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Earnings Call

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Call Participants

EXECUTIVES

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Gary P. Bowman

President, CEO & Chairman

ANALYSTS

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Presentation

Operator

Good morning. My name is Kate, and I will be your conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group First Quarter 2023 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

[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 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 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 published research analysis throughout the call. Attendees on the webcast may post questions from 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 P. Bowman

President, CEO & Chairman

Welcome to our Q1 2023 earnings conference call and webcast. I'm joined today by Bruce Labovitz, Bruce is our CFO. I'll give a few opening remarks, after which Bruce will walk through the financial results for the quarter. I'll then talk about developments in our markets and followed by questions from our published analysts.

I'd like to start off this morning by thanking our team and welcoming all our new employees from our recent acquisition of Richter & Associates. We're excited about the opportunities this acquisition creates for us in terms of professional staff, services, market coverage, revenue synergies, geographic expansion. With Richter, we had last mile utility engineering capabilities, which have traditionally fallen outside our scope, but now afford us the ability to secure more wallet share from our infrastructure developer customers.

I'll talk more about M&A pipeline later in the call. Bruce and I are talking to you this morning from our downtown Chicago office. Our experienced teams here and in nearby Lisle have played an essential role in the growth of our transportation revenue over the past year. We launched our transportation practice in earnest here in Chicago 10 years ago.

Significant recent awards from the Illinois Tollway Authority and IDOT, coupled with big wins in Pennsylvania, Massachusetts, Texas and Florida reflect our strong reputation in the transportation market and provide a solid foundation for what we are confident will be continued growth of transportation-related revenue here in Bowman.

Calendar 2023 is off to a good start with another consecutive quarter of record revenue and exceptional year-over-year growth. The pace of new order bookings exceeded our expectations. And as a result, backlog was up 46% year-over-year. During the quarter, backlog grew organically by nearly 5% as we again generated a book-to-burn ratio greater than one.

Coming off holiday seasons, it generally takes a couple of weeks to regain momentum with customers during the early part of the new year. As we're sitting here today, now four months into the year, we've seen strong momentum return, we remain confident in our projected growth and the acceleration of our results throughout the year.

Within the first quarter, we continued to execute on our strategic growth plan to deliver \$0.5 billion in run rate revenue within five years of our IPO. As we near the two-year anniversary of our IPO, we are at a run rate that is more than half of that goal. Over the past two years, both our gross and net revenue have more than doubled from their pre-IPO levels. Importantly, our net revenue growth has kept pace with our gross revenue growth, meaning that our growth has been productive growth as opposed to just growing the top line on a gross basis purely for growth's sake.

Just last week, it was reported that in the last year, we jumped another 31 spots on the Engineering News Record list of top 500 design firms to #87. I'm proud of what we've collectively accomplished during our first two years as a public company. These are achievements we've also earned its recognition as a top performing industrial's IPO of 2021.

Now I'm going to turn the call over to Bruce to review our financial results, after which I'll further discuss our markets and our pipeline for M&A.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I'm pleased to be here reporting on another successful quarter that delivered a 12% organic growth rate on 45% total revenue growth. With new orders of roughly \$85 million in the first quarter, we are on pace to deliver the results we have previously forecast in our guidance.

Factoring in recent acquisition activity, we're raising our 2023 net service billing guidance once more to a range of \$285 million to \$300 million. Gross revenue for the first quarter increased to \$23.6 million or 45% to \$76.1 million as compared to \$52.5 million in 2022.

Net service billing increased \$19.9 million or 42% to \$67.6 million as compared to \$47.7 million last year. Our utilization between the periods was relatively consistent over a higher headcount, so we again attribute our revenue growth to our increased workload combined with about 3% to 4% pricing power.

Our net to gross ratio decreased by a negligible 200 basis points to 89% as compared to 91%. We consider this a normal variation between periods and is based on our mix of revenue. We expect this ratio to rise and fall periodically in connection with revenue mix and specific contract requirements, particularly in transportation, where we are often required to outsource work to small and disadvantaged business enterprises to help our customers meet their regulatory obligations.

Our revenue mix continues to be more balanced with building infrastructure representing just 58% of total revenue, down from 74% a year ago. Floating infrastructure revenue grew by nearly 14% in the first quarter, representing 58% of our revenue as compared to 74% of our revenue last year. Just under half of our building infrastructure category was derived from commercial projects.

Approximately 40% of our building infrastructure revenue was derived from residential activities with around 30% of that revenue or roughly 9% of total revenue coming from what market would consider as homebuilding related. The remaining 12% or so of our building infrastructure revenue was related to municipal projects.

We continue to feel comfortable that the increasing volume of orders originating from our building infrastructure customers indicates a measure of health underlying the demand in that segment of the economy, which gives us confidence in our ability to continue to grow this market. Last year, we generated roughly \$7 million in revenue from renewables and energy transition assignments, which we had previously characterized as emerging market revenue.

With the convergence of renewable energy and traditional transmission infrastructure services, along with the continued growth we are projecting in energy transition, we decided to consolidate this revenue into

our Power and Utilities category. We will adjust our comparative historical reporting and future disclosures accordingly.

Gary will be providing additional color on revenue mix of our other markets later in the call. Gross profit increased \$11.7 million or 43% to \$38.7 million as compared to \$27 million. Gross margin decreased by 60 basis points to 50.9% from 51.5%. We don't consider this change to be meaningful or an indication of a shift in margin profile.

The slight year-over-year decline in gross margin was primarily due to a shift in the mix of our work during the quarter as our overall utilization rate was relatively consistent between periods. We anticipate that our gross margin may fluctuate by anywhere from 200 to 400 basis points from period to period based on the mix of work and our blended firm-wide utilization rate.

Cost of goods sold includes all direct labor, the cost of operations, labor, time spent on customer assignments plus fringe costs and associated noncash stock compensation expense. SG&A, exclusive of depreciation and amortization was roughly 44% of gross and 50% of net billing.

This compares to 44% and 48% in the first quarter of last year and 46% and 53% in the fourth quarter of last year, which I believe is a better trend comparison on this metric. SG&A includes all indirect labor, both noncustomer operations staff and corporate resources, along with all fringe costs associated noncash stock compensation expense and overheads.

Over the course of the past 12 months, we believe that our SG&A has grown to the point whereby we can expect to see the rate of growth in SG&A be meaningfully less than the rate of growth of our revenue, reflecting the positive operating leverage in our business model.

The McMahon acquisition, our largest to date, is now fully integrated into our operating platform, reporting systems and organizational structure. We recognize increased efficiencies from acquisitions once they're fully integrated. Stock compensation expense for the quarter was \$4.4 million. The remaining stock compensation expense for awards issued as of March 31st is \$25.4 million.

This is an increase of \$3.2 million from December 31st and reflects new grants awarded to employees in connection with our long-term incentive compensation plans. The future expense of grants issued prior to the IPO and in connection with acquisition retention incentives remains effectively unchanged from year-end.

Adjusted EBITDA for the quarter increased \$2.3 million or 31% to \$9.7 million, which represents a 14.3% adjusted EBITDA margin on net service billing. We expect to see this margin increase as the year progresses and the pace of net service billings accelerates. Total outstanding share count on March 31st was \$13.6 million. This includes all unvested time-based restricted grants issued prior to March 31st, but does not include roughly 450,000 shares of performance stock units subject to long-term future vesting.

Our weighted average basic and diluted share counts were \$11.8 million and 12.7 million shares, respectively, but that does not include unvested time-based restricted awards. Our balance sheet remains in great shape with \$30 million of net debt, down \$2 million from year-end, representing a leverage ratio of 0.83x trailing adjusted EBITDA and 0.6x forward adjusted EBITDA at our guidance midpoint.

We were undrawn on our \$50 million line with BOA and have a healthy cash position of \$14 million after nearly \$9 million of cash flow from operations before changes in working capital and deferred tax.

Speaking of tax, we continue to work closely with our advisers at Pricewaterhouse and await additional guidance from the IRS on the recent change in timing of the deductibility of research and development costs, which include that risk labor expenditures and associated fringe costs incurred by engineering firms.

In connection with an uncertain tax position regarding this change, we recorded a new \$3.7 million provision for what would be 2023 related accelerated tax payments if incurred, but classified them as long-term obligations.

Between free cash flow, cash on hand and available debt, we feel confident in our ability to meet the requirements of acquisitions going forward, consistent with what we've been doing.

While we have no immediate plans to raise additional capital, we are shelf eligible, and as we reach the two-year anniversary of our IPO, we feel it's good governance to have an S-3 on file for future needs if and when they arise.

As we mentioned earlier in the call, we are increasing our guidance in connection with recent acquisitions and our outlook for the year. We anticipate a net revenue range for the full year of \$285 million to \$300 million, with adjusted EBITDA of \$44 million to \$50 million. As the year progresses and we achieve more clarity, we'll narrow that range accordingly.

We expect to file our 10-Q later today and look forward to several upcoming investor events where we will be meeting with existing and prospective shareholders. Thank you, and I'll now turn the call back over to Gary.

Gary P. Bowman

President, CEO & Chairman

As I mentioned earlier, new orders for Q1 exceeded our expectations. What's equally encouraging is that we entered the second quarter with approximately \$30 million of unbooked net revenue commitments for assignments that we've been awarded, so where contracts have not yet been finalized. This means we have the award in hand, but the revenue has yet to be counted as a new order or to be recorded in our backlog.

In our business, order flow and revenue recognition tend to be lumpy. While there's no assurance that these currently unbooked awards will become booked in the second quarter, independent of these awards, our book new orders for the second quarter are on pace to exceed first quarter levels.

While there remains ongoing uncertainty about the overall economy, we remain optimistic about the markets we serve and the pent-up demand for infrastructure planning, the level of committed long-term public sector funding for transportation and infrastructure, combined with the private sector incentives for transformative investment in power utilities and renewable energy, along with its positive multiplier effect stronger than I've ever seen in the 28 years I've been in business.

As a leadership team, we're laser-focused on optimizing utilization through both the pervasive culture and a technology platform, which promotes unconstrained work sharing throughout the company. Our company-wide buy-in of this philosophy enables us to build our workforce in the most optimal manner while at the same time, facilitating broad range exposure to customers and projects which, in turn, enhance our opportunities for the revenue synergies.

With respect to acquisitions, we intend to stay in our fairway by remaining steadfast about growing our core competency of providing professional and technical services to a collection of highly regulated markets. This commitment creates a unique environment where resources, knowledge and experience are easily shared throughout the company while limiting the impact that the tight labor market has on our business.

At our core, we're fundamentally committed to our culture of collaboration, which promotes revenue synergies through work sharing and cross referrals, both of which create pathways to increase profitability. Building on Bruce's earlier discussion of our markets. Transportation revenue increased fourfold from a year ago and increased nearly threefold as a percentage of revenue to 21% in the first quarter.

This is the realization of our efforts to focus on organic and acquisitive growth that would increase the concentration of transportation revenue within our mix. As I discussed earlier, recent wins in transportation point to increasing internal market share for transportation revenue over the foreseeable future.

Within the power and utilities market, we're particularly committed to transmission, utility resilience and energy transition. Our focus on renewables and energy transmission market is directed to services and investment addressing decarbonization of the power grid, including solar and wind energy, battery storage, anaerobic recapture and clean hydrogen.

Our clients range from start-up energy ventures to established utility system operators. Power and utility services is an active area of focus for our M&A efforts, as evidenced by the just closed Richter & Associates acquisition. Adjusted to include the consolidation of renewables and energy transition, our power and utility revenue grew 52% year-over-year and represented 18% of our total revenue in the first quarter.

Renewable energy and energy transition services contributed roughly \$3 million to our first quarter power and utility revenue this year, up from \$1 million last year. On the M&A front, we remain active, we have plenty of opportunities in the pipeline. As of today, we are actively engaged in substantive discussions and deal documentation with targets that have a combined annualized revenue that exceeds last year's annualized revenue acquired.

We expect to be announcing several new acquisitions before our next earnings call. I'm going to conclude today by taking a moment to thank everyone on the Bowman team once more for everyone's continued hard work and dedicated dedication to our collective vision for the future.

The culture you embodies what makes us successful and enables our growth. I'm now going to turn the call back over to the operator for questions.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Alex Rygiel with B.Riley.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

To date, you've made a lot of smaller acquisitions, and they've worked really well, and they've definitely been complementing your organic growth in the business here. But now that the company gets larger, are you looking to make larger acquisitions?

Or are you kind of still thinking along the lines of sticking with the smaller acquisitions that really compound organic growth?

Gary P. Bowman

President, CEO & Chairman

We are progressing two larger acquisitions. I foresee in the foreseeable future, continue a mix of, we'll still be storing in, I'll call them, smaller acquisitions along with the size that we've been doing. But as we get larger, we certainly are looking at and having our sites, to the larger acquisitions.

We're sort of opening the aperture site to the larger deals.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

And then thank you for the sort of the new segment breakout here. As you think about your five verticals, which vertical right now is sort of offering the strongest organic growth potential out there?

I suspect it might be powering utilities, but feel free to correct me if I'm wrong.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

On a percentage basis.

Gary P. Bowman

President, CEO & Chairman

Yes, we've increased our transportation so much. I'd say on an overall percentage of our size of our company today, transportation, maybe relatively speaking, the power and utilities or renewables maybe as a percentage of growth of that segment. There's just tremendous potential. We're hitting a good stride there.

It's been eight months or maybe coming up on a year since we hired, brought on leader for that segment. Just tremendous potential in that segment.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Nominally, building infrastructure still has -- we're still seeing a lot of organic growth in that sector and somewhere we're well entrenched and have a lot of existing relationships. Just purely in dollar volume, but if you think about it in percentage basis, I mean, that's a harder category to achieve the same kind of percentage growth as it is transportation and power.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

And then if one were to think about some of the more difficult sort of end markets, residential new construction stands out, but maybe you could comment on sort of what you're seeing in that market as well as the data center market?

Gary P. Bowman

President, CEO & Chairman

On the residential, we're seeing some really nice firming up in that market. We have a good presence, heavy presence in Phoenix and in the recession, that's a market that got hammered as bad as any. And we probably saw as much softening in the Phoenix area as any area that we are in.

And the past few months, we're seeing some notable rebound in residential in Phoenix and across the market. We're seeing some -- we feel -- from our observation, we feel like we've hit bottom and our business in residential is picking up, and it was not a bad bottom to hit, if I'm reading that right.

The data centers is, I'm just trying to think of the right analogy. The data center market is just blowing up. Just when you think how can they -- is that thing going to mature? Are they going to build that out? It seems like they just keep on coming.

We're seeing the outlook for data centers. It seems to be stronger than I've ever seen it.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I think we're also seeing an interesting convergence of data center from building infrastructure with power and utilities because the demand for data center and how to power them is becoming a consolidated crisis of our clients. Having the skill set in both has enabled us to, I think, enhance the services we provide to data center developers.

And we hear some of the rhetoric about data center market. Our experience has been to the contrary so far. Then we don't have the perfect crystal ball on it, but there's just an interesting crossover between those two markets now from what we're seeing.

Operator

[Operator Instructions]

Our next question will be from the line of Brent Thielman with D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

The \$30 million in unbooked awards, I don't believe you guys have called that metric out in the past. I guess I was just curious, is this figure sort of unusually larger compared to what you typically see in the business. I was just wondering around the call out there?

Gary P. Bowman

President, CEO & Chairman

It was a big rock of nice big awards that are on the cusp of being signed up but haven't gone signed up by the end of the quarter. We figured it was worthy of note that they will soon, that amount will soon be added into the backlog.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

We evolve as we go through our journey here being public, and we've been hearing from shareholders, and Alex, like a little more color on new orders. And we've introduced more talk now and expect to continue to talk in the future more about orders as visibility to the future.

But as we sort of broke that down, that led us to the discussion of, okay, there's also this category of unbooked and let's add that to the trajectory of the story. And so we'll try to keep that number alive not just because it was a big number this quarter, but talk about it in the future.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

You guys have a sort of a unique perspective in being close to in the early phases of your clients kind of capital plans. And I guess I'm wondering, outside of the clients in transportation or some of the other areas seen lots of government funding right now.

I mean what's the mood or temperature of your private sector clients that could be more impacted by tightening credit sensitivity to economic changes. I'm wondering if you're seeing a shift in priorities and with who?

Gary P. Bowman

President, CEO & Chairman

Brent, we're seeing, kind of like I mentioned with this rebound we're seeing in residential, we're getting a lot of evidence that clients, a lot of deals that are still very, very viable from a market standpoint, from a demand standpoint, but their capital stack got thrown out of whack as interest rates went up, that they're reworking their capital, repenciling the deals and reworking financing.

We're actually, that's part of how we're seeing some new breadth into the market as some of these deals have regained their footing in their financing going forward.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Talking to a number of private folks, we get the feeling that they're seeing this as a top of a curve that has a long shelf life. The interest rates aren't a permanent, necessarily a permanent fixture of their projects, and that they have to manage through the current environment, but that there's another side that still makes their projects viable.

And the public sector is panicked about spending their money fast enough, how can they outsource even more of their engineering services, planning services because they can't staff their internal departments necessarily fast enough to spend the money they have to.

And also in the energy side, the private sector with the tax credit time horizons are very anxious to lock in permits, to lock in steps that will secure these tax credits for a long period of time.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

The comment and just the evolution of the end market mix is notable just since the IPO a couple of years ago, building infrastructure now 58% of the mix. If you fast forward another couple of years and hopefully, you go from #87 to #25, but what do you think this end market mix starts to look like?

Will it be even more sort of evenly dispersed across your existing practices? What's the objective there?

Gary P. Bowman

President, CEO & Chairman

You asked that question as we're really in the midst of a long-term strategic planning or maybe is kind of wrapping up long-term strategic planning. We ask ourselves that question or form that vision. Over the next several years, certainly see that flipping to where the infrastructure-related markets outweigh the private building infrastructure markets.

And then we even sort of imagine our future vision towards the end of the decade where that balance has shifted much more towards the infrastructure-related transportation, energy grid, water resources. I don't know, just to pick a number, say more in the three quarters to one quarter ratio.

That's the sort of the trend, the long-term trend that we're looking at moving this company towards.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Last one, just looks like you were up low teens organic this quarter. Is that about your expectations embedded in the guidance for this year?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. We talked about that at the end of last year, earlier this year that through our pro forma projection or look ahead base is about a 12% organic growth rate. Keeping in mind, Brent, that each quarter, we're shifting some of our acquisition-related revenue into the organic base category because it reaches its one-year anniversary.

We look at the business growing 12% organically over the course of this year until we got our guidance. But that basis of what is organic and acquired will change over the course of the year.

Operator

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

Gary P. Bowman

President, CEO & Chairman

Thank you, Kate. We'll just wrap up. Again, thank you, everybody here at Bowan. One more time for all the hard work and effort.

Thank you to all of our investors and owners who show faith in us. Really happy to be here in Chicago, where 10 years ago, actually 11 years ago, we met the folks that formed the nucleus of this group and really has 10 years ago propelled our presence in the transportation market.

It's a good time to reflect on what we've accomplished collectively here. With that, I'm going to wrap it up. Good morning, and thank you, everyone.

Operator

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

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