



Bowman Consulting Group, Ltd.
Third Quarter 2022 Conference Call
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C O R P O R A T E P A R T I C I P A N T S

Gary Bowman, *Chairman and Chief Executive Officer*

Bruce Labovitz, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Alexander Rygiel, *B. Riley Financial, Inc.*

Brent Thielman, *D.A. Davidson & Co.*

P R E S E N T A T I O N

Operator

Good morning. My name is Nadia and I will be your conference operator today.

At this time, I would like to welcome everyone to the Bowman Consulting Group Third Quarter 2022 Conference Call.

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 and net service billing. You can find this information together with the reconciliations to the most directly comparable GAAP information at 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 public research analysts. Throughout the call, attendees on the webcast may post questions for Management to answer on the call or in subsequent communications, but there will be no live Q&A from the webcast attendees. Replays of the call will be available on the Company's investor website.

Mr. Bowman, you may begin your prepared remarks.

Gary Bowman

Thank you, Nadia.

Good morning and welcome, everyone, to the Bowman Consulting Group third quarter 2022 earnings call. I'm Gary Bowman, Chairman and CEO of Bowman. I am joined this morning by Bruce Labovitz, our Chief Financial Officer.

I want to start by thanking everybody at Bowman for your continued commitment to delivering exceptional solutions to our customers and for yet another record quarter to our shareholders. We've added many new employees through acquisitions this quarter and I am pleased to have all of you as part of the Bowman team.

Also, I recognize that today is Veterans Day, I would like to add a special thank you to many Bowman employees who also served as Veterans.

Given the strength of the quarter and the momentum we are experiencing so far in the fourth quarter, there continues to be an apparent disconnect between the behavior of our clients as reflected by the key performance indicators in our business, and the recessionary concerns we hear in the media.

While we've adopted what we consider to be a cautious and defensive approach to managing the size of our internal investments and our risk in specific growth initiatives, our pace of new orders and high utilization rates give us confidence that we will again see growth in 2023.

At the time of the IPO, we talked about our five-year strategic growth initiative, which included a 12% organic compound growth rate target and an aggressive acquisition program which when combined with the results in a five-fold growth trajectory from \$100 million of net revenue in 2020 to \$500 million of net revenue in 2025. Nearly two years in with a \$265 million-plus run rate by the end of Q3, we are ahead of plans.

Since our last conference call in August, our M&A and integration teams have been busy. We closed on three new acquisitions, with additional opportunities currently at various stages in the pipeline.

Anchor Engineering added marine and waterfront ports and harbor engineering skills to our portfolio of services, while also adding underwater survey.

SEI demonstrates our continued commitment to expanding our energy transition and solar infrastructure engineering practice to support and finance the complex energy infrastructure requirements.

Then Spatial Acuity reflects our belief in the value of leveraging certain geospatial data collection and reality capture technologies that are in high demand by our customers, while also enabling efficient growth. Each of these acquisitions brings a unique value proposition to Bowman and they all provide a meaningful base of business from which we intend to cross-sell our services and grow revenue.

Now I'm going to turn the call over to Bruce who will discuss our financial results in detail and I'll return to talk a bit about our markets before taking your questions. Bruce?

Bruce Labovitz

Great. Thank you, Gary.

We are pleased to be here today discussing another record quarter. When I refer to the quarter, I mean the three months ended September 30, 2022, and when I refer to last year, I mean the period ended September 30, 2021.

Throughout my presentation, I will refer to certain non-GAAP financial information such as EBITDA and net service billing which we also refer to as net revenue. You can find this information together with reconciliations to the most direct comparable GAAP information in yesterday's earnings release and in our 10-Q, which we will be filing on Monday since the SEC is closed today in honor of Veterans Day.

Last night, we released results for another consecutive quarter of record gross revenue, net service billing, and Adjusted EBITDA. We continued to deliver exceptional organic and acquisitive growth in the third quarter of 2022 and year-to-date. When you normalize the acquisitions closed during the quarter and in the fourth quarter, we are pacing at a net service billing rate of over \$265 million annually.

Based on acquisitions closed since our last call, and order trends we've been experiencing so far in the fourth quarter, we raised guidance for the full year and concurrently introduced net service revenue and Adjusted EBITDA guidance for 2023, which we believe suggests, as Gary indicated, rational optimism about next year.

Gross revenue for the quarter increased \$31.5 million or 79% to \$71.2 million. Year-over-year organic gross revenue growth was 23%. Net service billing for the quarter increased \$29.2 million or 82% to \$64.9 million. Year-over-year organic growth for net revenue was 25%.

Net income for the quarter was \$3.4 million or \$0.26 per share basic and \$0.25 per share diluted. This is an 8.5-fold increase over the prior quarter.

Adjusted EBITDA for the quarter increased \$5.2 million or 118% to \$9.6 million as compared to Q3 2021. This represents an Adjusted EBITDA margin, net, of 14.8%, which is up 240 basis points as compared to Q3 2021.

Turning to the year. Gross revenue for the nine months ended September 30, 2022, increased \$78.1 million, or 72% to \$186.1 million. Year-over-year organic growth of gross revenue was 28%. Net revenue for the nine months increased \$71.9 million or 70% to \$169 million. Year-over-year organic growth for net revenue was 31%.

Net income for the year was \$4.5 million or \$0.36 per share basic and \$0.34 per share diluted. This is a four-fold increase over the prior year.

Adjusted EBITDA for the year increased \$11.9 million or 94% to \$24.6 million. This represents an Adjusted EBITDA margin, net, of 14.6% which is up 150 basis points compared to last year.

Based on relatively unchanged utilization rates and a 23% growth in our core non-acquisition headcount, we estimate that approximately 92% of the organic growth in net revenue is the result of increased work, suggesting roughly 8% of the organic growth is due to rate inflation.

Gross margin for the quarter was 52%, as compared to 51% last year. Overhead for the quarter was roughly 49% of net revenue, as compared to 52% in the prior year. We believe this 300 basis point improvement demonstrates our thesis regarding the operating leverage we can achieve through the efficiencies of scale.

The distribution of gross revenue for the quarter was roughly 63% building infrastructure, 19% transportation, 12% power and utilities, and 6% other emerging markets, which includes water resources, mining, and other energy transition services.

Given market uncertainty around certain aspects of the building infrastructure market, we again dug a little deeper into the distribution of revenue to give as much transparency to the market as possible. To

that end, for-sale residential-related services represented approximately 11% of total gross revenue for the quarter.

Again, turning to the year, the distribution of gross revenue for the nine months ended September 30, 2022, was roughly 68% building infrastructure, 14% transportation, 13% power and utilities, and 5% other emerging markets. For-sale residential-related services represented approximately 12% of total gross revenue year-to-date.

As we discussed last call, while for-sale residential services are a meaningful component of our overall business, we do not consider it to be overweighted with respect to its potential impact on future results.

During the year, we have reduced building infrastructure from 74% to 63% of gross revenue, while increasing transportation from 8% to 19% and emerging markets from 4% to 6%. While power and utilities has grown nominally, it has declined marginally as a percentage of gross revenue. We hope to reverse that trend over the next few quarters.

Our balance sheet remains strong with \$23 million in cash as of September 30, net debt of approximately \$19 million, and a net leverage ratio well below one. Our debt is a combination of fixed-rate seller financing notes from acquisitions and capital leases. We have no balance sheet outstanding—we have no balance outstanding under our B of A revolver. With our existing debt, we have no meaningful exposure to escalating interest rate carry due to rate increases.

Before changes in working capital, we generated nearly \$24 million from operating activities with just over \$12 million from operating activities after changes in working capital. The change in working capital is again principally the result of increased accounts receivable because of our rapid organic and acquired growth.

Our backlog as of September 30 was \$230 million. This is a nine-month increase of \$63 million or 38%, as compared to December 31, 2021, and an increase of \$91 million, or 65% as compared to September 30, 2021. Backlog is comprised of roughly 51% building infrastructure, 33% transportation, 13% power and utilities, and 3% other emerging markets. In general, we expect roughly 80% of our backlog to turn into revenue within a 12-month period.

As Gary mentioned, we are increasing and narrowing our Fiscal 2022 guidance for net service billing to a range of \$230 million to \$234 million with Adjusted EBITDA in the range of \$33 million to \$35 million.

This is our fourth beat and raise of 2022 guidance since introducing our outlook last November. The increase from previously issued guidance is the result of both recent acquisitions and expected continuation of organic growth.

We are also introducing Fiscal 2023 guidance for net revenue of \$270 million to \$290 million and Adjusted EBITDA in a range of \$42 million to \$48 million. This represents an Adjusted EBITDA net margin of approximately 16%. Growth next year is a result of existing revenues, projections from discussions with clients, and expected growth.

Keep in mind, our guidance only includes acquisitions that have been completed as of the day the guidance is issued. Future acquisitions could have an accretive impact to our forecast.

Finally, yesterday after earnings were released and in connection with a regularly scheduled meeting, our Board authorized a stock repurchase plan of up to \$10 million. The program is to be used as deemed reasonable from time to time to address market inefficiencies with respect to our stock.

Our top priority for capital allocation remains investment in strategic growth, both acquired and organic. We're confident that we have sufficient cash on hand, cash flow from operations, and access to debt to meet all potential demands for capital. While we have no current intentions to execute a structured equity offering, we will continue to use our equity as a component of consideration in acquisitions.

I wish to thank everyone for being on the call and I'll turn the call back over to Gary.

Gary Bowman

Okay. Thanks, Bruce.

Now I want to take a moment to address our positioning relative to the general economy and the state of our markets and our plans for capital allocation including mergers and acquisitions.

As I did last call, I'll start with the macro environment for our industry, markets and our customers. Bottom-line is the demand for infrastructure investment in the built environment remains strong overall. Signals from our clients suggest most sectors in markets continue to experience an imbalance between the demand for our work and our industry's capacity to meet that demand.

In the residential market, that includes mixed-use, for-rent, and for-sale housing, demand from homebuilders for developable and billable lots remains strong, either directly or through third-party developers. Housing stock continues to remain low from an historical perspective relative to demand and builder balance sheets are as healthy as they've ever been.

Builders and developers of for-sale, multifamily and mixed-use projects are adapting their models for the current demand climate and we have every indication they will remain active in their inventory creation efforts to be positioned to benefit when conditions reach equilibrium and revert to a more normalized supply and demand dynamic.

As Bruce mentioned, revenues from our for-sale residential clients represented just 11% of our revenue in Q3 and 12% year-to-date. Overall, we are beginning to realize our goal of deconcentrating building infrastructure within our revenue base.

Transportation and traffic engineering continues to grow and provide an opportunity for capturing incremental market share as it increases in concentration within our revenue mix. As our transportation traffic team grows through acquisition and hiring, so too does the size of the opportunity set for which we compete. Through acquisitions, we have both expanded and deepened our transportation credentials, which has resulted in an enhanced competitive position nationally with DOTs, municipalities, private roadway developers, commercial operators, and other transportation authorities.

We've made several announcements recently regarding new projects for a range of transportation and traffic services. We are beginning to experience the early benefits of the transportation infrastructure bill and we foresee a healthy uptick in transportation assignments in 2023 and extending into 2024.

Demand for power and utility services continues to expand and evolve into longer-term larger and larger scale projects with increasingly larger contract values to compete for. Recent extreme weather events have served to reinforce the need for the kinds of fortification and resilience initiatives we support for public, quasi-public, and private utilities to ensure uninterrupted provisioning of critical electric gas and water resources to their customers.

Our undergrounding work continues to expand rapidly with existing and new clients and our work with energy efficiency is in high demand. Reports from Florida after the recent hurricane suggest the kind of

electric and undergrounding work we've been doing with Pike Electric and Florida Power & Light had a profoundly positive effect on minimizing dangerous and life-threatening, long-term service disruptions.

Our other markets, which we refer to as other emerging markets, include water and wastewater resources, mining, marine infrastructure, and energy transition. We're pleased with each of their contributions to our results. In particular, the work we're doing for solar and wind producers and alternative battery storage operators has great potential for future growth.

In addition, with all the transportation infrastructure spending being planned today, an area of focus for us is to expand our mining support business, beyond strictly copper mining to include aggregates and other fill components. I am sure you'll hear more about that from us over the next few quarters.

Overall, while it would be inaccurate to say there are not some pockets of weakness, the few areas of softening we are experiencing are being more than offset by what continues to be an increasing demand for infrastructure engineering.

Turning to labor. The high degree of overlap of our skillsets required between the markets we've served is deliberate and affords us an opportunity to leverage and optimize our labor force to maximize our utilization. This remains a fundamental tenet of our M&A program. We continue to be engaged with and invested in substantial employee retention and recruiting efforts.

Yes, labor is tight, but it's manageable. Our increased investment in employee engagement is paying dividends. We have reduced voluntary turnover and increased our hiring rate with the talented professionals we pursue. Being a public company has had a very positive influence on our ability to attract and retain employees.

Bookings, or what we refer to as sales, continue to grow along with revenue as evidenced by a book-to-burn ratio that's significantly above one. This can be seen in our backlog growth. It's also important to note that our book-to-burn ratio is exclusive of backlog added through acquisition.

Our M&A pipeline remains active with deals of varying sizes, all valued inside our target valuation range. Year-to-date, we've acquired over \$50 million of annualized net revenue at an average multiple of under six times 2022 Adjusted EBITDA estimates. We expect to close on a few more acquisitions by year-end that will be similar in size to our recent deals. We may not hit our \$75 million target that we laid out at the beginning of the year, but we'll probably end up somewhere in the low \$60 million area. As a result, we're very happy with this year's acquisition program.

When looking back to the acquisitions we closed in 2021, we've generated a 24% annualized growth rate for net revenue from those acquisitions alone. At an average multiple of roughly 5.5 times, that represents an improvement of approximately one turn of purchase price multiple.

Now, I will take a moment to focus on our commitment to geospatial technology and help define reality capture. Reality Capture involves the use of advanced technologies such as high-definition 360-degree cameras and three-dimensional laser scanners to collect existing or as-built conditions for use during design, construction, and operations.

What is often referred to as geospatial tools, or photogrammetry technology, is used to enhance the speed and accuracy of data collection for civil and commercial infrastructure to support the progress measurement and project control. The technological advancements in geospatial applications for engineering and construction present a tremendous opportunity for leveraging this technology to extend the utilization of our human capital. We're very excited about this line of business and expect to cover it more in future calls.

In closing, we are pleased to continue to deliver on our commitments to our shareholders. I'm proud of the work we've done and I look forward to continuing our work into 2023. I want to wish everyone a happy and healthy Thanksgiving and holiday season.

Now I'm going to turn the call back to the Operator for the Q&A session. Thanks.

Operator

Thank you.

Our first question today goes to Alex Rygiel of B. Riley. Alex, please go ahead. Your line is open.

Alexander Rygiel

Thank you. Good morning, gentlemen. Gary and Bruce, a very nice quarter.

Bruce Labovitz

Thank you, Alex.

Alex Rygiel

Couple quick questions. First, organic growth has been fantastic, 25% in the current quarter. Can you talk about some of the reasons why Bowman is taking share?

Gary Bowman

A primary driver that has contributed to our organic growth is the synergies we realize from our acquisitions. I can't measure that. But I would guess maybe a third of that organic growth is from synergistic opportunities we've been realizing.

Bruce Labovitz

I think the scale that we're creating as we grow the national footprint and we grow the size of our labor pool and the configuration of the workforce that we have and the adaptability of—and the ability of multiple pockets of labor to cover for other pockets has allowed us to be nimble and very responsive to opportunities and not be constrained in any way by geographic limitations. That's really afforded this ability to go after taking market share from other providers.

Alex Rygiel

Very helpful. Then, you talked a little bit about—and thank you for the metrics on what is driving organic growth being volume versus price mix. That's very helpful.

As it relates to price and, in theory, as it relates to a tight labor market and labor inflation, clearly, that price is obviously driven by increased cost of labor. Maybe can you address, number one, whether or not your pricing program is keeping up with the rise in labor rates?

Number two, how sticky is that during recessionary periods kind of like what we're seeing in other end-markets?

Bruce Labovitz

Yes. I think the first thing to point out is labor in our industry isn't like a commodity traded daily with fluctuation in pricing that is ongoing. It's a relatively fixed with incrementally increasing costs, but it doesn't move on a curve like bond prices relative to interest rates.

There is a creep certainly that's occurred and then there is a likewise creep in our billing rate. We think we have kept up and with rate inflation, meaning the cost of labor and an opportunity to charge clients. They are not always directly connected. Sometimes you're a little bit ahead of labor because you can feel the constraint in the market and take advantage of it. Sometimes you're behind labor because labor understands the constraint in the market.

We're seeing a settling of that dynamic and I think inflation in the marketplace seems to have settled a little bit. Likewise with the two parts of our business, the cost of labor and the opportunity with that, I think we're finding that to settle in a little bit. But they move together, and if we—our clients are quick enough to know that if they sense that the labor market cost is coming down, rates will either lead or follow that but they don't necessarily cross. You don't see one dive, particularly, below the other to where you have an imbalance that causes a loss.

Alex Rygiel

Very helpful. Then lastly, as your revenue mix shifts here a little bit, clearly, from a couple of years ago, but even moving forward in some of these newer markets that you're getting into, how do you think your profit margin might be impacted by that shift?

Bruce Labovitz

Fundamentally, our premise is that it's more about scale than it is about distribution of revenue between markets. I don't know that we're ever going to get to a point where one is going to take over so dominantly over another. When you look at our gross margins, there's points here and there, but there's not tens of points here and there.

I think the bigger thing you may see as we shift the distribution is the percentage of gross to net. We would find probably expands a little bit as transportation becomes a bigger part of our business. It's just sort of a dynamic and characteristic of that market to us. Gary, you have anything you want to add?

Gary Bowman

I think you've all covered and covered well.

Bruce Labovitz

Thank you.

Gary Bowman

You're doing a good job.

Bruce Labovitz

I don't know that mix makes a big difference. We could see a couple of points from technology becoming more pervasive in some of the work that we do. That, Gary, I think we focused a little bit on geospatial because it does provide some opportunity for leverage on time spent.

But fundamentally, we are a people business and the people do the work and the multipliers are generally sort of consistent. One of the other efficiencies you get is when you get larger, longer-term contracts. That's not necessarily a mix within the markets, but a mix of how the revenue is constituted.

Alex Rygiel

Very helpful. Thank you very much. Good luck.

Bruce Labovitz

Thanks, Alex.

Gary Bowman

Thanks, Alex.

Operator

Thank you.

The next question goes to Brent Thielman of D.A. Davidson. Brent, Please go ahead. Your line is open.

Brent Thielman

Hey, great. Thanks. Congrats on a great quarter.

Gary Bowman

Thanks, Brent. Good to see you come back.

Brent Thielman

The first question, the outlook into 2023 suggests around 140 basis point improvement in EBITDA margin over 2022. Is that simply reflective of your ability to better leverage your SG&A? Are you assuming improving terms on bookings and new contracts? I know your cost and labor is rising and I imagine you're leveraging that to some degree. But maybe you could just talk around that increase in margin in the next year.

Bruce Labovitz

Yes. Principally, Brent, I would say it comes from the realizing scale of SG&A over a much bigger top line. We've spent a lot of time and energy and money in the last year-and-a-half building an infrastructure to over-support the size that we have grown to because we had to build the infrastructure around going public and dealing with M&A and integration, all that.

We believe we're going to start to realize some of the leveraged benefit of that over the next year. I don't think that it's overly weighted with a spread between fees and labor and increase in gross margin. We do

think that our—as I said previously, there's a little bit of margin to be had from some of the technology channels that we're building. But principally, I would say, it's about overhead scale.

Brent Thielman

Okay. When you think about this, call it, \$50 million increase in revenue at the midpoint on the guidance, what kind of pull-on existing resources does this require and how much more utilization can you extract from your existing workforce versus the talent acquisition you're going to have to go out and do to drive that?

Gary Bowman

Brent, we are being very successful in the talent recruiting market. Everybody is working hard and everybody is stretched. But we're not recognizing this by continuing to stretch our workforce more. We are successfully adding to our workforce.

Brent Thielman

Okay. Okay. Then, you generated a lot of free cash flow this quarter. The guidance suggests a similar level of EBITDA into the fourth quarter. Do you think you can see similar levels of cash conversion this quarter, Bruce?

Bruce Labovitz

Yes, I do. I think we're starting to hit the glide path of where the cash flow is coming through. We're focusing a lot on the pre-change in working capital. As we think about the organic growth rates that we're producing are consuming a lot of cash almost as if we're making acquisitions in ourselves on a regular basis.

But still, the bottom line of growth—if you look at the trend over the year, we've certainly seen that improving. I don't know that it's going to turn straight up, but it's going to continue on a path of improvement.

Brent Thielman

Okay. Then on building infrastructure, Gary, I'm just curious what the backlog informed you about where the underlying markets in that business are going. I hear a lot of discussion around the industry around large industrial and non-residential facilities and projects being developed. I am wondering if that's becoming just a much more meaningful driver of the business now. Just be curious if you could dive into that business segment. What's driving the growth right now?

Gary Bowman

My outlook on where that stands, it's not driven so much just looking at the numbers. It's been spending a lot of time in the past several months being out in the field, talking to people, listening. Our share of building infrastructure, which is the commercial data centers, industrial distribution-type facilities, has increased as a share of our building infrastructure. We're not seeing any softening in commercial markets, retail markets.

So far, we're not seeing softening in many of our residential markets. We are seeing some significant softening in some residential markets out West. Everybody is aware of that, sensitive to it. We're moving

work around. Bruce mentioned in his comments, that our staff can switch between commercial markets and residential markets pretty easily, as being fungible one to the other.

Bruce and I work together so much, we finish each other's sentences. We're staying ahead of that. So far, we're staying ahead of that. We are certainly sensitive to where that's headed.

Brent Thielman

Okay. Sorry, just one more from me. It would seem to me that the buyback that's been authorized is a message that you can go out and buy your own stock right now at or maybe cheaper than where you're finding acquisition targets. How does that inform your reasoning around doing deals in the near term and your capital allocation priorities right now?

Bruce Labovitz

Yes. Brent, the program is more defensive than it is offensive. We are still committed to growing through acquisition and deploying capital into good acquisitions. We're not setting up a trading desk to be active in the market.

It's really a message that says the Board understands that there's volatility in the market, understands that the price of the stock as of the meeting yesterday was highly undervalued and that we want to send a message to our shareholders, existing and prospective, that we believe in the stock, in the future of the stock and to the extent that there is an inefficiency in the market relative to valuation, we'll be there.

But we are still very much focused on capital allocation, in the ideal world, to be around acquisitions that have a future impact, exponential potential value in terms of what they add to us. I don't want the message to be that we have turned our focus away from growth and towards the market, but that we're communicating the confidence we have and our willingness to allocate capital in the event that it's needed, or the right opportunity, we're needed to step in.

Brent Thielman

Okay. All right. I appreciate it, guys. Thank you.

Bruce Labovitz

Thanks, Brent.

Operator

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

Gary Bowman

Thanks, Nadia, and thanks, everybody, for participating in our call this morning, our special thanks to our investors for the faith you continue show in us, and wish everybody a good morning. Thanks, everybody.

Operator

Thank you. This now concludes today's conference call. Thank you all for joining. You may now disconnect your lines.