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Bowman Consulting Group Ltd. NasdaqGM:BWMN

Earnings Call

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Call Participants

EXECUTIVES

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Gary P. Bowman
CEO & Chairman

ANALYSTS

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

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

Justin P. Hauke
Robert W. Baird & Co. Incorporated, Research Division

Presentation

Operator

Good morning. My name is Becky, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group Fourth Quarter and Full-Year 2024 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 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 of the most directly comparable GAAP information in the company's earnings press release filed with the SEC and 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. Replays of the call will be available on the company's Investor Relations website.

Mr. Bowman, you may begin your prepared remarks.

Gary P. Bowman
CEO & Chairman

Okay. Thank you, Becky. Good morning, everyone. Thanks for joining our fourth quarter and full-year 2024 earnings call.

Bruce Labovitz, our CFO, is with me this morning. Welcome to all our employees who are listening to the call today, especially to the newest Bowman employees. I'm going to start today's call with some introductory remarks, and then Bruce will cover our financial performance. I'll wrap up the call with closing statements about 2025 before opening it up to Q&A.

2024 was a very successful year for Bowman on multiple fronts. We posted record net service billings, net income, adjusted EBITDA and adjusted EBITDA margin. We had the strongest fourth quarter in our history, which generated as much operating cash flow as we did for all of 2023 and nearly doubled what we generated in the first 9 months of 2024. Bookings were especially strong in the second half of the year with our book-to-burn ratio once again exceeding 1.0. We entered 2025 with a record backlog of $399 million, and that provides great visibility to our continued revenue growth.

During the year, we made 8 strategic acquisitions that enabled us to enter new geographies and expand service offerings across all our markets. We augmented these acquisitions with new leadership, systems and capital to accelerate their growth potential. Throughout the company, these acquisitions added depth and expertise in practice areas such as bridge design, water and wastewater, utilities, fire protection and sustainability.

The addition of Surdex earlier in the year greatly enhanced our technical services with advanced and high-altitude geospatial solutions. Geospatial is a source of substantial new business in 2024 from both new and returning customers. This practice area enables us to achieve incumbency with clients early on in projects and it is a significant generator of cross-selling opportunities.

With that, let me turn the call over to Bruce to discuss financial results, after which I'll give a little more color on our markets and our positive outlook for 2025. Bruce?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Thanks, Gary, and welcome, everybody. Today, I'm going to touch on the highlights of the fourth quarter and the fiscal year.

Okay. Let's turn to Slide 4. Gross revenue for the fourth quarter was $113 million. This represents a 22% increase over last year's fourth quarter. Net revenue, a non-GAAP result, was similarly up 23% over last year at $98.6 million. These results both exceeded consensus estimates. We continue to operate in the high-80s range in terms of net revenue as a percentage of gross revenue. Net income for the quarter increased $13.6 million to $5.9 million, or $0.34 per share basic and $0.33 diluted. This compares to a net loss of $7.7 million or negative $0.59 per share, both basic and diluted last year.

During the quarter, our tax benefit was $5.4 million, resulting from increases in our R&D tax credits, windfall tax gains on stock vesting and other UTP-related accrual reversals. Adjusted EBITDA, another non-GAAP metric, was $17 million for the quarter, which represents a 17.2% margin on net revenue. This is a big improvement from earlier in the year and reflects in part our labor realignment efforts in the third quarter. Adjusted earnings per share for the quarter, also a non-GAAP metric, more than doubled to $0.72 basic and $0.71 diluted as compared to $0.33 and $0.31, respectively, last year.

Turning to Slide 5. Gross revenue for the full year ended at $426.6 million, our first year over $400 million. This represents a 23% increase over last year and sets us up to meet our 5-year goal of a $500 million run rate. Net revenue was up 25% over last year at $379.7 million. These results also exceeded consensus estimates. Net income for the year increased by $9.6 million to a profit of $3 million, or $0.18 per share basic and $0.17 per share diluted. This compares to a loss of $6.6 million or negative $0.53 per share.

Last year, we committed to restoring GAAP profitability. I'm pleased to be here today reporting a year that was profitable on a GAAP basis. Adjusted EBITDA was $59.5 million for the year, which represents a 15.7% margin on net revenue and 26.6% year-over-year increase. While we're not at our annual goal of high-teens margins yet, this does represent our fourth consecutive year of margin improvement. Adjusted earnings per share for the year was $1.23 basic and $1.20 diluted, an increase from $1.12 and $1.03, respectively. As we look to 2025, I would once again expect GAAP expense associated with non-cash stock compensation to be reduced in the absolute and as a percentage of revenue.

Turning to Slide 6. Here, we show the breakdown of gross revenue by market. Building infrastructure continued to be our largest market at 51% of gross revenue, with commercial, residential and municipal representing 23%, 18% and 10% of gross revenue, respectively. Additional submarket breakdowns for building infrastructure can be seen on this chart -- on this slide. Transportation represented 21% of gross revenue, with about 2/3 being from public client engagements. Power, utilities and energy represented 18%, with around 75% being from traditional energy and grid-related assignments. The balance is emerging markets, including mining, water, environmental and this year, aerial imaging and mapping. Beginning in 2025, we will break aerial imaging and mapping out based on end-market application. This may cause year-over-year comparisons with emerging markets to be a bit challenging.

Let's turn to Slide 7. Organic growth of net revenue was 8.5% in the quarter and 13% for the year. Looking at organic growth by market, emerging markets led the pack, followed by transportation, power, utilities and energy and then building infrastructure. Again, a reminder that we would expect to see the growth rate for emerging markets moderate as we shift to aerial mapping and imagery in 2025.

Let's now turn to Slide 8 to review cash flow, liquidity and capitalization. At year-end, we had approximately $7 million of cash on hand, with roughly $60 million available under our $100 million revolver and sufficient access to CapEx lease financing. We're currently in the final stages of increasing our revolver limit to $140 million. At year-end, we had approximately $95 million of net debt and a leverage ratio of 1.6 on trailing 12-months adjusted EBITDA. I can say with confidence that we have plenty of capacity to borrow in what we believe will be a market of opportunity to fund strategic growth initiatives, technology investments and M&A.

During the fourth quarter, we turned a corner on cash conversion, generating nearly $12 million in cash flows from operating activities in the quarter and over $24 million for the year, more than double last year. Our cash flow improvement was derived in large part from reductions in unbilled revenue and in our working capital. During 2024, we repurchased $34 million of stock, with around $11 million purchased from employees to cover taxes associated with vesting and $23 million from open market repurchases under repurchase authorization. Since year-end, we've purchased an additional $4 million of stock under repurchase authorization. We now have $11 million remaining under our current authorization. Given what we know to be the quality of our earnings, it's our belief that our equity is highly undervalued. As such, we intend to continue to allocate a portion of our available capital to the repurchase of our common stock until such time as we feel value has been rebalanced.

Turning to Slide 9. Backlog grew more than 30% during 2024 to just under $400 million at year-end. This is a $20 million increase from Q3, with around 70% of the increase being organically generated as opposed to acquired. New orders have started the year strong, stronger than usual at over $100 million so far this quarter, giving us reason to expect continued backlog growth throughout 2025.

I'm now going to turn the call back over to Gary.

Gary P. Bowman
CEO & Chairman

Thank you, Bruce.

Since we went public in 2021, we've increased net revenue at a compound annual growth rate of over 41%. We built our backlog up to nearly $400 million, and we've more than tripled our adjusted EBITDA while expanding margin by 350 basis points from 12.2% to 15.5%. We've accomplished this through a disciplined growth strategy that's fundamentally focused on customers, markets, services and people. I'm confident that as we continue to develop a culture of leadership throughout the organization, further successes and improved operational excellence will inevitably follow.

Okay. Turning to Slide 11. In 2024, we saw solid growth across all end markets. While 2025 is in its early innings, bookings are strong and pacing ahead of plan at this time. As we look to 2025, we anticipate the timing of revenue throughout the year to be proportionately similar to what we experienced last year. As we've grown, we settled into a pattern wherein momentum builds through the second and third quarters, with growth accelerating midyear before leveling out in the fourth quarter.

As I mentioned, bookings and new work thus far in 2025 are strong, and they are well distributed across all our markets. Transportation, power and utilities and data center demand continues to be robust, and we expect strong contributions from those markets throughout the year and beyond. In those interest rate-sensitive areas of our business, we see strong anecdotal evidence that customers are revamping projects to adjust to the current environment. And consequently, we're seeing a meaningful uptick in new work in those markets.

In response to current market trends, we've made significant additions to our oil and gas expertise, resulting in a critical mass of capacity in that area, positioning us well for the strong near-term growth we are experiencing in that market. We anticipate that both oil and gas and mining will see significant positive momentum in 2025 and beyond. In the renewable sector, we've successfully redeployed labor away from weakening submarkets such as wind, which historically has not represented a meaningful part of our business to areas that continue to exhibit growing demand. For example, we've increased our capacity with EV charging installations and other high-potential energy infrastructure practice areas.

Grid capacity and resilience continue to be top of mind with our customers. Events such as recent back-to-back hurricanes in the Gulf and wildfires in California serve as constant reminders of the extreme fragility of our power infrastructure. We expect our power, utilities and energy practice to continue to expand, independent of the status of the Inflation Reduction Act.

Okay. Now turning to Slide 12. Going forward, our objective is to make strategic investments in M&A, product line expansions and technology tools that will expand our reach, increase wallet share with our customers, improve the delivery of services and accelerate long-term organic growth. Our M&A strategy is focused on acquisition candidates that facilitate our pursuit of larger and more impactful customer assignments and that provide synergies helping us propel long-term organic growth. The M&A market remains as dynamic and viable as it has ever been, and the opportunities there are plentiful. Our capacity to acquire and integrate positions us to maintain a positive growth profile through varying macroeconomic environments.

Now in terms of our position relative to what's happening in the federal front, we've experienced minimal disruptions to our business. Most of our public sector assignments are state and local in nature with funding that is independent of current federal cuts. The size of our operation, coupled with the diversification of our markets, submarkets and customers we serve creates a defensive business model that helps us navigate economic unpredictability and uncertainty. It's important to remember that no single customer represents more than 4% of our revenue.

Now turning to Slide 13. Given the strong start to the year so far, we're increasing our 2025 guidance modestly, recognizing it's still early in the year, and there's plenty of time to build on current momentum. For the year, we're forecasting net revenues to be in the range of $428 million to $440 million, with adjusted EBITDA between $70 million and $76 million. This would put us in the top tier of peer performance on a margin basis and continue us on our journey to sustained high-teens margins.

I want to close by saying thank you to all our employees for their capacity to drown out the noise and remain steadfast in their focus on delivering for customers, for shareholders and for each other.
With that, I'm going to turn the call back to Becky for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Aaron Spychalla from Craig-Hallum.

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

First, on the transportation vertical, you've obviously seen some nice activity there, it looks like. Can you just talk a little bit about any impact from the IIJA there as we move kind of forward either in that segment or across the business? And then just maybe talk a little bit more about the trends you see there in transportation over the next year or 2.

Gary P. Bowman
CEO & Chairman

Thanks, Aaron. We're seeing IIJA spending seems to be kicking in. It's been a long while for those projects to get started in earnest. So we're -- and we're seeing no adverse impacts in IIJA. And the experts that we talk to, the federal government are predicting that, that spending should stay sustained. So between IIJA and other state and local funding mechanisms, we're seeing very strong trends in transportation.

Aaron?

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

Yes. Sorry. And then maybe second on just the backlog and the visibility. Can you just talk a little bit about how that compares to past years and just how you kind of see the underlying pipeline trending? You talked about minimal impact at the federal level. Just curious if you're seeing any kind of lengthening of timelines and you also kind of talked about some opportunities for outsourcing coming out of that as well.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. I'll start with the first part of that, Aaron. It's Bruce. Backlog is generally characteristically similar to where it's been in prior years. At any given time, there's different distributions within backlog just based on timing of orders. But generally speaking, it still has the same kind of 80% turn profile in a 12-month period. There -- we're not seeing a lot of -- we're not seeing delay and what's in the backlog is work that is contracted and authorized to proceed. So, we're feeling pretty steady in terms of the characteristic of that backlog.

Gary P. Bowman
CEO & Chairman

And Aaron, you asked about outsourcing opportunities. That's kind of -- that's looking over the horizon, but we certainly -- and we do a substantial amount of outsourcing in our business now, both government agencies and to private utilities. But when staffs get cut back, the mission still has to continue. So, we typically see in those environments, government sectors look to companies like ours to outsource some of what has traditionally been performed by in-house staff.

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

Understood. And then maybe last for me. You kind of called out some investments in service line expansions and technology tools to just further help the business. Can you maybe give a little bit more detail on what that might entail and just how much those investments might be, some of the benefits that you see from that?

Gary P. Bowman

CEO & Chairman

Sure, Aaron. We're building out a team now to help map out and implement technology investments that will cause our customers to do more with us, get us to grab a greater share of the wallet. Some examples is we recently acquired some new generation remote sensors with our fixed aerial group that we acquired last year. It broadens that reach, enable us to service, as an example, large utility transmission corridors. We have developed and are deploying. The market has received it well, a product in our Ports of Harbors group where we combine LiDAR and SONAR for some asset management. And in our utilities, water and sewer utilities group, we have developed and are deploying some augmented reality and digital twinning tools that help those entities with their asset management.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

I think, Aaron, to the extent of the size of it, it depends on what becomes rational relative to revenue generation. So, we are in a position to make the kinds of investments that -- opportunistic investments to the extent that we see them having direct either revenue correlation or cost saving synergy in the way we produce work. But I think one of the ways in the world today to enhance margin long term and to accelerate organic growth in addition to kind of capital investment we make in M&A is making it internally into systems, technologies, products and services that capitalize on the direction the world is going. And we have the balance sheet to be able to do it to the extent that it is revenue justified.

Operator

Our next question is from Brent Thielman from D.A. Davidson & Co.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Yes. Nice finish to the year. A couple of ones here. Bruce, you made the comment -- $100 million, I think, in new orders this quarter. It sounds like a stronger than usual start. Maybe you could just talk about what verticals are driving that. And I guess, just on the building infrastructure backlog, it looks like it's dipped somewhat at the end of the year. And just want to understand the cross currents you're experiencing in that vertical and how that's sort of embedded in your 2025 outlook?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes, I'll take them one at a time there. I think just in terms of order flow, it is -- as I said, it's over $100 million so far in the first quarter. It is ratably across all of our different markets. One thing sort of in connection with the second part of your question, in terms of building infrastructure, that does have a quicker turn order to delivery characteristics. So sometimes you may see periods of time where there's dips in -- at a given day in the year that there's a lower backlog in, let's say, building infrastructure. But it's -- I don't think it's a characteristically different dynamic to order flow and expectation for building infrastructure. But I would say that it has been across the board positive sales in all of the markets so far this year.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Okay. All right. It sounds like underlying demand in that business group is pretty healthy, notwithstanding that, that comparison on backlog.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. There isn't one darling that's overshadowing the others. Weeks in, weeks out, you have different contracts, different authorities, different clients making decisions. But across the board strength in new orders coming up from the field.

Gary P. Bowman
CEO & Chairman

Yes. And I'll just echo that as we look and obviously prepare to say, what area is stronger in there. It's across the board. So it's nice to see well-diversified market sectors.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

And also remembering that's by design. We are not trying to become concentrated in any one leg of the stool.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Yes. Understood. My second question, just in terms of sort of capital allocation going forward. And I mean, you've taken a little bit of a step back on the M&A front, I guess, more recently. Obviously, you've got a few transactions done. I guess part one of the question is, do you feel like you've got everything integrated? I know there was some kind of internal work, refocusing internally here in the last year. Do you feel like you're through that phase? And I guess second part of the question. Are buybacks more attractive than M&A here going forward given where your stock is trading?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

So, I would say on the integration front, we are in really good continuous effort with integration. There are multiple prongs for every integration. But from a systems point of view, all but a couple, still are all integrated from an operations perspective. Everybody is integrated. From a branding perspective, most of them are integrated. We're -- so I would say that we're right where we want to be with integration and continue to be 100% committed to 100% integration of everything we completed, the Surdex integration at the end of the year. So, feel good about all the big heavy rocks getting lifted and put in place where they should be.

In terms of capital allocation, that's -- every day, we get up and we assess what the best forward-looking allocation of capital is going to be. We're increasing our capacity to invest by increasing the line of credit with our bank syndicate of BofA and TD Bank. I appreciate their support for the company. And certainly, at where equity values closed, we believe that, that's a good place to allocate capital. I think we're fortunate enough to be in a position where it's not an either/or decision. It's an and decision. And so while we look at M&A opportunities, those are not -- we don't look at them from the perspective of, well, if we do buyback, we can't do that M&A deal. So, we're balancing it all and adding to that mix, as Gary talked about, a more -- a bigger focus on tech investment and product line expansion, which is, in our mind, akin to acquisition, investing in something that generates substantial revenue is similar to buying revenue. So it's really a mix of those 3 parts of the triangle there, and we do this regularly.

Operator

Our next question is from Jeff Martin from ROTH Capital Partners.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

Good to see a strong close to the year here. I wondered if you could touch on the progress on gaining wallet share on contract sizes and getting involved in contracts earlier in the process and perhaps providing service -- more services throughout the life cycle of a project and what strategically you're doing to continue to improve that position?

Gary P. Bowman
CEO & Chairman

Well, we see the Surdex acquisition being a good example of increasing our geospatial capacity. As we mentioned in the remarks, it gives us incumbency early on in the project. So -- and I mentioned in our technology investments, some of these areas that gets us involved in asset management to stay involved with the customer throughout the life of the project, not just the development of the project and not just the design and I'd say, construction of the project. So, those are areas looking to be able to get in earlier, stay in for a longer duration. Our acquisition of FCS with a financial analysis and rate studying gets us into new areas of project life cycle. So, those are examples of what we're doing to grab more wallet share.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

One thing we, Jeff, like every good movie series, every project has a sequel. And so when you think about, okay, incumbency also isn't just about the first iteration of a project, it's the second iteration of a project as well. And so a lot of these, as Gary is talking about, these end of project services that we can provide that bridge between the life of projects puts you in a position the next time that, that project needs an improvement and upgrade that you're already engaged in the work with that client on that effort.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

Great. And then with everything that's going on in the data center market, just curious if that's an area you're looking to pursue more aggressively going forward?

Gary P. Bowman
CEO & Chairman

We continue to pursue it. We're -- it's still a super dynamic market. We have a great presence in the -- that part of the data center is at site preparation. We are taking some active and proactive moves to do more of the life cycle work of the design of the data center, getting more inside the data centers. So it's an area of -- certainly an area of focus for us to continue to grow in and to expand our service capabilities.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

And as the requirements for data centers expand, meaning that the available land for data center is evolving, meaning -- because certain latencies in certain types of data centers are more allowable, it's become more of a land planning and land development effort more broadly for us. So there's -- I think there's a lot more opportunity to look at land use for data center.

Gary P. Bowman
CEO & Chairman

We're looking for some areas to broaden our capabilities. I mentioned getting inside the data center, but outside the data center, some of the power delivery areas that we're taking some active moves to beef up our capabilities there.

Jeffrey Michael Martin
ROTH Capital Partners, LLC, Research Division

And then last one for me. Just curious if you could provide an update on the natural gas pipeline replacement opportunity. I think that's something you've been investing pretty significantly for.

Gary P. Bowman
CEO & Chairman

That market is still as active as it's ever been. It's a legacy skill of ours that one of our largest clients is a source of great recurring revenue for us. So it's -- and we're expanding with that client and looking to add to that client base.

Operator

[Operator Instructions] Our next question is from Justin Hauke from Robert W. Baird.

Justin P. Hauke
Robert W. Baird & Co. Incorporated, Research Division

I jumped on a little bit late, but I think I got the gist of what most of the questions have been asked. But one question we've gotten from a couple of people. Just on your land development business, our impression is that you have a fair amount in kind of the D.C. area. And I guess just curious, given kind of the local real estate recession, I guess, that's emerging there, if you had any comments on that or quantifying the size of that and maybe that's not as big as we thought, but I'd just appreciate any perspective on that.

Gary P. Bowman
CEO & Chairman

I'll say going way back in time, that's where the business was built on. And looking back here 30 years later, I'm very thankful we've diversified the business. So yes, it's not insignificant. It's a -- but -- we've grown so much and diversified so much. It's nowhere nearly as substantial a part of our business as it has been in the past. Clearly, there are -- if there's an area of real estate where sensitivities are acute, it's around this area. But federal adjustments are -- they're occurring throughout the country. So it's -- and in the time I've been in business, and I've been in business here in my whole life, we've seen tremendous diversification of this economy.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. This market has spent 20 years with days on market in the fractions of days. This, I think, is not -- I wouldn't over-characterize it too bad. There's a moment now where supply is increasing in this market, but it's a temporary phenomenon here and isn't -- land developers who are thinking about a 10-year horizon of homebuilding are relatively unfazed by a moment in time when the housing market here is getting a little softer. But long term, the D.C. market has a very diverse economy, and I think we'll be just fine.

Justin P. Hauke
Robert W. Baird & Co. Incorporated, Research Division

Okay. I mean, do you have any perspective on just -- I mean, of the residential and commercial markets that you have, I mean, maybe the legacy was -- that was really where you were concentrated. But I mean, is it 5% of your total portfolio is kind of the D.C. area? Is it 20%? I mean, just something to kind of put in perspective on what that is or how big it is?

Gary P. Bowman
CEO & Chairman

I'd say, in 10% or 15% of our residential building infrastructure portfolio. Our commercial portfolio is spread out throughout. So, very little of our commercial portfolio. Fortunately, we're not involved too much in office around here. So as far as our overall portfolio, low single digits.

Operator
We currently have no further questions. This concludes our question-and-answer session and in turn today's call. Thank you for joining us. You may now disconnect your lines.