NASDAQ:BWMN Q3 2025 Earnings Call Transcript

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Jasmine | Investor Relations / Conference Call Moderator:

quarter 2025 conference call. All lines will be placed on mute for the presentation portion of the call with the opportunity for questions and answers at the end. Please note that many of the comments made today are considered forward-looking statements under federal security laws. As described in the company's filing with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed, and the company is not obligated to publicly update or revise these forward-looking statements. In addition, on today's call, the company will discuss certain non-GAAP financial information, such as adjusted EBITDA, adjusted net income, and net servicing billing. You can find this information together with the reconciliation to most directly comparable GAAP information in the company's earnings press release file with the SEC on the company's investor relations website at investors.bowman.com. Management will deliver prepared remarks, as to which they will take questions from research analysts. Replacement of the call will be available on the company's investor relations website. Mr. Bowman, you may begin your prepared remarks.

Gary Bowman | Chief Executive Officer:

Thank you, Jasmine. Good morning, everyone. Thank you for joining our third quarter earnings call. Bruce Labovitz, our CFO, is here with me this morning. I'm going to start today's call with a welcome to all new Bowman employees who joined us this quarter. After my introductory remarks, I'll turn the call over to Bruce, who will cover our financial performance. I'll then end the call with closing statements before opening it to Q&A. Let's turn to slide three. The third quarter marked an important milestone in our continued evolution. For the first time, we surpassed a $500 million annualized gross revenue pace. This is a meaningful achievement, and the fact that we are ahead of schedule on this milestone demonstrates both the strength of our business model and the capabilities of our skilled team of professionals. For the third quarter, we delivered 11% year-over-year growth in both gross and net revenue and a 7.6% growth in adjusted EBITDA while maintaining healthy cash flow generation and a solid balance sheet. Our net revenue for the quarter was $112 million and was supported by strong activity in transportation and power and utilities and energy. Together, these end markets grew over 20% during the quarter, and account for more than 40% of our top line. Importantly, our backlog grew nearly 18% year-over-year to $448 million. This sustained growth reflects continued demand across our end markets. Our book-to-bill ratio continues to be above one, a clear indicator of the momentum we are seeing as we head toward the end of 2025 and into 2026. in fact bookings in the fourth quarter are once again outpacing the prior quarter we've worked hard over the past year to regain our footing and i'm proud to report that today we're a larger more efficient more resilient organization than ever before our growing base of recurring public sector work and a solid foundation of private demand positions us well for the years ahead with that i'm going to turn the call over to bruce to review the financials in more detail bruce

Bruce Labovitz | Chief Financial Officer:

Great. Thank you, Gary, and good morning, everyone. While the third quarter marked an important milestone for Bowman in terms of reaching the $500 million annualized gross revenue rate, it also represents our achievement of two basic commitments we made to our shareholders this time last year, to prioritize gap profitability and to improve our conversion of earnings to cash. This year, we've been hypervigilant about delivering on these two basic commitments, because unlike political, macroeconomic, and labor market uncertainties, These are outcomes we control. We're pleased to have delivered on these commitments. For the third quarter and the nine months ending September 30th, we dramatically increased GAAP net income to $6.6 million and $10.9 million, respectively, compared to net income of $700,000 and a loss of $2.9 million for the same period last year. Concurrently, we more than doubled our cash flow from operations to $26.5 million from $12.4 million, affirming the capital efficiency of our effort. We achieved this improved performance in part through consistent and sequential growth in build revenue throughout this year, with an 11% year-over-year increase in net revenue in the third quarter, with no erosion of our net-to-growth ratio. Organic net revenue, which excludes revenue from acquisitions closed after September 30, 2024, grew 6.6% for the third quarter, and now stands at approximately 11% through nine months. Also contributing to our improved profitability was our ability to achieve the benefits of scale with revenue growth rates that outpace overhead growth rates. To that end, as revenue grew year over year, total overhead, we define as COGS and SG&A, was down 290 basis points as a percentage of net revenue for the quarter at 89.5%, and down 500 basis points for the nine months at 89%. This disciplined approach to overhead growth will be a significant contributor to sustained positive GAAP earnings and an industry-leading margin profile. Turning to some non-GAAP metrics, adjusted EBITDA in the quarter increased by 8% to 18.3 million, representing a 16.3% margin on net revenue with adjusted EPS of 61 cents doubling Q3 2024. Through nine months, adjusted EBITDA is up nearly 25% to 53 million, at a margin of 16.6% on net revenue, a 150 basis point year-over-year expansion, with adjusted EPS of $1.26, again doubling adjusted EPS in the same period last year. Absolute growth in revenue was broad-based, with transportation up 20%, power utilities and energy up 17%, and building infrastructure up 8%. Natural resources and imaging, to which we allocated all CERDX-related manned aerial and high-resolution mapping revenue last year, saw a slight decline as we now allocate that revenue in a more deliberate manner across verticals. On an organic basis, building infrastructure grew 6%, transportation grew 10%, power and utilities grew 13%, and natural resources and imaging grew around 1%. In previous quarterly calls, we've been asked about the relative gross margins of our primary verticals. We've suggested we believe they are relatively equal apart from transportation, which has a lower contribution margin based on the nature of its primarily cost plus contracts. To corroborate this assertion, we calculated the gross margin of East Vertical for the third quarter during which gross margin was 53% and concluded that our representation was accurate. During the quarter, gross margins by vertical were 56% for both building infrastructure and power and utilities, 57% for natural resources and imaging, and 46% for transportation. With building infrastructure, gross margin is benefited by more fixed fee contracting. With natural resources and imaging, gross margin is advantaged from a disproportionate use of labor leveraging technology. With transportation, We enjoy meaningfully longer and larger government contracts that have lower labor multipliers, but generally generate higher utilizations and overhead leverage, along with lower turnover costs. We will include this gross margin analysis in our quarterly presentations going forward. We ended the quarter with a record $448 million backlog, up 18% year over year, with 38% of that backlog from building infrastructure, 30% for transportation, 23% from power and utilities, and 9% from natural resources and imaging. This imbalance relative to revenue should indicate continuing diversification of our revenue mix, but it's likely not as dramatic as the percentages in backlog today reflect. Operating cash flow totaled $10.2 million for the quarter and sits at $26.5 million year to date, both more than twice last year's levels. While we are pleased with this significant increase in conversion, we're confident there is room for continuing improvement. Our balance sheet remains a strength and provides a solid foundation for growth. We ended the quarter with $16 million in cash and $57 million drawn on our revolver, a net debt of approximately $105 million with a net leverage ratio of 1.5 times trailing 12 months adjusted EBITDA. After quarter end, we expanded our revolver to $210 million from $140 million adding PNC Bank to the existing Bank of America and TD Bank Syndicate. As a result, we have roughly $150 million in available liquidity for investment and growth initiatives. Our internal innovation incubator, the Big Fund, continues to produce high-value ideas and opportunities that present the prospect of tangible returns for us long term. We're actively engaged in advancing concepts that, Accelerate revenue growth through the deployment of proprietary AI-enabled asset control kits, which extend engagement with clients throughout the asset lifecycle. With concepts that expand the application of the proprietary technology tools we acquired in the recent ORCIS acquisition, which drastically reduce the time it takes to perform repetitive feasibility and planning functions, thereby unlocking additional labor utilization. Also concepts that connect all Bowman operating systems and platforms with

AI-enabled capabilities which empower employees to ask Bowman plain English questions, the timely informed answers to which improved business acquisition efforts and streamline proposal generation, estimation, and profitable project execution. Lastly, we're working on ideas that modify, extend, and evolve the inherent capabilities and uses of our high-end geospatial assets to expand their applications, improve the quality of capture, extend revenue opportunities, shorten delivery times, and increase return on investment. All investments in innovation are measured against defined return thresholds, ensuring innovation spending meets the same rigorous financial discipline as acquisitions. To date, we've expended a little bit over $300,000 on advancing these ideas, the cost of which are not added back to adjusted EBITDA, and the benefits of which are not yet contemplated in our current projections. And while not a big fund project, we also completed the upgrade of our accounting and enterprise management platform this quarter, an effort that consumed a meaningful amount of time and energy, but will be a solid foundation for our next phase of growth. These costs were likewise not added back to adjusted EBITDA. It wouldn't be an earnings call if I didn't reference tax, so here goes. Following enactment of OB3, we filed message change notifications with the IRS that allowed us to unwind our uncertain tax position with retroactive audit protection. The change in law and associated adoption by Bowman of the new standards released approximately $52 million of deferred tax assets and other non-current liabilities on our balance sheet and released $3.5 million in P&I accruals, which had previously run through the tax expense. In addition to committing to GAAP profitability and cash flow conversion, we also committed to the reduction of non-cash stock compensation as a percentage of revenue. For the first nine months of 2025, stock-based compensation totaled $14.2 million, or 4.4% of net service billing, down from 7.3% a year earlier. Excluding about $1 million of pre-IPO related issuances, adjusted stock-based compensation was approximately 4.1% of net revenue. As we've discussed in the past, these pre-IPO grant expenses represent the run out of gap costs related to awards issued prior to our IPO in 2021, and are not part of normalized long-term incentive costs. We expect total non-cash stock compensation for 2025 and 26 to be roughly $19 and $20.5 million respectively, which is consistent with our pledge to reduce equity compensation as a percentage of revenue while balancing its benefits for recruiting, retention, and efficient capital allocation. Thank you for your continued confidence and with that, I'll turn the call back over to Gary.

Gary Bowman | Chief Executive Officer:

OK. Thank you, Bruce. As Bruce mentioned, our improved profitability and working capital management once again drove strong cash flow this quarter, with cash conversion now at about 50% year to date. Our margins and cash efficiency place us solidly in line with the best performing firms in the EMC space. Now, let me take a few minutes to share a summary of our market performance and outlook as we move into 2026. Transportation remains one of our most stable and resilient end markets, delivering double-digit growth year to date. Our expanding client base spans a broader range of state and municipal transportation agencies than ever before. We're deeply engaged across state DOT programs and large local agencies throughout the Pacific Northwest, Midwest, and East Coast, where our teams are supporting multi-year bridge, roadway, and multimodal infrastructure programs. Our longstanding relationship with DOTs continue to be a key competitive advantage, creating recurring opportunities as agencies seek partners with both specialized technical expertise and the capacity to scale across geographies. We currently have strong bridge and roadway pipelines with backlog visibility through 2026. We continue to benefit from recurring construction management and inspection programs with multiple state agencies including a major multi-year assignment with Illinois. Our ports and harbors practice, which is part of our transportation segment, continues to gain momentum with coastal and port authorities, extending our reach into critical intermodal and maritime infrastructure projects in regions including Houston, Philadelphia, and the Pacific Northwest. We have a growing active backlog in ports and harbors with anticipated winds continuing through 2026 and existing and new geographies. Overall, we expect transportation to maintain steady, healthy growth. Less than 25% of IIJA funds have been released so far for permitted transportation projects, which we believe, coupled with state programs, ensures multi-year nationwide demand runway. We expect transportation will continue to provide the backbone of stability and recurring revenue across our portfolio. Our power, utilities, and energy division continues to be our fastest-growing market, up 38% year-over-year and driven by national investment in electrification, renewables, grid modernization, and data infrastructure. The recent acquisitions of Sierra Overhead Analytics, ORCAS, and Ladies in Power Engineering significantly enhance our strategic positioning within this high-growth market. Sierra and its affiliate Arcus expand our capabilities in technology-enabled engineering, adding automation, precision mapping, hydrology, and optimization tools that improve project delivery and efficiency across renewable energy, data center, and utility-scale infrastructure design. These digital solutions strengthen our ability to provide faster, smarter, and more cost-efficient design workflows to clients in the power and energy transition space. The addition of LASIN establishes our platform in high voltage overhead transmission line design, immediately positioning us to compete in one of the fastest growing recurring revenue segments of the power industry. LASIN's expertise enhances our credentials with major utilities and transportation operators, transmission operators, while complementing our advanced geospatial and aerial imaging services for power corridor mapping. Together, these acquisitions broaden our reach across the generation to grid continuum, connecting our existing strengths in site design, renewables, and data centers with the infrastructure that delivers power across the U.S. Looking forward, power, utilities, and energy represent a long-term growth engine for us. We expect continued revenue and margin expansion in 2026 as integration matures, our national footprint expands, and our clients increasingly turn to us for end-to-end power infrastructure solutions. Our well-balanced building infrastructure business grew by just over 8% year-over-year in gross revenue, reflecting solid execution in public and mixed-use work that continues to balance softer conditions in the residential space. While some private development remains slightly constrained by interest rates, we see clear rebound potential emerging in mid to late 2026 as financing conditions improve. Our current building infrastructure projects continue to generate long-term revenue visibility through 2027, and we remain well-positioned to capture renewed private sector growth as market conditions improve. Our natural resources and imaging segment remains a steady performer and margin stabilizer, representing roughly 11% of our net service revenue. We have robust visibility into 2026 in this market, supported by recurring federal programs and strong municipal demand in water, environmental, and geospatial services. Automation and recurring federal mapping programs will continue to underpin growth in this segment, and our geospatial and remote sensing services continue to enhance efficiency across our broader business. Operating margins in this market remain among the highest company wide, and we expect growth to be driven by technology-enabled delivery and long-term public sector funding. Now, I'd like to address the current operating environment, which includes the government shutdown. While the shutdown is causing some delays in project progression, invoicing collections within select federally supported programs and federally adjacent projects, our direct exposure to federal contracts remains limited, and we are not experiencing any unusual cancellation activity. Most of our public sector work is performed for state and local governments, which provide a natural buffer to extended interruptions, such as the current government shutdown. We continue to monitor this particular situation closely, noting that the longer the shutdown continues, the more likely it is to extend near-term revenue somewhat further into the future. Looking ahead, our focus remains clear. We'll continue to convert backlog into revenue while improving utilization and project delivery efficiency. We will aggressively leverage technology and innovation to enhance margins and scalability. And we'll deploy capital strategically through discipline M&A and organic growth derived from continued investment in people and systems. We're reaffirming our full year 2025 guidance. We're also initiating 2026 guidance of net revenue between $465 and $480 million and an adjusted EBITDA margin between 17% and 17.5%. With that, I'll now turn the call back to Jasmine for questions.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. We will now begin the Q&A portion of the call. If you would like to ask a question, please press star followed by one on your telephone keypad. To remove your question, press star followed by two. Again, to ask a question, press star one. As a reminder, if you're using a speakerphone, please remember to pick up your headset before asking a question. We will pause here briefly as questions are registered. Our first question comes from Laura Mayer with the B. Riley Securities. You may now proceed.

Laura Mayer | Analyst, B. Riley Securities:

Good morning, Gary and Bruce. Thanks for taking the question.

Gary Bowman | Chief Executive Officer:

Good morning.

Laura Mayer | Analyst, B. Riley Securities:

So, some of the larger specialty contractors have mentioned total solutions packages. Do you see this creating competitive pressure in your data center business?

Bruce Labovitz | Chief Financial Officer:

No, I don't think that that's going to impede on any of the work that we do. I think it's similar to any trends in design-build or others that don't necessarily compete with other industries. I think it's a big market. And even when firms offer complete solutions, they end up subcontracting a good portion of that to specialized contractors like us anyway. So I don't think that's a real threat. I agree with that.

Laura Mayer | Analyst, B. Riley Securities:

Great. Thanks. And then one more. On M&A, are there specific service lines or regions where you still see gaps relative to your growth objectives?

Gary Bowman | Chief Executive Officer:

Yes, we're really focused on some of these markets that we've been focused on expanding into for years now, especially transportation, certainly power and energy and data centers, and also water-related opportunities as they come along. No specific regions we're focused on. You know, we find the usual suspects appealing, Texas, California, Southeast, but we're not particularly focused on a particular region of the U.S.

Bruce Labovitz | Chief Financial Officer:

It's more service line and skill set focused than it is geographically focused.

Laura Mayer | Analyst, B. Riley Securities:

Great. Thanks. I'll pass it on.

Gary Bowman | Chief Executive Officer:

Thank you, Lauren. Thanks.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. Our next question comes from Andy Whitman with Baird. You may now proceed.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Morning, Andy. Yeah, great. Hey, good morning. I guess I'll start with some top line questions here. It looks like the fourth quarter guidance here for 25 is implying a bit of a revenue acceleration to something in the double digits. So I think that's right. Bruce, I was just wondering if you could comment on which end markets you think will pick up the growth rate here as you move into fourth quarter and what gives you confidence in that?

Bruce Labovitz | Chief Financial Officer:

Yeah, the pickup's a couple days' worth of work. It's not, you know, I don't know that I would necessarily say it's anything extraordinary. We think that, you know, across the board, we've got a healthy backlog of work. that it's making its way through. Sales are strong and a lot of the sales have been strong in what we consider to be shorter-term contracts, areas we can earn revenue relatively quickly. So we have a good sense that with what would be a couple days' worth of improvement in the fourth quarter, it will grow revenue.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Sorry, Bruce, the idea of a couple days. Are you saying there's more work days in the fourth quarter of 2020?

Bruce Labovitz | Chief Financial Officer:

No, I'm just saying that the amount of revenue that is to be accelerated is the equivalent of just a couple days' worth of work, so a couple of improved utilization weeks here and there. Got it. Okay, okay, okay. We don't do the days of the quarter game. Quarters do have extra days and more holidays, but we really just think of them as quarters.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Yeah, that's what I thought. That's why when you were talking about days worth of work, I was trying to picture the world. Get a little bit more utilization out of the people. What's really great about that is that it cruises the margins even better. Got it. So that makes sense. And then I guess just kind of related to that, in the performance in the third quarter, I thought I'd ask a little bit about margins there too. And your business mix is changing a lot as you've been diversifying. So I just was wondering, and maybe I missed a little bit of the comments at the early part of the conference call, but did you comment on the margins? I guess they were down slightly over a year. Was that like investments and growth? Was that Andy Pelster, Utilization rates was that mix well, you know every quarter is kind of its own thing, but I wanted to try to understand that a little bit better as a how as a compared to the prior year.

Bruce Labovitz | Chief Financial Officer:

Andy Pelster, yeah yeah I think Andy every year, as you said, every quarter is a little bit different we talked about you know how we time Labor sometimes can can impact margins, you have to prepare for. what's coming next. And so sometimes we'll get a little bit heavy on labor in a quarter in anticipation of stronger growth in the next quarter. We are not downsizing labor. At the moment, contrary to employment reports that come out, we're in the hiring game. And so when labor becomes available, we take it. The margin change is a couple hundred thousand dollars worth of revenue on this fixed set of labor. So, you know, we talk about, you know, our band today is a 16 to 18% margin. We'll fall in there between periods. And so I don't think there's anything to read into, you know, a 40 basis point change between last year and this year in margin.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Okay. And then I guess there's a similar question that just happened since you gave us initial guidance for 26. You know, your margins are either up a little or up a little bit more. to the 17% to 17.5% range. Obviously, this is a good year to be able to get the margins up there. And I was just wondering kind of what the knobs are to get you there next year. You talked about the overhead leverage. I have to imagine that's a big part of it. But what other things? Is mix in your favor? Maybe, Bruce, why don't you just kind of fill us into what do you think is going to drive the year-over-year margin expansion in 2026?

Bruce Labovitz | Chief Financial Officer:

Yeah, in large part, you know, I think it is improved overhead leverage, right? We continue to be very focused on growing revenue faster than we grow overhead. And so there's additional margin expansion to be had from that. There's also, you know, improved utilization of our labor. As we look at next year and we look at the mix of work, we think we can do it at a slightly higher revenue factor, which is our internal measurement of the efficiency of our labor. And so we gain a little bit of margin expansion. which is somewhat embedded in that total overhead, when you think about it, because we kind of combine that together. But it's really a combination of the way we are utilizing geospatial technologies and technologies that exist today to advance the efficiency of the workforce and grow revenue quicker than we're growing overhead.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Okay, great. I think I'll leave it there. Thanks for your time. Thanks, Danny. Thanks, Randy. We'll see you soon at your conference.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. Our next question comes from Alex Regal with Bid This Capital. You may now proceed.

Alex Regal | Analyst, Bid This Capital:

Good morning, Alex. Thank you. Good morning, Bruce and Gary. Very nice quarter there. As it relates to data centers, can you talk a bit about bidding opportunities? and how you see that progressing sort of in 2026 versus maybe 2025 and 2024. Are you seeing the sort of bidding opportunities or, you know, new project opportunities to be greater than the prior year, or is the average project or contract size kind of greater than they have been in the past year? So just a little bit of color on that.

Gary Bowman | Chief Executive Officer:

Yeah, Alex, it's certainly tailwinds in that market. So there are continuing greater number of opportunities. The facilities are getting larger. Really, as the data centers, we've spoken to this, is, you know, with AI as opposed to before, the lack of being critical to be located proximate to fiber just provides a lot more opportunities for data centers spread out across the country. lots of drivers to locate data centers near natural gas to power them. And our acquisition of E3I, as an example, just has expanded our network. So that in itself expands our opportunities.

Bruce Labovitz | Chief Financial Officer:

Alex, I would say that data centers have become the hot ticket item for landowners. And so, to some extent, there's a little bit of a phantom amount of data center work that occurs within our building infrastructure portfolio. Because when landowners come to us and say, what are the options? We want our project to be a data center, right? Because everybody wants their project now to be a data center. There's feasibility we do within that building infrastructure segment related to data centers. But until it becomes a data center, it doesn't really become part of the kind of what we call the data center portfolio of revenue. So there's a little bit of because there's an increased availability of opportunity for land to be data center, there's more activity in it.

Alex Regal | Analyst, Bid This Capital:

And to take that another step, you know, clearly landowners in the past had seen solar as being a big opportunity. How do you see your solar business right now and sort of as we think about the next one to two years?

Gary Bowman | Chief Executive Officer:

Well, for the next year, we're seeing it very strong. It's really being driven by, I guess, a moment in the tax credits next year that's driving a lot of demand to accelerate planning of projects to get a critical mass of the project done before the middle of next year. So we see it very strong in 2026, certainly likely to taper off in 2027, but we're well positioned in that market, and the development of solar projects is not going to go away. So we see a very strong 2026, cautious outlook after that.

Alex Regal | Analyst, Bid This Capital:

Excellent. And lastly, your M&A activity this year has been, I don't know, a little bit slower than the last few years. Any comment on that and how we can think about the M&A activity in 2026?

Gary Bowman | Chief Executive Officer:

We're still committed to M&A. We have a strong pipeline of opportunities. I think we've shifted maybe more focus of our M&A to really focus on strategic opportunities. And certainly with the new revolver in place and that dry powder really positions us for some strong M&A activity toward the end of this year and certainly into 2027. So we're still fully committed to inorganic growth to supplement our organic growth. Great. Thank you very much.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. Our next question comes from Aaron Spicello with Craig Hallam. You may now proceed.

Aaron Spicello | Analyst, Craig-Hallum Capital Group:

Good morning, Aaron. Yeah, good morning, Gary and Bruce. Thanks for taking the questions. Morning. Maybe first on building infrastructure, can you kind of talk about how you're thinking about growth in that segment in 2026? Sounds like there's some cross currents between some of the sub areas and just maybe talk about your ability to kind of you know, move labor or, you know, kind of as projects kind of ebb and flow in that segment?

Gary Bowman | Chief Executive Officer:

Well, it's a nice thing about our business is the skill set, excuse me, that we apply to building infrastructure is transferable to many of our other markets. So we do move that labor around readily. We're seeing with the interest rate decline, We're seeing projects come off the shelf earlier in the year, a little more localized geographically. As we come into the end of the year here, we're seeing it more broadly across the geographies that we're located in. So we're probably looking at, in 2026, maybe as we allocate labor, TAB, Mark McIntyre, I would, I would bet that the directionality would be some labor allocated toward the building infrastructure, as opposed to away from it.

Aaron Spicello | Analyst, Craig-Hallum Capital Group:

TAB, Mark McIntyre, All right, thanks for that and then maybe you know on opex just there's an earlier question, but you know kind of a pick up an sg and a you know this this quarter, you know is there. you know, some kind of allocation of, you know, projects and timing there? Is that kind of in advance of growth, you know, moving forward, or just opportunistic? Maybe just a little bit of color on that.

Bruce Labovitz | Chief Financial Officer:

Yeah, one of the reasons we talk, we try to talk about total overhead as opposed to the SG&A relative to COGS is that our labor and operations, depending on utilization, will be allocated a little bit more towards COGS or a little bit more towards SG&A in any given period. depending on the proportion of direct and indirect labor. I wouldn't say there's anything consequential that's really driven SG&A higher. It's going to grow as we grow. The question is just can we meter it at a lower pace than revenues growing? So I really look at it as the overall all-in is down as a percentage of revenue. That's really what we're focused on.

Aaron Spicello | Analyst, Craig-Hallum Capital Group:

All right. Thanks. And then just maybe one last one. I mean, on labor, you know, how are you feeling about, you know, availability there as you grow the business moving forward?

Gary Bowman | Chief Executive Officer:

We have a very, very aggressive talent acquisition group. Excuse me. So it's a, It's a labor-challenged market, I mean, in a good way. It's a challenge to find staff, but they're out there, and we have a good machine to recruit on board them. So we're well-positioned to bring home the labor that we need.

Bruce Labovitz | Chief Financial Officer:

I guess it's why we are so focused on developing labor-leveraging you know, innovation within the organization, not to shrink the labor pool, but to not have to grow it as dramatically as, you know, as otherwise.

Aaron Spicello | Analyst, Craig-Hallum Capital Group:

Great. Understood. Great. Thanks for taking the questions. I'll turn it over. Thank you, Aaron.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. Our next question comes from Jeff Martin with Ross Capital Partners. You may now proceed.

Jeff Martin | Analyst, Ross Capital Partners:

Good morning, Jeff. Thank you. Good morning, Gary and Bruce. Dave Kuntz, When you wanted to dive into a specific segment of the backlog you look at power and utilities it's it looks like it's on a trajectory to. Dave Kuntz, The double from where it was in the middle of 2024 Where are you seeing the strongest backlog growth there, and is this is this the segment that you're most focused on for me.

Gary Bowman | Chief Executive Officer:

We're seeing it certainly in the linear projects, the transmission corridors. We've included data centers in there now, so our data center activity certainly is growing that. I wouldn't say it is the primary focus of M&A, but it is one of a couple of primary, power and utilities, energy, certainly transportation. TAB, Mark McIntyre, If I if I picked areas that we're we're really focused on and the opportunities that. TAB, Mark McIntyre, That they're really we find exciting.

Jeff Martin | Analyst, Ross Capital Partners:

TAB, Mark McIntyre, Great and then just how would you characterize the environment in terms of you know, the timeliness of projects and by timeliness I mean starting on time, you know, no delays in the weather delays, no other factors driving. Yeah, because I know transportation is a bit of a wild card. You know, you have large projects that can come on, they can get pushed out a month or two, they can get pushed out a little longer. If you could just give an update of kind of how that's progressed this year, I know going back several quarters, transportation kind of caused some disruption for you. So any insight there would be really helpful.

Gary Bowman | Chief Executive Officer:

We did have some some projects that got delayed in the starts. They didn't go away. So this business is lumpy. That's why we guide to a year, not a quarter. So we have seen some delays in starts here recently, but that's only attributed to project-specific issues, nothing in the macroeconomy. ignoring the funding of transportation driving that.

Jeff Martin | Analyst, Ross Capital Partners:

Great. And how would you characterize the M&A environment from a valuation standpoint? I know, you know, when you're looking at strategic acquisitions, I assume those are getting larger than you've done historically. So I'm just curious how you're seeing the competitiveness of those more strategic level acquisitions out in the market today.

Gary Bowman | Chief Executive Officer:

It's competitive. It's I'll say no more competitive than it has been over the last year or so. But these strategic opportunities, they drive a lot of attention. So it's we have to sharpen our pencil. We have to sell ourselves. But it's we're We're winning out on our share of nice strategic opportunities.

Jeff Martin | Analyst, Ross Capital Partners:

Great. Thanks for taking the questions.

Andy Whitman | Analyst, Robert W. Baird & Co.:

Thank you, Jeff.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. Our next question comes from Jean Delise with DA Davidson. You may now proceed.

Jean Delise | Analyst, DA Davidson:

Good morning. Hi, Jean. Good morning. Thank you so much for your time. I'm just a quick question. Some of the comments you made about hiring. So you guys are so you're in hiring mode. And then I just wanted to sort of understand what, you know, some project delays and this growth that you're experiencing. How would you characterize sort of the growth cadence in 2026 versus previous year, should we expect maybe a higher pickup in the first half of next year versus this year, I guess? And how should we think about EBITDA margins, given that there could be some increase in SCNA? Or I guess, should I think about differently as you progress through the year? Should those efficiencies start to kick in? And when will they kick in?

Bruce Labovitz | Chief Financial Officer:

I think one thing we're hoping for for next year, the first half of this year was a relatively chaotic time with a lot of disruption associated with uncertainty around tariffs and other economic issues. And so I think that that stifled the first half a little bit. So hopefully X that factor, we'll see a little bit more balanced growth first quarter, second quarter. of next year into third and kind of through the end of the year. So I think our cycles are relatively the same. Hopefully, they'll be maybe a little bit more calm with rates lower and some of the transition issues behind us. We're still there?

Jasmine | Investor Relations / Conference Call Moderator:

Dean, are you still there?

Jean Delise | Analyst, DA Davidson:

Yeah, yeah, sorry, I apologize about that. In terms of the EBITDA margins, yeah, thank you so much for all the comments and color, but I just sort of wanted to understand a little more. With the pickups in projects or expected work, I guess going into the fourth quarter, Should we see it kind of come down to second quarter levels in terms of SG&A, or should it be more in line with what you experienced this quarter?

Bruce Labovitz | Chief Financial Officer:

I think it will be in between.

Jean Delise | Analyst, DA Davidson:

Makes sense. And just, I guess, into 2026, going back to my first question, should we expect more efficiencies that you talked about having a great impact initially sort of from the start of 2026, or will that develop more as you head into the second half of 2026? Any other comments around that help?

Bruce Labovitz | Chief Financial Officer:

Yeah, I would expect it to be more beneficial on a relative basis in the second half of the year, but still be beneficial in the first half of the year.

Jean Delise | Analyst, DA Davidson:

Got it. I appreciate it. Thank you so much for your time. Thank you.

Jasmine | Investor Relations / Conference Call Moderator:

Thank you. There are clearly no questions registered, so as a reminder, it is still one to ask a question. There are no questions waiting at this time. So I'll pass the conference back over to the team for any closing remarks.

Gary Bowman | Chief Executive Officer:

Thank you, Jasmine. And thank you, everyone, for joining us on this call this morning. We're really looking forward to finishing out the year on a high note and certainly looking forward to Banner 2026. So thanks for all the employees who are listening, for all you're doing, and for all the investors, for the faith you put into us. to the analysts for staying in touch with us. With that, I'm going to wrap it up. Good morning, everyone.

Jasmine | Investor Relations / Conference Call Moderator:

Ladies and gentlemen, that will conclude today's conference call. Thank you for joining.