's hands, and I'm extremely pleased. He's been right there alongside Bruce and me during the past couple of months as we've implemented staffing adjustments to better align labor and revenue. These efforts have already started paying dividends as evidenced by the third quarter results. At the same time, we redoubled our commitment to bottom-up forecasting.

I'm confident we will remain diligent about proper alignment of labor, accurately forecasting revenue and continual improvement of performance. Our markets remain healthy and sales of new work continues to outpace revenue. Year-over-year, our backlog grew 27%. Since the end of Q2, backlog increased by \$28 million, of which approximately 1/3 was attributable to backlog acquired during the quarter, with the balance coming from robust bookings of new work, which resulted in a book-to-burn ratio that was well above 1. Okay. With that, I'm going to turn the call over to Bruce to discuss the financial results. Bruce?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Terrific. Thanks, Gary. Well, it certainly was an all-hands-on deck effort during the quarter to refocus and realign our operations to deliver the solid results we released last night. As a quick reminder to everyone, we refer to net service billing and net revenue interchangeably. Net revenue is an industry standard non-GAAP metric that represents the revenue generated by our workforce by eliminating pass-through project expenses from gross revenue. So I'll start with revenue on Slide 4. Gross revenue in the third quarter was up 21% year-over-year at \$113.9 million with net revenue up 23% to \$101 million. Year-to-date, we've generated \$313 million of gross revenue and \$281 million of net revenue, which represents year-over-year increases of 24% and 26%, respectively. During the quarter, we implemented targeted staffing adjustments throughout the company to better align our labor with current and forecast revenue. Our gross margin for the quarter without giving effect to any of these labor adjustments was 52.4% as compared to 51.6% in the third quarter last year. Year-to-date gross margin has been 51.9% as compared to 51% this time last year. On a sequential basis, as compared to Q2 this year, SG&A was down 140 basis points as a percent of gross revenue at 45.6%.

While this is not a destination, it is meaningful progress in our efforts to leverage economies of scale as we grow. On Slide 5, you'll see the noncash stock compensation in the quarter was \$6.5 million compared to \$7.2 million last year. Year-to-date, noncash stock compensation expense is \$20.4 million, which includes roughly \$1.4 million of expense related to our employee stock purchase plan. We're still projecting roughly \$26 million in total stock compensation expense for 2024, which will be 6% to 7% of net revenue. Looking ahead, we expect that percentage to drop to around 5% in 2025 and settle in around the 3% to 4% range thereafter. Adjusted EBITDA for the quarter increased \$1.9 million from last year to just under \$17 million or a 16.7% margin on net revenue. Adjusted EBITDA this quarter included roughly \$1.6 million of onetime costs related to the restructuring of labor during the quarter. We believe labor adjustments are now behind us. For the 9 months ended September 30, adjusted EBITDA increased \$6.7 million over last year to \$42.5 million, which was a 15.1% margin on net revenue. We still believe we can achieve a sustained high teens margin at scale with optimized labor. Before I talk about revenue in detail, I'll quickly point out a small change in our presentation of the gross revenue by market table.

Based on comments we've received relating to the consistency of presentation between current and prior period filings, we're no longer modifying the reported acquired revenue from prior periods. To calculate organic growth, however, we remain consistent in our methodology of considering revenue from acquired companies to be part of the organic base of revenue after 4 quarters. As detailed in the press release and Slide 6, 49% of gross revenue for the quarter was from Building Infrastructure, 19% from Transportation, 18% from Power and Utilities and 14% from emerging markets, which includes imaging and mapping, water resources, mining and environmental services. As compared to last year, Building Infrastructure is down 550 basis points as a percentage of gross revenue or nearly 10%, with emerging markets increasing nearly 800 basis points or more than doubling. This is in large part due to the acquisition of Surdex, but it's also from other gains in Water and Environmental Services. The distribution of net revenue by vertical was roughly the same. During the third quarter, gross revenue from acquired companies was \$23.3 million and net revenue was \$20.4 million or roughly 20% of gross and net revenue. This quarter, acquisition revenue included Excellence, Dennis, CFA, Blankinship, High Mesa, Hess Rountree, TCE, Moore, Speece Lewis, Surdex, Element, Robau and FCS. At year-end, acquisitions we made in Q4 of 2023, meaning Excellence through Hess Rountree) will fall off the acquired revenue list.

Turning to Slide 7. On a trailing 4-quarter basis, organic growth of net revenue at the end of the third quarter was approximately 8.3% as compared to total net revenue for the trailing 4 quarters at the end of the third quarter last year, during which all net revenue was included in the organic basis. Organic growth

of net revenue during that period was most significant in emerging markets at 63%, with Transportation next at 17%, followed by Power and Utilities at 14% and Building Infrastructure at 1%. Nominally, Transportation was the largest contributor, followed by Power and Utilities, emerging markets and Building Infrastructure. This trailing 4 quarters view of organic growth is a little different than we've presented in the past. Given the volatility created by the inconsistent timing and frequency of acquisitions between quarters, we feel this presentation of trailing 4-quarter growth offers a better perspective for understanding growth trends. For the 9 months ended September 30, gross revenue from acquired companies was \$49.8 million and net revenue was \$45.1 million or roughly 16% of both gross and net revenue. Organic growth of net revenue for the 9 months was approximately 5.6% as compared to the same 9-month period last year, where all net revenue was likewise considered organic. Again, the largest percentage growth was emerging markets at 48%, followed by Transportation at 14%, Power and Utilities at 6.2% and Building Infrastructure at just under 1%.

And again, transportation contributed the largest nominal growth. We believe that organic growth from Building Infrastructure will continue to rebound into 2025, while growth from emerging markets will moderate a little bit now that the starting basis is higher. Turning to Slide 8. Our balance sheet is as healthy as it's been with roughly \$12 million of cash on hand, low leverage and plenty of capital available. Our line of credit is close to \$70 million available, and our equipment financing capacity is sufficient to cover CapEx through 2025. Net debt on September 30 was roughly \$85 million, which represents a leverage ratio of 1.6x trailing 4 quarters adjusted EBITDA and approximately 1.2x forward 4 quarters of adjusted EBITDA. Cash flow from operations for the 9 months was up \$5.5 million sequentially from June 30 at \$11 million, with \$44 million year-to-date cash flow from operations before a \$33 million use of cash from changes in working capital. With respect to cash and liquidity, interestingly, in October, we found ourselves unexpectedly back in the position of having the opportunity to file our 2023 returns in accordance with the R&D position we had adopted for our '22 returns. As it turned out, definitive guidance the IRS was expected to have released prior to October had not been issued as we approach filing our returns.

This allowed our tax advisers and us at Pricewaterhouse to reach a reasonable basis position for continued R&D expense deductibility, enabled us to file without remitting the approximately \$12 million payment we expected to make and without accruing for penalties. So that \$12 million will stay with us for now. And since the filing was deemed to be a reportable subsequent event, you will see further disclosure about the return of the UTP in the 10-Q. During the quarter, we used our capital to buy back just about 500,000 shares of common stock under our \$25 million authorization at an average price of approximately \$23.89 per share. This does not include shares of treasury stock purchased to cover taxes associated with stock vesting. On September 30, we had 17.7 million shares outstanding. We've continued to repurchase shares under the authorization since the end of the quarter. And as of today, we have approximately 17.5 million shares outstanding. You can see on Slide 9 that at the end of the quarter, we had gross backlog of \$380 million, which is \$81 million more than the end of Q3 2023, and as Gary said, over \$28 million more than June 30. While approximately \$10 million of the sequential increase over last quarter was a result of acquired backlog, the balance was derived from new orders. The distribution of backlog is slightly overweighted to transportation relative to revenue in the third quarter.

Given the nature of our sales cycle and the generally longer-term nature of transportation projects, I would not read much into that mismatch. Turning to Slide 10. In the release yesterday, we increased our 2024 net revenue outlook to accommodate the revenue we'll pick up from the recent Exeltech acquisition and reaffirmed adjusted EBITDA, which would not have reached the rounding threshold if we added it. We also introduced a net revenue outlook for 2025 of \$422 million to \$437 million, which represents organic growth of net revenue between 5% and 9% based on pro forma full year 2024 net revenue adjusted for partial year acquisitions as the basis. For our outlook for 2025 adjusted EBITDA, we're projecting a 16% to 17% margin on net revenue with a range of \$68 million to \$75 million. As always, that excludes future acquisitions not closed as of today. As evidenced by the more than 30% reduction to our equity value in response to last quarter's roughly 4% reduction to revenue guidance and roughly 8% reduction to adjusted EBITDA guidance, the message is clear that there's no benefit to stretching with respect to 2025 guidance at this time. As such, we will revisit our outlook in connection with our quarterly and year-end reports throughout 2025. We're hopeful that this quarter demonstrates to the market that Bowman

is not damaged and our equity is meaningfully undervalued at current multiples as compared to our peers and other comparable transactions we see in the marketplace for firms our size. Before I go, I'll quickly mention that I'll be at the Baird Conference in Chicago next week, the Craig-Hallum Conference in New York and others throughout the remainder of the year and into next year. Check our investor website to see a calendar of where we'll be presenting and meeting investors in person. Gary?

Gary P. Bowman*CEO & Chairman*

Okay. Thank you, Bruce. Last week, we announced the acquisition of Washington state-based Exeltech Consulting. It's a well-established 35-year-old engineering design and program management firm. They have extensive bridge design, structural engineering, transportation planning and environmental sciences capabilities. Geographically, this acquisition complements our July acquisition of Washington-based FCS Group, which is a professional services firm focused on rate and financial consulting for the utility and renewable energy industries. The acquisition of Exeltech fits right into our strategic objectives by fueling the growth of our national transportation practice and expanding the breadth of associated offerings. The fact that Exeltech and FCS are in close proximity to each other provides Bowman with an immediate combination of regional expertise, established customer relationships and expansion of our operational footprint to the Pacific Northwest and beyond. From a macro perspective, the first Fed rate cut in several years has energized real estate markets. However, uncertainty around the pace of future rate cuts and the landscape of regulatory and economic policy is having a sort of paralyzing effect on this market. Good news for us is that planning and engineering are the first steps in preparing for project starts and restarts. And we see a notable uptick in market activity in real estate-related markets, particularly in multifamily markets such as build for rent and apartments.

Okay. Turning to Slide 11. Several of the transportation award starts that were delayed over the first part of the year finally got underway in the latter part of the third quarter. Notable among these is the Illinois DOTI 55 corridor rehabilitation project, where we're providing multiyear management and design services for a 16-mile section of the highway. Others include a design build project for the Virginia DOT and a comprehensive roadway improvement project for U.S. Right 1 in Philadelphia. Large third quarter transportation wins now making their way through contracting include a \$10 million award with Cook County, Illinois. And furthermore, we expect -- we fully expect activity relating to the Allegheny Tunnel bypass project for the Pennsylvania Turnpike Authority to increase through the end of the year. In our developing Ports and harbors practice, which we now group with transportation, we were awarded several million dollars in contracts to be delivered in 2025 from both long-standing and new customers. Our new port asset conditions kit is an innovative proprietary delivery platform that we've developed for marine facility operators, and we've got high hopes for its prospects moving forward. Coastal and resiliency engineering, combined with high altitude aerial surveying has enhanced our ability to pursue public and private sector customers in the aftermath of ever more frequent and ferocious natural disasters.

Another aspect of our Ports and Harbors expansion includes enhanced waterfront capabilities, which have been leveraged by our traditional development practice leaders to pursue urban waterfront redevelopment and coastal shore protection opportunities in areas, including Kentucky, South Carolina and Maine. Also, we're expanding our focus to inland recreational marinas and boating facilities in areas such as Pittsburgh, Charleston, Savannah, Philadelphia, Houston and others. On other fronts, we recently contracted to immediately start work at the Charlotte Douglas International Airport in Charlotte, North Carolina. The scope of this work includes comprehensive survey services for a new 10,000-foot runway. Additionally, we were awarded our fifth ongoing on-call agreement with Southwest Gas, expanding our service area into Western and Northern Nevada and California. Revenue in our MEP group is trending upwards with strength in commissioning services. And in the power markets, we're seeing an uptick in electrification and decarbonization assessments as the industry moves more toward net zero and all-electric solutions. Acquisitions continue to have a positive long- and short-term impact on the organic growth of the business. A notable example is our growing fire protection engineering practice, which came from the Fisher acquisition.

Our contract for surveying hazardous material storage facilities from Marine Corps bases in the U.S. and Japan was recently expanded by an additional 21 sites. Over the course of our nearly 30 years in business, organic growth has always been a central focus of our approach to growth and expansion. Our long-term

track record of a robust organic growth is a result of culture, attitude, risk tolerance and an eye for good markets. These attributes can characterize us still today. Our recent inclusion as an ENR top 150 global design firm puts us in good company among industry elites and works to solidify our brand as a premier provider of comprehensive engineering and design solutions. Going into 2025, I expect that we'll continue to be acquisitive, likely with larger average revenue size and a bit less frequent than we've been over the past several years. We'll continue to focus on adjacent businesses in attractive markets that we can readily integrate and grow significantly over time. While private equity continues to play an ever more active role in the industry paying outsized multiples for larger firms, we're confident that our culture and approach will continue to make us competitive and successful in our M&A activities. Our strategy is working. Clearly, we stumbled last quarter in terms of forecasting, but we've recovered our firm footing and are poised to deliver on our commitments during the remainder of the year and into 2025. Our efforts toward diversification, integration, leadership transition and process excellence have positioned us to grow organically, expand our services, make acquisitions that broaden our footprint while deepening our customer relationships and wallet share and most importantly, deliver long-term profitability, cash flow conversion and value creation for our shareholders. With that, I'll now turn the call back to the operator for questions and answers.

Question and Answer

Operator

[Operator's Instructions]

The first question comes from the line of Jeff Martin with ROTH Capital Partners.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

Good to see the efforts put into the quarter starting to show through. So I guess first question, are we done with the internal changes? Are we heading in -- did you head into the fourth quarter with a clean slate? And if not, what remains to be done?

Gary P. Bowman

CEO & Chairman

Clean slate, yes. It's always a journey. But over the third quarter, the changes we've made, we consider that -- we reached our destination there. We're ever diligent and deliberate in keeping an eye on that. So it's something that always evolves, but done deal.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

Good to hear that. Okay. And then with respect to your updated 2025 guidance, what level of organic growth are you assuming for that year? And if you're assuming any different equation in that organic growth relative to what you had previously assumed, maybe help detail that for us.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes, Jeff, midpoint of that is probably around 7% organic growth for next year. Again, coming out of the chute conservative on that. We've -- it's basically looking at this year as adjusted for acquisitions as the base growing forward. I don't know that there's any significant shifts in strategy related to next year other than continuing focus on these markets that we're in.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

Great. And then the last one for me. You mentioned moving up the size of M&A deals going forward. Could you help maybe give us some relative perspective on how much you plan to move up? And then I guess the second part to that question would be curious to get an update on how the Surdex acquisition is performing since that is one of your largest acquisitions to date.

Gary P. Bowman

CEO & Chairman

Right. I'll say, it's an evolution in our M&A strategy. Really, it's a recognition as we're getting larger and larger, it takes the larger deals to move the needle. So we don't have any real -- we don't have a target size, but just a strategy, get larger and the larger they get, by definition, almost a little less frequent. As far as Surdex, we're pleased so far. We're seeing lots of cross-selling and revenue synergy and it's moving along fine.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Jeff, we've averaged sub -10 this year in our acquisitions and sort of setting a goal to get that into double digits next year, you think about the number of acquisitions and we talk about that in terms of revenue, right, revenue bought. Surdex was an outlier in that. So kind of putting that aside, I think doing things

more in the sort of, let's call it, the recent Exeltech, which was closer in that -- the FCS, the Exeltech closer to the 10s as opposed to the smaller ones that the TCEs and the Elements and Speeces that were earlier in the year and try to cut a couple of turns in terms of number of acquisitions out, but still continue to increase the amount of revenue bought.

Operator

The next question comes from the line of Aaron Spychalla with Craig-Hallum.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

So maybe first on transportation. Good to see some of those awards come in there. I know that's been a big focus for you. Can you just talk about how that pipeline looks there, continuing to expand to more DOTs and starting to see that IIJA funding come out here in the back half of the year?

Gary P. Bowman

CEO & Chairman

We are seeing the pipeline continuing to expand in several of our acquisitions, like we mentioned on the call, Exeltech. So it's a big focus of our inorganic growth strategy, but the acquisition several years ago of McMahon and our Chicago operations, they're seeing some good robust and large transportation projects.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Gary, you'll see we're focused on DOT, certainly. That's kind of like, let's call that a depth, but there's also a breadth and breadth being things like the adding bridge engineering, bridge design and that sort of structural element of transportation engineering to try to expand how many things we can do for an ever-growing base of clients. We've already started -- we mentioned we already started working with Exeltech in advance of the acquisition, and they're already teaming with them on projects that -- where their skill set brings additional capabilities and opportunities to groups that are better entrenched with larger transportation departments than they would have been nationally, but with an additional scope of services.

Gary P. Bowman

CEO & Chairman

We're in early innings with Surdex, but Surdex was not able to serve big transportation markets prior to joining us. And now with our broad clientele, we're looking into actively marketing state DOTs for the aerial survey work that Surdex brings.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

It's one of those that it kind of adds a bit of momentum. It's an accelerant. You get 1, 2, 3, 5, 20 DOTs. Now the next 10 of them are easier to get than the first 10 to 20.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

No, that's really helpful color. And then just second for me, can you just maybe some early reads or thoughts just on the election and what that might mean for your business here moving forward?

Gary P. Bowman

CEO & Chairman

Certainly, we're speaking of early innings. We're in barely up to the plate on assessing that. We think, if anything, it will be positive for our business. We have some presence in fossil fuels and oil and gas. We think the change in the regulatory environment will make that a more robust market. We're looking forward to that. We fully anticipate that the infrastructure spending is -- the dice is cast on that. So

we're quite confident that we won't see any adverse effect on that. Some analysts feel that the new administration may move to some more privatization of infrastructure. So we're already thinking how we focus on marketing to our PPP developer clients. And in the mining, the lack of the change in the regulatory environment probably increased mining. We're cautiously optimistic on the renewables -- there's a lot of thought that the renewables, the IRA has created so much economic activity in red states that it hopefully will stay in effect. If a different party, the other party had won the election, we'd probably be more apt to double down on our renewables, but we're fully confident that our presence in renewables will continue to be a robust part of what we do.

Operator

The next question comes from the line of Andy J. Wittmann with Baird.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

I guess I just wanted to ask a little bit more about the early look here at 2025. And specifically, if you looked at your backlog today, how does it compare to like historical levels in terms of the amount of that 2025 work that you're guiding to that's covered? Is it more? Is it less? And can you also just comment about the level of permitting and notices received that you've received on this work just as it comes out of last quarter where some of those delays were some of the reasons for the shortfall. So I just wanted to get your confidence that the permitting and the things that are needed to get to work are in place for this '25 outlook.

Gary P. Bowman

CEO & Chairman

So Andy, I would say that the backlog is relatively characteristically similar, maybe a little bit more beneficially stacked for next year only because of some of these timing issues we've had in the last couple of quarters and a quarters or so that there's a little bit of more ready-to-go kind of stuff that might hit a little quicker. But I'd say, generally speaking, the backlog is similar in nature. It's bigger, obviously, than it's been. But relative to what we forecast for next year, I think it's characteristically aligned. In terms of permitting, again, we don't anticipate any real hurdles with that.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Okay. That's helpful. Just maybe a couple of clarifications here then. It looks like the onetime costs associated with the staffing adjustments. Was that -- it looks like there's -- in the other line for your adjusted EBITDA bridge is more than a little bit than it has been historically. Is it in there and added back, Bruce?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Okay. And then -- I'm sorry, just on the -- in your script, the comments on the changes related to the calculation of organic growth -- can you just go through that one more time, just so I can make sure understood what you're doing now.

Gary P. Bowman

CEO & Chairman

For the quarter, so looking at third quarter, we looked at a trailing 4-quarter organic growth rate using the same methodology we've used in terms of anything that is more than 4 quarters prior was in the organic base from which we were growing. Anything that was acquired in the last 4 quarters is eliminated from the

total net revenue used to calculate the growth on top of that. In terms of the year-to-date, it's the same as it's been.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Sorry. So you're saying that the 8% organic NSR growth that you highlighted in your release is based on a 4-quarter result that's reported for this quarter. Did I understand that correctly?

Gary P. Bowman

CEO & Chairman

Trailing 4 quarters -- trailing 4 quarters from third quarter. So it would be fourth through third and then third -- 4 '22 to third '23 versus '23 to '24.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Got it. Okay. I'm going to try this maybe a couple of different ways. What would the calculation have been under the old methodology for the third quarter?

Gary P. Bowman

CEO & Chairman

So the third quarter discretely would have been about flat because there was -- because of the timing of acquisitions in the previous year.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Yes. Okay. Yes, that's what I was trying to understand. Okay. That makes more sense Okay. So then just in terms of the M&A pace, I'm just -- I'm kind of curious, did the organizational changes in the quarter at all impact the deal flow that you're able to execute? Or were they kind of mutually exclusive actions for the company during the quarter?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

The organizational changes didn't adversely affect our ability to do deals and a pace of deals. I'll call it, our machine is still in place.

Operator

The next question comes from the line of Brent Thielman with D.A. Davidson & Company.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

A question around the margin expansion implied in 2025. What are the levers you're going to be able to pull to support that? Just thinking about that in context of what we've seen in 2024 thus far? Is it beneficial contract mix? Is it the margin expansion implied in 2025? I mean, what are the levers you're going to be able to pull to support that?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

So we think that we are, again, continuing to improve our economies of scale. We think that we are -- as we're growing the top line, we're starting to be able to better meter the overhead costs associated with the revenue. Like some of the -- I don't know that I would say it's built into the contract rates. We certainly are seeing some improvement in, I think, some of the multipliers that we think we can be getting on some of these projects marginally, and that's all it takes is marginal improvement.

Gary P. Bowman

CEO & Chairman

A continued focus on operational excellence. That's a lever that always to be pushed, and it's one that renewed focus on that.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

When we look at this quarter... We're in the range of that.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Right. So the expectation is, especially with some of the things you've been doing here internally in the last -- well more than 9 months that you should be able to outgrow your SG&A?

Gary P. Bowman

CEO & Chairman

Yes. We think we can squeeze a little bit more out of labor, the relationship with labor multiple of -- revenue multiple of labor and SG&A. And again, I think this quarter, we're in the range of where we want to be for the whole year next year.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

Okay. And then I guess just on building infrastructure, maybe just sort of the residential exposure, state of affairs, some companies talking about sort of slower trends as of late. I know you're not really directly tied to the stats per se, but is that area of your business stable for you? It sounds like maybe you're anticipating it to reaccelerate based on conversations you're having. Just be curious if you could talk around that.

Gary P. Bowman

CEO & Chairman

Yes, it's stable and not to quit what you just said, but we are -- based on conversations, based on level of activity on proposal activity, we do see new energy being injected into that going into 2025.

Operator

The next question comes from the line of Alex Rygiel with B. Riley.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

A couple of quick questions here. First on stock-based comp, first, stock-based comp declining as a percentage of revenue. Is this a change in compensation strategy? Is it a swap into more cash comp? Can you talk about that comment a little bit more?

Gary P. Bowman

CEO & Chairman

I think it's a combination of a couple of things. Yes, it is metering of the utilization of stock as compensation looking ahead. There is the burn off of old grants that burned off now of -- from pre-IPO days. It has to do with the -- yes, there may be some shift towards more cash-based compensation. I don't know that it is an increase in overall compensation, but a shifting of paradigm there a bit and just growing into the level of having revenue grow at such that it absorbs from a percentage basis more of that stock comp.

Andrew John Wittmann

Robert W. Baird & Co. Incorporated, Research Division

That is helpful. And then 2 questions as it relates to some of your end markets. First, any update on the data center market and in particular, these really large AI data centers? And then secondly, if you can provide any comments on whether or not you're seeing multifamily opportunities reaccelerate?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

On the data centers, the activity is robust. We continue to grow our presence in that market. Right now, it's outside of the building, almost -- we do civil engineering and for the site engineering. We are looking at opportunities looking into next year, some opportunities to get inside the building with the mechanical and electrical facilities. On the residential -- on the multifamily, yes, we are seeing some significant movement in multifamily. Like I say, as far as proposals, level of interest from the market. So we have a high degree of optimism that we'll see some acceleration in the multifamily activity next year.

Gary P. Bowman

CEO & Chairman

Yes, Alex, the data center market constraint today is the power, not the land. And so in a lot of ways, things are bleeding across a couple of different sectors for us. So I think there is activity we see in the capacity side of power to provide for what is an ever-increasing demand for the physical data center locations. You're certainly reading about how folks are starting very preliminarily to look at SMRs as power sources for data centers. So we're -- it's coming at us from 2 different directions.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

And one of the things that we're seeing, hearing from -- in the data center market, the AI data centers, they're not so -- I use this term, I think it's right, extensive to latency. So there's a lot more flexibility to where AI data centers can be located as far as proximity to the fiber corridors. So that just -- that opens up more opportunities for us with our geographic dispersion to do data center work in areas that we weren't doing it before.

Gary P. Bowman

CEO & Chairman

We do get a lot of inquiries, I'm told, about from landowners thinking about rezonings or reuse applications to change over. Hey, can I be a data center? Everybody now has got a couple of acres left to be a data center.

Operator

There are no additional questions left at this time. I will hand it back to Gary for closing remarks.

Gary P. Bowman

CEO & Chairman

Thank you, Tia. Just I'll close by thanking everybody for participating this morning. Thank you to those who are part of the Bowman for all the hard work done, all the good work over this quarter, certainly to our investors and stockholders. Thank you for the faith you put into us. And we're quite pleased with Q3 and quite pleased with our progress in continuing to evolve this company and reach our growth goals. With that, we'll wrap it up for the morning. Thank you, everyone.

Operator

That concludes today's conference call. Thank you. You may now disconnect your lines.

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