Barrett Business Services, Inc. Third Quarter 2026 Earnings Call

Good afternoon, everyone, and thank you for participating in today's conference call to discuss BBSI's Financial Results for the Third Quarter Ended September 30, 2026.

Joining us today are BBSI's President and CEO, Mr. Gary Kramer, and the company's CFO, Mr. Anthony Harris. Following their remarks, we'll open the call for your questions.

Before we go further, please take note of the company's Safe Harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995. The statement provides important cautions regarding forward-looking statements. The company's remarks during today's conference call will include forward-looking statements. These statements, along with other information presented that does not reflect historical fact, are subject to a number of risks and uncertainties. Actual results may differ materially from those implied by these forward-looking statements.

Please refer to the company's recent earnings release and to the company's quarterly and annual reports filed with the Securities and Exchange Commission for more information about risks and uncertainties that could cause actual results to differ from those expressed or implied by the forward-looking statements.

I would like to remind everyone that this call will be available for replay through December 4, starting at 8 PM Eastern Time tonight. A webcast replay will also be available via the link provided in today's press release, as well as available on the company's website at www.bbsi.com.

Now I would like to turn the call over to the President and Chief Executive Officer of BBSI, Mr. Gary Kramer. Sir, please go ahead.

Thank you and good afternoon, everyone, and thank you for joining the call. We delivered another quarter of top-line growth and solid profitability. We continue to execute our various initiatives and our revenue and profit came in line with our expectations. We benefited from strong customer additions during the quarter. This top-of-the-funnel momentum was partially offset by ongoing macroeconomic and geopolitical headwinds, which continue to constrain our existing clients' ability to grow their workforces.

During the quarter, our revenue increased 5% and our gross billings increased 3% over the prior year. We continued executing our strategies to expand the top of the sales funnel, generating strong WSE additions from new clients, while sustaining our elevated level of performance. Additionally, our client retention was within our expectations, a direct testament to the high-value work our teams deliver every day.

The result of all these efforts, or what I refer to as controllable growth, is that we added approximately 3,100 worksite employees year-over-year from net new clients during the quarter.

That said, our overall growth was tempered by broad client workforce reductions. As a reminder, macroeconomic uncertainties led many of our clients to reduce head count starting in Q3 of 2025. That trend has persisted this year, although at a more moderate rate.

To summarize, despite workforce reductions within our existing client base, our strong sales volume and client retention enabled us to increase total worksite employees by 1% for the quarter.

Turning to our staffing operations. Our staffing business declined by 7% over the prior-year quarter. New business outpaced runoff, however, existing clients reduced their staffing demand and remained reluctant to place new orders amid continued macroeconomic uncertainties. In response, we continued to leverage our recruiting expertise to support our PEO clients, successfully placing 122 applicants during the quarter, a 5% increase over the prior-year quarter.

Turning to the field operational updates. We're very pleased with our entrance into new markets, with our asset-light model. These teams continue to gain traction and build consistency, adding over 700 new WSEs during the quarter. Earlier in the week, we announced the opening of our Pittsburgh location. We are performing well in this market and have invested in a local business team to better support our clients and referral partners and have moved into a traditional physical location.

We continue to hire locally to support our existing operations as we expand into other markets. We anticipate converting more of these locations to traditional branches in the near future.

Regarding product update, we continue to execute on the sales and service of BBSI Benefits, our health insurance offering. Our strong momentum continued into the third quarter as we added approximately 70 clients with 1,500 participants to our various benefit plans. We have achieved operational consistency and continue to invest in improving the sales and servicing capabilities of BBSI Benefits.

Our value proposition continues to resonate across our client base, with success among both small and large clients, across white and blue collar industries, throughout our geographic footprint and across a diverse set of distribution channels.

Our teams are now in the midst of the heavy selling and benefits renewal season. The rise in health insurance costs and the exit from some insurance carriers is resulting in an increase in consumer shopping. Our submissions were up approximately 30% in Q3 compared to the prior year, reflecting these market dynamics and the trust we have built with our referral partner network.

Our October submissions for January 1, 2027 transactions are about 55% greater than October of the prior year. We anticipated an increase in activity and have staffed accordingly. While it is still early in the selling season, we are encouraged by the activity we are seeing and remain optimistic about our ability to deliver another successful campaign.

Next, I would like to shift to our 2026 IT product objectives. I previously mentioned that we have been investing in our tech stack to service and support our clients better. We have been rounding out the employee life cycle, which is from when an employee is hired to when the employee retires, and everywhere in between. During the quarter, we continued executing on our IT product roadmap and are anticipating larger releases in the upcoming quarters. Ultimately, we believe these capabilities will support increased sales and better client retention and we are excited to bring these products to market.

Regarding the California workers' compensation environment, as we discussed in prior quarters, we believe the California workers' compensation market has reached an inflection point as loss cost trends were outpacing premium rates. Anthony will have more in his prepared remarks, but I'm encouraged that we were able to continue to pass on rate increases in the third quarter.

Unlike the traditional insurance marketplace, we have the advantage of a broad and compelling value proposition that extends well beyond a single insurance product. We expect to continue managing our workers compensation price to cost, while delivering the value of a more robust suite of products.

Next, I would like to shift to our view of the remainder of the year. We've had consecutive quarters of controllable growth being slightly offset by workforce reductions within our existing client base. We believe BBSI is well suited to navigate macroeconomic uncertainties and have products that support the small business during a time of rising inflation. In challenging times, small businesses can benefit from a PEO relationship and from our scale and expertise.

We remain steadfast in aligning our insurance pricing with our insurance costs. At the same time, we are maintaining strict expense discipline while continuing to invest in the business.

We have consistently achieved strong, controllable growth by focusing on the needs of our clients and by adding new clients, a focus that we will maintain. We have more products to sell and more folks selling. Our consistent execution, differentiated service model and strong relationships position us to continue driving sustainable growth through 2026 and beyond.

Now I'm going to turn the call over to Anthony for his prepared remarks.

Thanks, Gary. And hello, everyone. I'll begin with a review of our third quarter results and the key drivers of our performance. Gross billings increased 3.2% to $2.4 billion in Q3 2026 versus $2.32 billion in Q3 2025. PEO gross billings increased 3.3% in the quarter to $2.38 billion, while staffing revenues declined 7% to $18 million in the quarter.

Our PEO worksite employees, or WSEs, grew by 1% in the quarter, which, as Gary noted, was driven by strong controllable growth, partially offset by year-over-year client workforce reductions. Average billing per WSE per day increased 2.7% in the quarter, which was driven by continued rising wages partially offset by lower overtime worked per WSE.

Looking at year-over-year PEO gross billings growth by region for Q3. Southern California declined by 1%, Northern California grew by 2%, Mountain declined by 1%, East Coast grew by 18%, Pacific Northwest grew by 10% and our asset-light markets grew by 74%.

A few comments on regional performance. Northern California returned to positive growth in the quarter, increasing 2%, with improvement in both controllable and the same-customer sales growth. The Southern California and Mountain Regions both continued to face challenges with softer, same-customer sales growth and softer controllable growth in the quarter. The East Coast continued to stand out, delivering its 22nd consecutive quarter of double-digit growth, supported by strong controllable growth. The Pacific Northwest region had its third consecutive quarter of growth as strong net client adds more than offset softer client hiring activity.

Turning to margin. To give a clear view of our results, I will walk through the three primary components of our margin: pricing, current-year workers' compensation costs, and adjustments to prior-year liabilities and premiums.

First, pricing. For our workers' compensation product, we continue to execute on our pricing strategy in this environment of rising insurance rates, and once again, increased our pricing each month of the third quarter. We have now established an 11-month trend of consecutive increased pricing.

Second, our current-year workers' compensation costs. Because our program is primarily fully insured, these costs are stable and predictable. While they are up modestly from the third quarter of 2025, our pricing increases are more than offsetting these cost increases. Taken together, higher pricing and higher current-year costs are expected to produce a full-year margin rate in line with prior years.

In other words, our pricing is keeping pace with today's cost trends, and we are not seeing deterioration in the margin we are earning on our current business.

Third adjustments to prior-year liabilities and premiums. As a reminder, with our fully insured workers' compensation program, we retain the ability to participate in savings when actual claims costs come in lower than originally expected. Our workers' compensation program continues to perform well and benefit from favorable claim frequency and favorable claim development.

In Q3 2026, we recognized $800,000 of favorable prior-year liability and premium adjustments, compared to $3.9 million in the third quarter of 2025. As we have discussed in prior quarters, the magnitude of these favorable adjustments have been decreasing as we have seen industry-wide increases in claims costs which are incorporated into our actuarial estimates of prior-year liabilities and return premiums. We expect this trend will continue.

Looking at the magnitude of this trend on a year-to-date basis, we have recorded actuarial adjustments of $3.9 million in 2026 versus $16.5 million in the same period of 2025. The result is that our gross margin rate, as a percentage of gross billings, is down year-over-year, due to the

larger favorable actuarial adjustments recognized in the prior year. We view 2026 as a transition year as we compare against a period of strong favorable prior-year development.

As we progress into 2027 and beyond, we expect a workers' compensation insurance market characterized by higher costs and higher prices, along with a more normalized year-over-year comparison.

Moving to our operating costs and overall profitability. We continue to exercise disciplined cost control. In Q3, SG&A decreased approximately 2% year-over-year, driven primarily by employee-related expenses. We continue to expect the full year SG&A growth rate to be lower than both our gross billings growth rate and the prior year SG&A growth rate.

Moving to investment income. Our investment portfolios earned $1.2 million in the third quarter, down approximately $700,000 from the prior year, due primarily to lower average investment balances as we continue to use excess cash in our stock buyback program. Our investment portfolio continues to be managed conservatively with an average quality of investment at AA.

The combined impact of these activities resulted in net income per diluted share in the third quarter of $0.69, compared to $0.79 per diluted share in the year-ago quarter.

Turning to our balance sheet. We remain in a strong position with $74 million of unrestricted cash and investments at September 30th and no debt. We continued our approach to capital allocation, making investments back into the company through product enhancement and geographic expansion, and distributing excess capital to our shareholders through our dividend and stock buyback plan.

Under our $100-million August 2025 repurchase program, BBSI repurchased $9 million of shares in the third quarter at an average price of $33 per share, with $31.2 million remaining available under the program at quarter end. The company also paid $1.9 million in dividends in the quarter and reaffirmed its dividend for the following quarter. This brings total capital return to shareholders in the last nine months to over $50 million.

Now turning to our outlook for the full year. Our Q3 operating results were aligned with our expectations, reflecting strong execution across the company. We continue to expect gross billings growth to increase between 3% and 4% for the year, but now expect average WSE growth of 1 to 2% compared to our prior range of 2% to 3% due to continued softness in client hiring.

While we continue to expect gross margin as a percentage of gross billings to be between 2.7% and 2.75%, we now expect results to be toward the lower end of the range, reflecting the slower trend of favorable adjustments to workers' compensation expense. Finally, we continue to expect our effective annual tax rate normalized for the one-time charge in Q1 to be between 26% and 27%.

I will now turn the call back to the operator for questions.

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Your first question comes from Chris Moore of CJS Securities. Please go ahead.

Hey, good afternoon, guys. Thanks for taking a couple. So, yeah, maybe we'll just continue on the gross margins and kind of workers' comp rates discussion. Can you maybe talk a little bit more about expectations between the spreads the insurance carriers got, or are getting in 2026, versus what you're charging clients in 2026, how that likely will compare to 2027.

Hey, Chris, it's Kramer. So, we've been on a rate increase – we've been increasing our contractual client rates consecutively for about 11 months now. If you remember, back in 2025, it was kind of choppy, but now we're getting consistency in it. And what we're seeing is, what we're able to increase on the rates, on the rolling effective dates, it exceeds what our costs are going up.

So, we renewed our insurance program on July 1, 2026, and we know what that cost is going to be for the next 12 months, and we know that we're going to get spread over the next 12 months on what we increased rates versus what we're going to pay to the insurance carriers.

Hello?

Did you hear my answer?

Yeah. I'm sorry, I got cut off for a second, but got you. Okay. And from where you sit today, is 2028, is that too far out to look – do you have any sense as if things would be even better incrementally, or is that just too far from November of 2026?

It's a little far out. If you think of some of the products we sell, these products are feeling inflation very heavily. So, the medical benefits is the – probably the highest rate increases this year, it's bigger than last year. So you got hyperinflation on medical, and now you're getting inflation on the workers' comp specifically in California. So, right now, inflation is a good thing for us. It means we can charge more. It also means more people are shopping.

Our pipeline is the fullest – the top of the funnel is the fullest it's ever been at this time of the year, specifically for benefits. So, rates are going up. People don't want to pay the rate, so they go out to market and shop it. So we're seeing – we're seeing much more deal flow this year than we did last year. And last year was our highest peak for deal flow that we ever saw on the benefits side.

So, as we're looking at this, it comes down to, this business, especially when you're in benefits, comes down to January 1. So, how good is your renewal? How good is your new business? And based upon that, that really sets the line for 2027. So, it's hard to predict this out until you know what 2027 is going to look like, if that makes sense.

No, it does. Fair enough. I will leave it there. I appreciate it, Kramer.

Your next call comes from Jeff Martin of ROTH Capital Partners. Please go ahead.

Thanks. Good afternoon. So, Kramer, wanted to dive into the investment in the tech stack. Obviously, you're doing that to bolster your sales efficiency and improve client retention, but, obviously that takes some investment. Are you able to quantify what current – maybe this is a question for Anthony, but quantify what kind of drag that was on EPS this year?

Well, I can say the tech investments are primarily capitalized. As we develop those, that's going to show up in our CapEx, the cash flow statement, and if you follow that you can see that the CapEx year-to-date is up in 2026 by several million dollars from 2025, and 2025 was also elevated a little bit from the year before. And that's driven entirely by these tech investments.

So, that'll show up as depreciation over their useful lives as they start to go live and have gone live, which is also why we've seen depreciation go up a little bit, but, certainly no impact to EBITDA and the depreciation impact, year-to-date so far this year is, maybe a little over $1 million total for the calendar year.

Okay. And then could you characterize – could you go into a little more detail on the Southern California market? It sounds like that is weaker, had been trending stronger the past couple of quarters. Any additional granularity there would be helpful.

Yeah, it's really two things. One is the reduction in our clients' workforce. So, if you get in the time machine and you go back to Q3 of 2025, Q3 of 2025 is when we saw our clients reduce in Northern Cal. And then if you look at our Northern Cal numbers this quarter, it's an easier compare because they felt the most pain in Q3 of last year. And then if you roll forward to Q4 of 2025, that's when we saw our clients reduce workforce in Southern Cal.

So, right now, Southern Cal is going against the tough comp of clients that reduced workforce last year for this quarter. So, next quarter, you'll see Southern Cal get better because they're not going against that harder – they're not going against that harder comp, against a softer comp because Q4 is when they felt it. So, a lot of it is when we started to see the reductions and how that's rolling on the year-over-year. So that's one.

And then the second thing is, Southern Cal had an amazing January 1, 2025 for new business. We had a really good 2026 in Southern Cal for January 1 new business, but not as good as we had in January 1, 205. So, it's those two features that are giving us the Southern Cal numbers, but that will rebound next quarter as we get to the softer comp.

Makes sense. Thank you. One other, if I could, on the workers' comp side. It sounds like you're expecting to essentially maintain margin next year with respect to workers' comp. Is that a fair assessment? Or were you ultimately gaining some margin as a result of the higher rising pricing environment?

We're comfortable that it's going to be the low watermark this year. We have to get through Q4 pricing, Q1 pricing, and see where our rates come in at, to give you a confident answer on that one. But what I can tell you, it's two things, right? It's how much rate are we able to get, number one. And then number two is when we renew our insurance contracts July 1, 2027, what's that

renewal look like. As we get closer to 2027, we'll have more facts and can give you a better answer with a better degree of confidence.

Very good. Thank you. Appreciate the time.

Your next question comes from Vincent Colicchio of Barrington Research. Please go ahead.

Hey, Gary, given your heavy reliance on controllable growth right now, could you just give us some more color in terms of the new client pipeline of qualified leads, how healthy looks versus a year ago in sequential periods?

Yeah, we're – the sales machine is doing well. The sales and retention machine is doing very well. So, we feel good about what's in the pipeline. We feel good about what's going to come on for January 1. It's still way too early in the selling season to say anything with confidence. But, if we look at what's in there, our Q3 numbers were up for submissions. October is up like 55% over the prior year. If you look at that and say our closing ratios stay consistent, then we're going to have a better January 1 for 2027, than we did for 2026. But it's still too early to tell.

Okay. And then asset-light markets, can you remind us how many you're in? And then the ones that – where you stepped up investment in physical locations in the past year, can you just let us know how they're doing versus historical benchmarks of what others have done?

Yes. So, right now we've had three total markets that we've done the physical locations. So, Pittsburgh, Chicago, Dallas. We will probably have two more come in in the next four months. Believe it or not, real estate is – commercial real estate is a little harder to get than you would think. It's kind of counterintuitive, but, just in general, we're on plan for those.

And typically what we see is once we open the branch and you have local people there and you have local product, they're – A, they know their trade, B, they've got better distribution networks and referral partners, and then you've got a location that you can really host clients and referral partners. And we see that the velocity of the business they add, increases once we move to a physical location.

And then lastly, given your efforts on with the insurance program and the building out of your tech stack, does the white-collar pipeline, continue to look fairly healthy?

Yeah, we've – good question for our white-collar specialization. We're up – for new business we've added 50% more white collar than we did last year. So, we've got a vertical that's dedicated to it. We've got good product for it. We've got the health insurance, our tech stack. It's resonating well. Doing well with accounts like law firms or dentists or things of that nature that we – that wouldn't really fit into our legacy product. But, for our newer products that we have, we're getting good traction. The folks are doing really well.

Thanks, Gary.

Your next question comes from Marc Riddick of Sidoti. Please go ahead.

Hi, good evening.

Hello, Marc.

Wondering if you could talk a little bit about what you're looking at going – and maybe this is a little early, but maybe could talk a little bit about how you're feeling about cash usage and prioritization, and how that's maybe – has that changed a little bit as we get to the end of the year going into next year and any investment plans that you have? And then I have a follow up on that.

Yeah. You asked about cash usage, is that right? You just cut out for a second. Sorry.

Yeah.

Okay. Perfect. Yeah. I mean, I can chime in here. This is Anthony. The overall philosophy hasn't changed. So we continue to invest in the business, as we talked about earlier. And one of the ways we're doing that is investing in our tech stack. So, that's been a continued investment really starting in 2025 and building through 2026. We also have been returning a lot of capital to shareholders, you know, through the stock buyback plan, and that's really an important part of our model.

We generate a lot of cash, we're not a capital-intensive business, and so we have a very sustainable buyback strategy. We have been buying back stock at an accelerated pace, really going back to Q4 of 2025 and the first two quarters of the year. So, we always anticipated that we would be lowering that back down to a more sustainable level based off of our kind of run rate of cash flow generation. So, you saw that temper a little bit in Q3, buying back $9 million of stock in addition to our dividend.

But, really, that was just a part of our plan, always knowing that we would come back to that more sustainable level, really taking advantage of our lower stock price and stronger intrinsic value in those first – the last few quarters.

Great. And then my other question is probably maybe a little more broadly, I was wondering if you could – as we approach the key selling season going into the end of the year and into next year, particularly with BBSI Benefits, maybe you could talk a little bit about are you seeing much in the way of differentiation, whether it's by client industry vertical or geographic footprint, or what have you, as to how clients are initially approaching that, or any views on that? Or is there – maybe it's a little too early for that, but I figured I'd ask anyway. Thanks.

It's – in certain markets there's been carriers that have left, so there's been carriers that left in California, carriers that left in Oregon. And when those carriers leave, that business has to go somewhere. So, you've got a lot of – you got a lot of business that's being shopped because of that, number one. And those carriers left because they were losing money, not because they were making money. So, it's a little bit of buyer beware when you're looking at it. So, that's one thing that we're seeing.

And then the second thing is rates are – double-digit rate increases are the norm. And you're seeing that across the board, and, depending upon the consumer, if they're ready for it and – then they can be prepared for a sticker shock. If they're not ready for it, then they want to do some shopping. So, we're seeing a lot of shopping going on out there.

It's another year of double-digit rate increases on the medical side for the industry. And that is really why we're seeing so much activity in the market.

That makes sense. I appreciate it. Thank you so much.

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Kramer for closing remarks.

Just want to thank everybody for dialing in, and I also want to thank all the BBSI professionals for another solid quarter. Thank you, everybody.

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.