

Bowman Consulting Group Ltd.

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FY 2023 Earnings Call Transcripts

Tuesday, March 12, 2024 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	(0.18)	(0.59)	NM	0.06	(0.11)	(0.53)	NM	0.57
Revenue (mm)	89.49	92.97	▲3.89	95.84	342.75	346.26	▲1.02	405.48

Currency: USD

Consensus as of Feb-22-2024 6:47 PM GMT

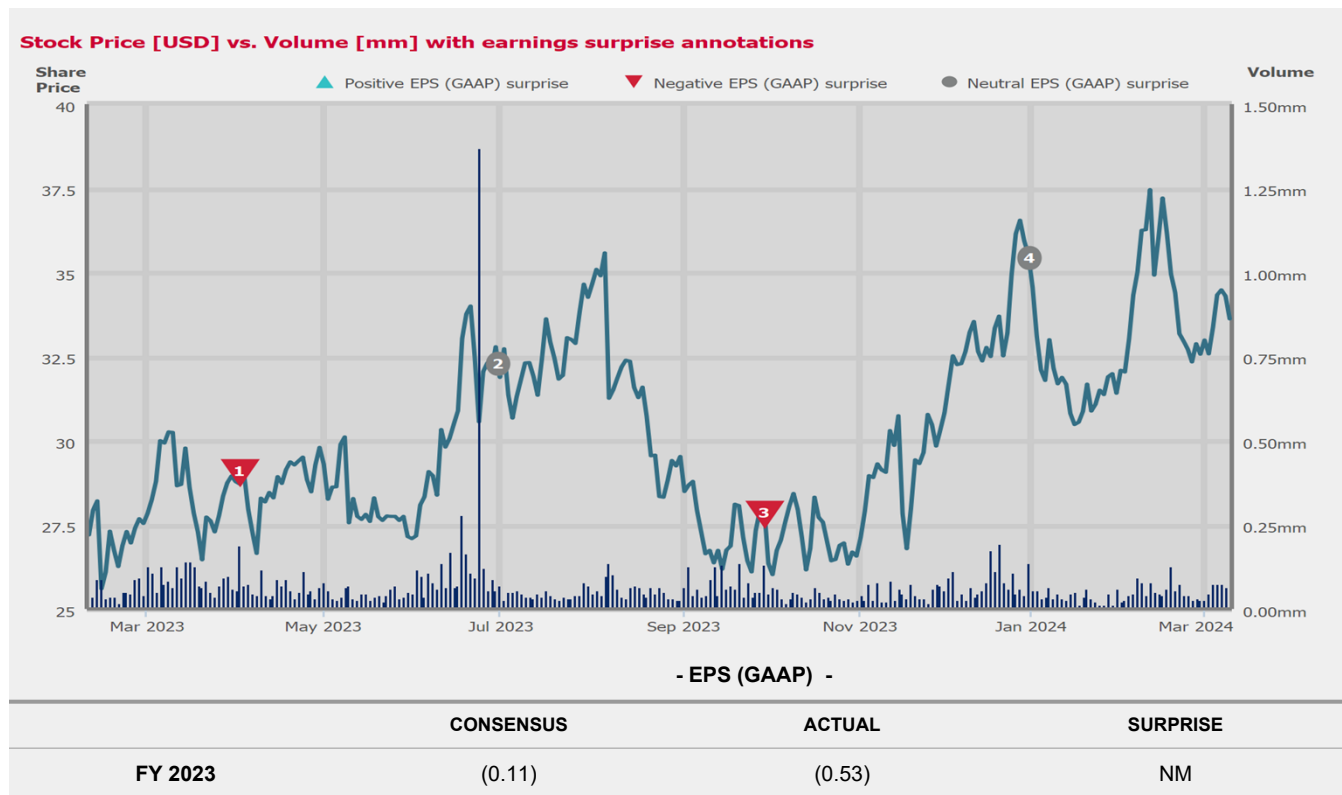


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Call Participants

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Presentation

Operator

Good morning. My name is Drew 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 2023 Conference Call. [Operator Instructions].

Please note that many of the comments made today are considered forward-looking statements under federal securities law. 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 obliged 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 be taking live questions from the 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 for 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 P. Bowman *President, CEO & Chairman*

Thank you, operator. Good morning and thank you, everyone, for joining the Bowman 2023 Year-end Earnings Call. As always, I'm joined this morning by Bruce Labovitz, our Chief Financial Officer. We appreciate everyone taking time to participate. I'm going to start off with a quick update on Bowman, then Bruce will discuss our financial results. After that, I'll talk a bit about markets and pipeline before we open the line for questions. This call this morning is our first call after completing 6 acquisitions since our last earnings release. I want to welcome everyone from CFA, Blankinship, High Mesa, Hess-Rountree, TCE and Speece Lewis. This is a dynamic collection of organizations with a highly skilled and motivated professionals who are already making an impact on Bowman.

I also want to welcome everyone else who's likewise joined us recently on our journey. I'm going to start off by reiterating our belief that the business of Bowman is foundationally solid. The markets we serve are well funded. The need to construct, improve and repair the infrastructure supporting the U.S. built environment remains urgent. Demand for the work of qualified engineers and technical professionals exceeds the supply of resources and both our culture and our commitment to professional growth continue to attract and retain top talent.

Since 2020, that's the year preceding our IPO, we've grown at an exceptional compounded annual rate of 30%. We've completed 29 acquisitions of operating companies since the beginning of 2021. We've nearly tripled our staff by adding about 1,500 employees. We've diversified and deconcentrated our revenue streams and we've expanded geographically by nearly doubling our footprint of offices.

We're all tremendously proud of these accomplishments and I firmly believe in our team and our approach. However, we've not been -- normally we'd always be flawless in the execution of our strategy. The end of 2023 was disappointing. It resulted from what we consider to be a series of miscalculations on our part relating to the integration of multiple cultures, new and unfamiliar clients and expectations around the year-end utilization. Put simply, we didn't achieve the levels of collective productivity at the end of the year that we have historically experienced and relied on for guidance. While we [indiscernible] to have missed our forecast by what is in effect a couple of days of earned revenue, we are in no means ashamed of the year we delivered. Rest assured, as we persevere with our aggressive business strategy, we continually learn, adapt and change course as necessary. And we press forward resolute in our commitment to continuous improvement and to delivering growth and shareholder value.

Now I'll turn it over to Bruce.

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

Great. Thanks, Gary. Good morning. I'm going to take a few minutes this morning to walk through our financial results and discuss our forecasts for 2024. For the fourth quarter, gross revenue was \$93 million, up \$17 million or 23% from last year. Net service billing, a non-GAAP financial metric also referred to as net revenue was \$80.5 million, up \$14.3 million or 22% from last year. Our net-to-gross ratio, the indicator of how much our revenue is -- of our revenue is generated by our workforce as compared to outside subconsultants was 86.6% for the fourth quarter compared to 87.5% last year, that 1 percentage point change is representative of changes in client mix and really isn't consequential.

Gross revenue posted a 6% organic growth rate for the quarter while net revenue posted a 4% organic growth rate. The organic growth rates were depressed as compared to prior periods because of comparatively lower productivity throughout the organization at the end of 2023. Gross margin was 50.4% in the fourth quarter. Although down around 180 basis points compared to last year, it's still within our 50% to 55% range, albeit on the low end. Compared to last year, SG&A expenses rose in the fourth quarter, both nominally by nearly \$10 million and as a percentage of both gross and net revenue. This increase in percentage was to be expected as more operations labor was classified as indirect this quarter, again, due to comparatively reduced productivity at the end of the year.

Lower-than-expected revenue in the quarter resulted in a net loss from operations of \$3.7 million. After other expenses and nearly \$5 million R&D-related tax accrual, which I'll address later in my update on Section 174 issues, net loss after tax was \$7.7 million for the quarter. Adjusted EBITDA for the quarter was \$11.2 million or a 14% margin on net revenue. Add-backs are limited to noncash stock compensation and acquisition-related expenses. This year, we closed on 11 acquisitions with 6 acquisitions during the fourth quarter. That brought the total post-IPO to 26.

During the fourth quarter, we've marginally elevated acquisition -- we have marginally elevated acquisition-related expenses due to the volume of closing and the closeout of purchase accounting for 15 acquisitions. For the full year, gross revenue was \$346.3 million, up \$84.5 million or 32% from last year. Net service billing was \$304 million, up \$68.8 million or 29% from last year. Our net-to-gross ratio was 87.8% for the year compared to 89.9% last year. Again, the 2 percentage point change is representative of changes in client mix and isn't consequential. Gross revenue posted a 21% organic growth rate for the year, while net revenue posted an 18% organic growth rate. Both are significant results we intend to build from this year. Gross margin was 50.8% in the year, down around 80 basis points compared to last year and is again within our expected range. For the year, SG&A expenses rose nominally by 45% -- by \$45.5 million, excuse me and as a percentage of both gross and net revenue.

The increase in SG&A is principally a result of our growth, was also impacted by additional investments in corporate infrastructure and processes required for our upcoming transition out of emerging growth company status at the end of 2026. Net loss from operations was \$650,000 for the year. After other expenses and the R&D tax accruals, net loss after tax was \$6.6 million. In connection with the impact of the full year loss on our 3-year cumulative income, we performed an in-depth analysis of the recoverability of our deferred tax assets, most of which are related to R&D tax changes. We worked closely with our auditors to conclude, based on multiple forecasted sources of future income, that the recoverability of these deferred tax assets was not impaired and no valuation allowance was warranted.

Adjusted EBITDA for the full year was \$47 million, up \$13 million or 38% compared to last year. While adjusted EBITDA margin on net revenue was up 100 basis points over last year at \$15.5 million we are disappointed not to have made more progress towards our stabilized long-term goal of high teens margins. Backlog at year-end was \$306 million, up \$63 million from last year and up \$8.5 million from the end of the third quarter. Year-end backlog revenue was 55% building infrastructure, 24% transportation, 17% power utilities and energy, 4% emerging markets, including water, mining and environmental.

Backlog is accretive both from new orders and through acquisition and is worked on by resources throughout the company. Our efforts towards revenue diversification continued this year with building infrastructure decreasing from 65% of gross revenue last year to 56% of gross revenue this year. Transportation increased to 21% from 17% and Power and Utilities increased to 19% from 13%. While these changes reduce concentration risk, we don't expect any meaningful margin changes over time resulting from this evolution in revenue mix.

On the R&D tax front, we continue to monitor legislative developments and notices with respect to the alterations and potential reversal of tax changes enacted under the Tax Cuts and Jobs Act with respect to the deductibility of research and experimental expenditures during the tax year in which they are incurred. This change in tax law has had significant negative cash flow consequences for U.S. companies deemed to be engaging in IRS Code Section 174 related research and experimental investments.

As we've discussed, we maintained an uncertain tax position related to what we feel are our facts and circumstances relating to IRC Section 174 as altered. In connection with our UTP reported recorded in lieu of having made accelerated tax payments associated with the altered tax code, we have \$38 million of deferred tax assets and have accrued a \$4.8 million tax expense in 2023. Good news for

now is that on January 31, 2024, the U.S. House of Representatives passed the tax relief for American Families and Workers Act of 2024, also known as H.R.7024 on a bipartisan basis.

Along with several other features, this legislation restores U.S. taxpayers' ability to deduct currently and retroactively domestic research and experimental expenditures paid or incurred in tax years beginning after December 31, 2021 and before January 2026. The bad news is that the Senate doesn't seem all that anxious to bring the bill up for vote. If H.R.7024 is timely adopted by the U.S. Senate and subsequently signed by the President, we would be in a position to reverse our UTP related liability tax expense and deferred tax assets. We continue to monitor this situation and remain hopeful that the overwhelmingly stimulative benefits of deductibility of U.S. research and experimental expenditures will be restored and widely available.

At year-end, we had \$20.7 million of cash on hand and \$73 million of net debt. Our leverage ratio of net debt to trailing 4 quarters of adjusted EBITDA at \$47 million was just under 1.6x and closer to 1.2x on a forward basis. Approximately \$21 million of our net debt is related to capital expenditures financing, approximately \$28 million is held by sellers of acquired companies. The remainder is outstanding under our line of credit relating to the cash portion of acquisition consideration and short-term working capital needs. The R&D credit accounting has made the dissection of our cash from operating activities a bit complicated. For 2023, cash from operations pre-working capital includes \$4.7 million of accrued tax expenses associated with the UTP, which is embedded in our net loss. It also includes the addition of roughly \$20 million in new deferred R&D tax. In the working capital section of cash from operations, we add back that \$24.7 million of deferred tax not paid in the AP and accrued.

This makes the pre and post working capital calculations a bit confusing stand-alone on their own. Our cash from operations was \$11.7 million which was an increase of \$2.6 million over last year. As we grow, our net contract assets, a proxy for work in process increased \$7.1 million, which consumed cash but is now consistent with our peers in terms of days of work in process. To the extent we continue to post outsized organic growth rates and continue to be highly acquisitive, we will consume faster than we would -- we will consume cash faster than we would if we were to severely moderate growth and eliminate acquisitions.

We still believe that at a high teens adjusted EBITDA margin and normalized organic growth we would generate a 60% plus cash flow conversion rate. As of December 31, 2023, we had 15.1 million shares issued and outstanding as listed on our balance sheet. This includes 1.7 million of restricted stock units that had been granted but are still vesting, so they remain subject to forfeiture. It's important to remember that these unvested shares are excluded from basic counts on our income statement. In addition, there were approximately 700,000 performance units, which are subject to vesting confirmation over the next 2 years. These PSUs, along with approximately 385,000 shares that could be converted under outstanding acquisition-related convertible notes, are not included and issued in outstanding share counts.

As of today, there are approximately 15.3 million issued and outstanding. On an adjusted basis, EPS for the quarter was \$0.33 basic and \$0.31 dilutive, down from \$0.44 and \$0.41, respectively, last year. For the full year, adjusted basic EPS was \$1.12 and adjusted diluted EPS was \$1.03, down from \$1.46 and \$1.36 respectively, last year. Adjusted EPS is a non-GAAP metric that adds back non-recurring expenses associated with acquisition, residual noncash stock compensation associated with IPO grants and other expenses not in the ordinary course of business. We believe adjusted EPS is a more meaningful representation of normalized long-term earnings per share. You can find a reconciliation to GAAP earnings per share in our press release.

I'm going to conclude with an update to our 2024 guidance. We're increasing our guidance for net revenue to a range of \$363 million to \$378 million and we're increasing our adjusted EBITDA guidance to a range of \$59 million to \$65 million, with a midpoint net revenue margin of 16.7%. These ranges include acquisitions through Speece Lewis and do not contemplate future acquisitions. As we mentioned in yesterday's press release, the first couple of months post closing are challenging for an acquired company as they go through the heaviest integration lifts. This will often negatively affect revenue in the short term. While considering the impact of future guide of acquisitions, we recommend that everybody keep in mind that we had a prorated amount of announced annualized net billing based on the timing of closing within the year, increased for what is the equivalent of an additional few months -- reduced for what is an additional 1 to 2 additional months of post-billing, excuse me, billing post closing, depending on the complexity of the integration to account for utilization and revenue disruptions.

With that, I'm going to turn the call back over to Gary.

Gary P. Bowman
President, CEO & Chairman

Okay. Thanks, Bruce. I'm now going to take a moment to review our markets, our revenue diversification accomplishments and our vision for 2024 and beyond. We remain committed to our core markets of transportation, power utilities and energy, building infrastructure and our other emerging markets, which include mining, water resources and environmental consulting. For the past

several years, we've relentlessly pursued a deliberate expansion of our scope of services and technical capabilities to gain market share through new relationships, while simultaneously increasing wallet share from existing customers.

We've accomplished this through both strategic hiring and acquisition. Growing a business such as ours requires continuously adding productive human capital in an efficient manner. Our assembled group of talented professionals, which continually expands by way of acquisition and subsequent integration to a single operating organization is the key ingredient in our ability to deliver exceptional growth and scale. To that end, our acquisition strategy is equally grounded in both expansion of capacity through accumulation of assembled workforces as well as the realization of revenue synergies.

Once again, building infrastructure was our largest market at just under \$195 million or 56% of our revenue. Power and Utilities, however, was our fastest-growing market, nearly doubling year-over-year. Starting this year, to better describe that market, we will refer to it as power, utilities and energy. Our transportation business grew an impressive 60% year-over-year and building infrastructure increased 14% year-over-year. These results are consistent with our commitment to revenue diversification and our focus on evolving in well-funded sectors of the infrastructure market.

We continue to maintain a well-balanced and diverse customer base with no one customer representing more than 5% of 2023's gross contract revenue. Beginning with this call, in the 10-K we will file after market today, we are providing further insight into the distribution of gross contract revenue by submarket. Over time, these categories will evolve when further dissection is warranted. As you saw on the slide that Bruce presented earlier, we've broken out commercial real estate revenue into subcategories of retail, hospitality and quick service restaurants, office and industrial, data centers, healthcare and other.

Within the transportation sector, we've broken out revenue based on work for clients who are either public agencies or private developers. In the power, utilities and energy sector, we are reporting revenue from traditional transmission compared to energy transition and renewables. We hope this additional color on revenue will be helpful to investors.

During 2023, we were awarded our first Arizona DOT project as a prime contractor and just last week, we were awarded a \$2.6 million notice to proceed from the Rhode Island DOT to update their design manuals. We continue to work on the long-term and large-scale Allegheny Tunnel Project with the Pennsylvania Turnpike Authority and we're expanding our corridor and program management engagements with the Illinois Tollway authority, IDOT and others. Almost all IJA money has been committed to states for transportation investment but only a small percentage of it has been allocated to specific projects and starts. For example, the State of Illinois alone has nearly -- has approximately \$35 billion to \$40 billion to spend on transportation in the next 5 years or so. With roughly 20% of all transportation project spending being reversed on preconstruction design, this equates to roughly \$8 billion in engineering fees for these projects.

As of now, there are simply not enough qualified transportation firms in the state to meet that demand. And that's just one state. We're focused on expanding our DOT and our transportation and bridge design relationships this year as demonstrated by our Speece Lewis acquisition in Lincoln, Nebraska. Our M&A program remains active with 2 acquisitions closed so far this year and more anticipated to close between now and the next time we report in May.

We remain committed to our communicated strategy of high-frequency limited risk acquisitions, which are fully integrated within 12 months of closing. This is not [indiscernible] pass time for us as evidenced by the fact that we have grown our internal acquisition machine over the past 2 years and now have nearly 20 of our staff dedicated to the overall M&A process from partner identification to deal negotiation and documentation to due diligence to closing and finally to integration. Our primary focus remains on under \$30 million annualized net service billing companies. However, we anticipate the average net service billing size will continue to increase this year over the 2023 average of around \$6 million.

Our focus is on transportation, power and utilities sectors along with technology-enabled operations and high-resolution imaging and geospatial services. As we've discussed on prior calls, we're committed to being a technology leader in the pure engineering and design industry. We continue to invest in artificial intelligence platforms, advanced machine learning systems, augmented reality applications and GIS mapping to support our customers' increasing demand for integrated solutions. In one recent customer assignment, for example, we incorporated GIS data to introduce a variable to machine learning models that learn and process the vast volumes of data resulting in greatly improved efficiencies, that benefit both us and our customers.

In our transportation group, we're using computer vision to assist with asset inspection and condition assessment. This technology helps to identify payment conditions, illuminate map issues and guide customers in their capital planning. Our Geospatial division uses laser scanning and spatial orientation tools to develop Revit models for a wide range of facility developers who in turn use these building information models to better manage their construction projects. In our water and wastewater practice, we're utilizing digital twin technology to provide customers real-time information on interactive dashboards and live maps to their systems.

We're also using AI internally where it's combined with other technologies such as generative design, 3D modeling, data processing and mapping information to generate smart intelligent data sources that help our designers iterate faster and make the most informed decisions possible. Digital collaboration enabled by informed technology investment fosters repeat revenue and keeps projects performing on time and on budget.

I'll conclude by reiterating, we maintain a positive outlook for our markets in 2024. Thank you for participating in today's call and thank you to all our staff for everything you do for our customers, our shareholders and our communities.

Operator, I'll now turn it back over to you for questions and answers.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Brent Thielman from D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Gary, I appreciate your sort of candid comments on some of the challenges you faced late in the quarter. Can you talk about some of the things you specifically faced and kind of what you've done to move beyond these kind of temporary integration issues and I guess what you've seen from the acquisition to date, sort of get us more comfortable with the go-forward cadence here?

Gary P. Bowman

President, CEO & Chairman

Well, looking back, we really see it as sort of a -- integration as an ongoing thing and we had maybe a critical mass of newly acquired companies that just -- we had not gotten the cultural integration far enough along to impress upon everybody the need to keep moving throughout the year. We're learning from that. And what is really just improving and concentrating on the cultural integration and getting everybody on board at the same time.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. And then, I guess, just with respect to the outlook for 2024, the comment about uneven growth in net service billing kind of from 1Q to 3Q, Bruce, can you just sort of clarify that? I mean, presumably, you're expecting a sort of a sequential ramp-up in revenue as we move from the first to the third quarter as you typically see but would love any more clarification to that.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. So Brent, if you think about -- you start with an average of the year, [25, 25, 25] and I wouldn't say, well, we get out a little bit slower. We pick up second and third and we might moderate that a little bit in 4. I would just maybe shave a couple of points off the front in the end, add them to the middle and have just a slightly uneven distribution so that there's kind of a ramp up 1 to 3, maybe a plateau or we're sort of thinking in our heads for don't get -- don't have it happen again. So maybe we've kind of -- we've pro forma-ed a little bit of a drop off or plateau in the fourth quarter, not continued growth in the fourth quarter. So I'd just take a couple of points and move them around the spectrum.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. And then just lastly, I guess if you take a step back with your transactions here recently, throughout 2023, Gary, there aren't necessarily any real large ones. I'm thinking about McMahon or kind of PDC \$10 million plus net service billing. Are you finding those types of deals more competitive? Is there an appetite for those transactions at prevailing multiples? Just curious there.

Gary P. Bowman

President, CEO & Chairman

The bigger we get and the attractive markets, they are more competitive. But we're continuing to focus all throughout the size spectrum. So we're -- we have a focus this year and some good pipeline potential of some more of the bigger acquisitions.

Operator

Our next question comes from Jeff Martin from Roth MKM.

Jeffrey Michael Martin

ROTH MKM Partners, LLC, Research Division

Wanted to dive in the Power and Utilities segment a bit. Just noticing the growth year-over-year in conjunction with the increase in backlog, up \$20 million year-over-year for this segment. Typically, you'd see backlog more flattish when you have that kind of

outsized growth. So maybe comment with respect to the segment where you're seeing particular strength? Are you adding customers? Are you able to capture new types of projects as a result of some of the acquisitions you've done over the past year?

Gary P. Bowman
President, CEO & Chairman

Yes. We're continually adding new customers, Jeff, and especially in customers dealing with energy transition and renewable energy. Lots of solar, lots of battery storage, some wind. And our power resiliency work is continuing to grow also. It's especially the utility undergrounding and so forth. We are -- through our acquisitions, we are adding some new -- or enhancing our capabilities -- so for instance, we're increasing our ability to do more and more of the electrical engineering for these clients.

Jeffrey Michael Martin
ROTH MKM Partners, LLC, Research Division

Great. And then on the Transportation segment, obviously, the opportunity is there, the funding is there. What things do you foresee positioning the business to take advantage of that beyond what you've got today in terms of maybe adding resources, pursuing additional acquisitions or maybe partnering up with other firms?

Gary P. Bowman
President, CEO & Chairman

Yes. Yes to both. We have over this year, we've added some resources that will get us into especially some of the bigger program management aspects of this. That's an area where we see the DOTs really going to be -- they're going to be short on staff to administer all this. So that will be an area of growth and also, it is a particular function of our -- or focus of our M&A strategy firms that serve the transportation markets and we'll continue to be able to take advantage of the IIJA funding.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

I think you can see, Jeffrey, there's been a lot of focus on DOTs -- I was just saying there's been a lot of focus on DOTs and expanding the number of DOT clients and the depth within those clients.

Jeffrey Michael Martin
ROTH MKM Partners, LLC, Research Division

Right, right. Okay. And then last one for me on the geospatial side, speak to the enhancements you've made through acquisitions and maybe organically. And I know that's used broadly across your segments but maybe speak to the take rate or the uptake rate in terms of how clients are using geospatial increasingly throughout your portfolio of segments.

Gary P. Bowman
President, CEO & Chairman

It's an area where we're currently probably applying the greatest amount of our sort of our digital skills and talents. It enables us to -- a lot of our acquisitions sort of find -- don't do the geospatial work. So we're able to immediately add a wallet share to the clients we acquire. The technology is high-definition scanning and developing some digital twinings. So that -- those technologies have been advanced by several of our recent acquisitions.

Operator

Our next question comes from Alex Rygiel from B. Riley.

Alexander John Rygiel
B. Riley Securities, Inc., Research Division

Gary and Bruce, very, very nice year. Congratulations. A couple of quick questions here. There's been a notable mix shift away from building infrastructure towards transportation and power and utilities over the past 2 years. Noting your earlier comments that this hasn't really changed your margin expectation. But has it changed your organic revenue growth outlook at all in? What is your sort of 2024 or intermediate multiyear kind of view on what organic growth could be for this asset?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

This asset being Bowman or?

Alexander John Rygiel
B. Riley Securities, Inc., Research Division

Yes -- yes, sorry, no, this asset being Bowman.

Gary P. Bowman
President, CEO & Chairman

We see organic growth this year being in the low to mid-teens. And the -- I'd say the change in mix -- that was our strategy from the day or before the day we decided to embark upon this journey of being a public company. So it's execution of a strategy. We don't really -- we don't see that changing our strategy as far as organic growth or our expectations and our ability to execute on organic growth.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. From a margin point of view, I don't think that necessarily the markets themselves -- within each market there's pockets of differentiating margin. But essentially, at the end of the day, we're doing the same things in different markets. It's really a deconcentration of risk strategy more than -- in terms of diversifying markets. But to your earlier question, the introduction of technology and disruptive services could, for periods of time, have margin enhancing benefit. And so it's really sort of more in the services that we see that there's opportunity for margin than it is in the distribution of revenue between markets.

Alexander John Rygiel
B. Riley Securities, Inc., Research Division

That's helpful. And then sort of looking at your end markets. Gary, could you maybe rank the 2 or 3 strongest end markets from an organic growth standpoint and then maybe identify the ones that are either sort of declining or flattish at this moment in time?

Gary P. Bowman
President, CEO & Chairman

The strongest right now from organic is the power and energy and especially those aspects, like I mentioned earlier, dealing with energy transition and renewable energy. That growth has been fairly phenomenal and it's been almost all organic. I'll say, in 2023, the building infrastructure was probably the softest. We see that -- what we're seeing in the market indicates that will probably pick up some this year as the interest rates peak and the outlook for interest rates sort of start going down.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

The only thing I'd like to say is that the markets themselves are the strongest organic. For us, again, starting from smaller basis, the way to accelerate growth and create future organic -- bigger organic growth returns is to acquire into those spaces, increase our capability. So short run, our organic growth rate within a market may not exactly line up with the organic growth rate of a market following the difference because we may acquire our way to a bigger basis to then take more opportunity from the organic growth nature of that market.

Alexander John Rygiel
B. Riley Securities, Inc., Research Division

And then lastly, Bruce, or maybe Gary, you mentioned on the call that the class of acquisitions in 2024 in the aggregate will probably be on average a little bit larger than the class of 2023. Can you comment as you kind of look at larger businesses here, does that suggest or imply that maybe the purchase prices are greater as well and/or suggest or imply any other improved growth opportunities or risks?

Gary P. Bowman
President, CEO & Chairman

We're not envisioning that in 2024 on whole, we'll be paying more pound per pound for our acquisitions. So in the -- as we are evolving to larger acquisitions, we're still, I'll say, in the same general ballpark. So the same expectations for what we pay. What we're finding is, it's not quite so much size dependent, again, in the area where we're doing business but we need to get more aggressive on

the pricing in the more desirable markets, like for -- transportation businesses are expensive, those dealing with the energy grid are more expensive. So it's -- that's where we see the -- our expectation is to have to pay a increase based on the market they serve.

Operator

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

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

So I appreciate the commentary earlier about still seeing more demand for services than available supply. Can you just talk about any changes you might be seeing as it relates to pricing in the market? And then just maybe an update on labor as you manage the growth here moving forward.

Gary P. Bowman

President, CEO & Chairman

We're expecting -- and foresee the pricing in the marketplace to be the same as last year, obviously, inflation, you have to sort of adjust but inflation adjusted, we see, we anticipate being able to still get again, pound per pound, at least the same thing in the near future that we've been getting in the past. And the -- and our -- we've done a good job in managing our labor costs.

The labor costs certainly are increasing with inflation. But we're seeing an ability for the pricing and the cost of the labor to increase at the same rate as parallel lines.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

So I think part of what we're seeing also is -- we're not expecting hyper inflation in pricing. Our growth in the future is not just because the same clients are paying 1.5x what they were paying before. It's really foundational growth, right? There will be pricing growth. We continue to be -- also continue to be unique in our -- amongst our peers in terms of the construct of the company and our ability to use equity as a form of compensation and it benefits us, our attraction and retention of labor to be what we are today relative to the competitive market for clients and the competitive market for labor. And we work very hard in both markets to gain market share.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Right. Right. Understood. Okay. And then maybe second, could you just kind of talk about the visibility you have into 2024 guidance from the backlog in the pipeline today? Maybe how that compares to the past years? And then just maybe a little bit on other visibility you have from some of the reoccurring projects or sort of phased-in projects that might come in over time that aren't in backlog today.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. So Aaron, I would say we certainly are seeing -- we're seeing a bigger impact from long-term projects. As we get bigger, that's one of the benefits of size, is that we are more engaged with more. That doesn't mean it's a majority yet but we're more engaged with more long term, more long-term visible projects. And so that helps with visibility. Backlog generally has -- we can look into our backlog and try to see when projects will deliver. It's hard to be so granular that you're literally by day planning what's going to deliver. But you get a general sense from the bottom up of -- we really do spend a lot of time looking at when do we think projects will deliver, what do we think our backlog will support in utilization and therefore, how much revenue we can earn over a period of time.

We generally go into a year expecting that 70% to 80% of our backlog will turn in a year. And then there's a lot of intra-year selling and delivering that sometimes never even makes it to backlog, shorter-term deliverables that you settled on January 3 and you deliver it on March 29 and the market never sees it as backlog. So we feel like we have good, strong visibility to being able to deliver. And again, we caveat it always with -- the world doesn't fall apart in front of us. On the trajectory of the markets today, we have confidence between our pipeline of opportunities and our backlog that, that guidance is deliverable.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Got it. And then just maybe last on kind of the regulatory backdrop. Last quarter, you mentioned kind of less than 20% of the infrastructure bill and IRA funds. It sounds like that's starting to come more to the state level. But is that still something that you think is more of a kind of late 2024 and into 2025 dynamic for when you might see more of a benefit from that?

Gary P. Bowman
President, CEO & Chairman

We are forecasting it -- not to repeat what you said but in that kind of time frame. IIJA has contributed fairly meaningfully to our revenue in the past 6 to 12 months, it's picking up. I think it's ramping up slower than anybody anticipated that it would. But in our outreach to our clients and our feel for the market, we are expecting it, second half of this year and well into 2025.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

What we appreciate is that we expected -- I think everybody expected it maybe to come a little sooner. We've still delivered the growth that we have delivered and that's still in front of us. And so we're -- while it's good and bad news, bad news, it hasn't come as quickly, good news is, we've been able to do what we've been able to do without it coming as quickly as everybody thought and that's still -- it's not in our backlog because it -- a lot of that work hasn't been let yet. But as we talked about, just in Illinois, there's a backlog of \$35 billion to \$40 billion of transportation work and at 20%, \$8 billion just in one state of fees coming to preconstruction firms.

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

Right. Right. No, definitely. We'll stay tuned for that.

Operator

Our last question is a follow-up from Brent Thielman from D.A. Davidson.

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

Bruce, an accounting 101 or 202 question, I'm not sure which. But on the uncertain tax position, can you explain what happens with H.R.7024 were miraculously adopted by the Senate and President.

Like, I mean what should we expect to occur in the financial statement [indiscernible] tax reverses.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. My tax nightmare goes away. First, I have a lot more free time. But what happens really is in the P&L, you would see a reversal of tax expense, that \$4.7 million. So nothing to adjusted EBITDA as a result of that. And the impact of the R&D amortization is not impacting short-term tax expense other than with that \$4.7 million we talked about. So you wouldn't see a huge P&L impact but you would see a reversal of the liability and you would see the impact really run through the cash flow. But really, it would be neutral. You would just see these wild swings. You'd see this big reversal of deferred tax assets and a big reduction in accounts payable and accrued expenses.

So there's a lot of noise around not a lot of impact, the biggest impact for firms in the space has been the cash impact of this huge acceleration of tax payment that we have not yet experienced because of the positions that we've taken. So you wouldn't see a huge P&L impact, you'd see a big cash flow change but on a net basis, it's neutral. It would just take a lot of the anxiety out of the market and put a lot more investable cash back in the hands of firms like ours. I don't know if that was an accounting answer.

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

The impact on the cash flow is negligible because you're already addressing that in the working capital portion, is what you're saying? Just to clarify.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. Because we've had to book it, then we booked this offset to it, right? So it's in, in the pre-working capital -- sorry, out in the pre-working capital and back in, in the working capital section. So -- but from a net income perspective, we would recover that \$4.7 million of tax expense, which, by the way, for some reason, we withdrew our tax position, we would also recover but then we would be out of cash.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. Fun stuff. I guess the other one I wanted to ask is...

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Call your senators. Tell them to pass the bill.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

I suspect this will get fleshed out maybe a bit more in the 10-K and the end market disaggregation, would be interested to see that. But I mean, I think about this, you had a rather large land survey operation and it seems there are some rather large land consuming projects out there and manufacturing and industrial development, data centers. How much of these moving the needle in the building infrastructure segment today? And as you think about this kind of low to mid-teens organic growth rate?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Not sure exactly followed the question, was is it, is it, how is surveying affecting it? Or how are large land projects impacting the concentration of revenue?

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Well, I think the topic de jure out there, there's a lot happening in supply chain coming back in the United States, lot's happening in manufacturing. Plenty happening in data centers, right. So I'd just be curious how that's impacting the business.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

So the CHIPS Act, I think we're kind of talking now about the impact of sort of the reclamation of manufacturing and stimulus. We don't do a lot of manufacturing facility engineering. But what happens is, it's a stone in the pond and it has a ripple. So when there is demand for resources in this market and let's say, a larger firm addresses that, it limits their ability to satisfy all demand of their existing portfolio, so things spill out and come downstream. So directly, I would say -- Gary, you can add to it.

Gary P. Bowman

President, CEO & Chairman

Yes, I'll add to the sort of the large land sort of where we're seeing it is the utility projects, these mammoth pieces of land, say for solar farms or large transmission lines. So that's driving it. And our data center work is tremendously robust in an area of tremendous growth. So in the power and utilities and data center for the markets that we're serving, we are really seeing that being a driver to geospatial in particular and to the entire business.

Operator

There are no further questions at this time. Mr. Bowman, I turn the call back over to you.

Gary P. Bowman

President, CEO & Chairman

Thank you, operator. Again, just want to thank everybody for participating in the call this morning. And I want to thank, again, thank all of our staff for all the great work we do, hard work and look forward to talking to everybody again in May. Take care.

Operator

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

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