

## **Barrett Business Services, Inc. Second Quarter 2025 Earnings Call**

Good afternoon, everyone. And thank you for participating in today's Conference Call to discuss BBSI's Financial Results for the Second Quarter ended June 30, 2025. 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 the 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 September 6, 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](http://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. Good afternoon, everyone, and thank you for joining the call. We continue to build on our momentum in the second quarter, delivering results that our own momentum in the second quarter, delivering results that exceeded our plan. Strong revenue growth was fueled by new client sales, expanded adoption of new products, and excellent client retention. Notably, our success in adding new clients led to a record number of worksite employees.

Moving to our financial results and worksite employees during the quarter, our gross billings increased 10.1% over the prior year quarter, exceeding our expectations. We continued to execute various strategies to increase the top of the sales funnel, and we achieved a record number of WSEs from new client ads.

Our client retention continues to trend well and has performed better than our expectations. I like to attribute that to the work we do with our clients and the value our teams provide. The result of all these efforts, or what I refer to as controllable growth, is that we added a record 10,100 worksite employees year-over-year from net new clients. We mentioned during our last call that we began to see our clients resume hiring but below historical levels and this continued in Q2.

The quarter included a significant amount of macroeconomic uncertainty, which we believe caused our clients to pause hiring. While our client's workforce modestly grew in Q2, it was at a

slower pace than we planned. The net result of record WSE ads and modest customer hiring was that we grew worksite employees by 8%.

Moving to our staffing operations. Our staffing business declined by 11.5% over the prior year quarter and was below our expectations. January and February were in line with our expectations, but we experienced a slowdown in March and that trend continued into Q2. With the macroeconomic uncertainty, our clients were simply reluctant to fill staffing orders.

We continued to execute our strategy to recruit for our PEO clients and placed 91 applicants in the quarter, which is the same amount as the prior-year quarter.

Moving to the field operational updates. We're very pleased with our entrance into new markets with our asset- light model. We have 21 total new market development managers in various stages of their development. These folks have been gaining traction and consistency and have added approximately 1,130 new WSEs through the first half of the year.

In July, we announced the opening of our Chicago and Dallas branches. In each of these locations, we have formed a business teams with local folks to support our clients and have moved into traditional physical brick-and- mortar BBSI branches. We continue to see positive results from our investments in new markets and are actively recruiting additional new market development managers. We anticipate opening one or two more branches by the end of the year.

Regarding product update, we continue to execute on the sales and service of BBSI benefits, our new health insurance offering. We had a great start to the year and our momentum continued into the second quarter. We added approximately 1,600 participants to our various benefits products in Q2. I'm pleased to report that through July, we have approximately 710 clients on our various plans with 19,000 total participants.

We are gaining traction and continue to improve the sales and service of BBSI benefits. Our value proposition resonates well and we are having success with small and large clients in white and blue-collar industries in every state we operate and with a diverse distribution channel. We are pleased with the results of BBSI benefits, and our teams are getting ready for the upcoming selling season.

Next, I would like to shift to our 2025 IT product objectives. I'd previously mentioned that we been investing in our tech stack on the product side to service and support our clients better. Over the last couple of years, we've made additional investments in myBBSI to support our BBSI benefits offering, added a learning management system and added numerous integrations with third parties.

In March, we launched BBSI Applicant Tracking, a cutting edge tool that allows our clients to create job postings from our centralized system, which integrates with various third party job boards. We have enrolled about 100 clients so far and are hearing positive feedback. Clients appreciate the investment and the time they are saving.

As we evolve and look to the remainder of 2025, we will be making additional investments to round out the employee lifecycle experience. We think of the employee lifecycle from the client's

perspective from when an employee is hired to when the employee retires and everywhere in between. We will be replacing or bolstering attributes to the lifecycle with additional product launches throughout the year.

Our client-centric focus is on delivering more technology and more products, all supported by the best local talent. We believe these enhancements will make it easier to sell to new customers and to retain existing business. Additionally, we believe this offering will strongly resonate with white collar businesses and larger employers.

Next, I would like to shift to our view of the remainder of the year. We've had consecutive quarters of great momentum. We are consistently growing our WSE stack. We ended Q2 with a record number of WSEs and we continue to be optimistic about the road ahead. We've consistently achieved strong, controllable growth by focusing on the needs of our clients and by adding new clients. We have more products to sell, more folks selling them, and more referral partners recommending BBSI. Based upon these strong results, we have increased our growth outlook for the remainder of the year.

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

Thanks, Gary, and hello, everyone. I'm pleased to report we finished the quarter with strong results and exceeded our plan. Gross billings increased 10.1% to \$2.23 billion in Q2 2025 versus \$2.03 billion in Q2 2024. PEO gross billings increased 10.3% in the quarter to \$2.22 billion while staffing revenues declined 12% to \$17 million in the quarter. Our PEO worksite employees or WSEs grew by 8% in the quarter, which, as Gary noted, was driven by a record number of WSEs added from new clients. This was coupled with ongoing strong client retention, which continued a strong trend of controllable growth.

Client hiring was positive but modest in the quarter and remained well below historical levels. Average billing per WSE increased 1.7% in the quarter, which was driven by continued increasing wages, slightly offset by lower average hours worked per WSE in the quarter.

Looking at year-over-year PEO billings growth by region for Q2. Southern California grew by 12%. Northern California grew by 6%. Mountain grew by 12%. East Coast grew by 13%. The Pacific Northwest declined by 4%. And our asset-light markets grew by 100%. Southern California represents our largest region and has maintained double-digit growth, driven primarily by consistent client adds and better than expected client retention. The strong Mountain and East Coast results also continue to be driven by strong controllable growth performance. In our Pacific Northwest was the region most impacted by client hiring trends in the quarter.

Turning to margin and profitability. Our workers compensation program continues to perform well and benefit from favorable claim frequency trends and favorable claim development. The strong performance has once again resulted in favorable adjustments for prior year claims.

In Q2, we recognized favorable prior year liability and premium adjustments of \$8.8 million compared to favorable adjustments of \$8.9 million in the second quarter of 2024. This is the quarter when we renew our fully insured workers compensation policies, which are effective as of July 1, 2025. As we have noted in each recent quarter, our workers compensation program has

performed well and we once again renewed with favorable terms, including cost savings, no downside risk to BBSI for future adverse claim development, and the continued ability for BBSI to participate in favorable claim development be it return premium.

In addition to our workers' compensation claims being primarily fully insured, I want to remind everyone that our client health benefit offerings are also 100% fully insured. Our strategy of de-risking our insurance operations continues to bring stability to our operating results while continuing to allow us to offer best-in-class, high value products to our small business customers.

When we look at market conditions for both of our insurance products, workers' compensation and health benefits, we continue to see inflationary pressures that are expected to drive pricing higher in both products. In the case of workers' compensation, this marks a shift from the lower pricing trends of recent years. For both products, we see these pricing trend as an opportunity for future growth as we engage with more potential clients shopping in the market.

Moving to our operating costs and overall profitability. Our results have continued to benefit from operating leverage, with SG&A costs continuing to grow slower than our billings and gross margin. For Q2, SG&A expense increased by approximately 6% due primarily to employee-related costs, including higher profit share incentives due to the stronger quarter.

Looking at investment income. Our investment portfolios earned \$2.3 million in the second quarter, down approximately \$700,000 from the prior year due to lower average interest rates. As a reminder, there's a balloon premium payment due at June for our workers compensation program, which reduced our restricted cash and investment balance and corresponding premium payable balance in the quarter. These investment balances will continue to build again over the current policy year until next June, and investment income will continue to correlate with the investment balance. Our investment portfolio continues to be managed conservatively with an average quality of investment at AA.

The combined results of these activities with net income per diluted share in the second quarter of \$0.70 compared to \$0.62 per diluted share in the year ago quarter, reflecting the strong revenue growth and operating leverage I just discussed. Our balance sheet remained strong with \$90 million of unrestricted cash investments at June 30 and no debt. We continue our consistent approach to capital allocation, making investments back into the company through product enhancements and geographic expansion, and distributing excess capital to our shareholders through our dividend and stock repurchase plan.

Under our previous buyback program, BBSI repurchased 8 million of shares in the second quarter at an average price of \$40.80 per share.

The company also paid \$2 million in dividends in the quarter and reaffirmed its dividend for the following quarter.

Management and the board continue to be highly optimistic about the value proposition of BBSI and the growth potential ahead of us. That value is made even more compelling by the enhancements we've made in our products and operations and the consistency we're seeing in our growth from new clients. With this perspective, the board has approved a new \$100 million, two-

year stock repurchase program effective August 4. The new program replaces the previous program and will allow management to continue to show our commitment to being thoughtful stewards of capital and generating long-term value for shareholders.

Now, turning to our outlook for the full year. We've had strong results year-to-date and we're reflecting that in our updated outlook. We now expect gross billings to increase between 9% and 10% for the year and WSEs to increase between 6% and 8% for the year. We are tightening our range for gross margin as a percentage of gross billings to be between 2.9% and 3.5%. And we continue to expect an effective annual tax rate 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 the line of Christopher Moore from CJ Securities. Your line is now open. Please go ahead.

If you're talking, Chris, you're on mute.

Sorry. Thank you very much. I am on mute. Appreciate it. Terrific quarter. Maybe we can start with workers' comp. You have talked in the past about raising workers' comp rates something like 11% at the end of calendar 2025. I'm just trying to understand, is that a done deal or is that a recommendation? Where does that stand?

Yeah. Hey, Chris. It's Kramer. That's specific to California, and California has a...

Right.

...regulatory board called the WCIRB. They recommended a rate increase of over 11%. Then, it goes to the Commissioner, and then the Commissioner approves a rate. The rate the Commissioner approved was like 9%. So, that'll be reflected and ultimately, carriers will update their file rates, carriers will get their file rates approved, and ultimately, we think that this is going to start to push the workers comp pricing up in California specifically.

Got you. And that timing is more – it's a bigger impact in 2027 and 2026? I'm just trying to understand – understand the timing there.

It'll be a – think of it as, when all of these insurance policies come up for renewal, which is going to be kind of rolling depending upon their effective date, it'll take you one year to get through the rate increases, but it's honestly just a good sign that the markets move in that way. And we think it's a good thing for two reasons, right? Number one is rate is a good thing. Rate is your friend. And then, secondarily when folks are being charged more, they tend to shop more. So we think there'll be more people shopping in the marketplace.

Got it. Very helpful. Maybe just as a follow-up. Workers' comp adjustment, unusually big, \$8.8 million. Can you just talk to that a little bit more?

It was within \$100,000 of the same quarter last year. So, Q2 of '24 was give or take the same amount, so it's kind of the normal.

Got you. All right. I will leave it there. I appreciate it, guys.

Thanks.

Your next question comes from the line of Jeff Martin from ROTH Capital Partners. Your line is now open. Please go ahead.

Thanks. Good afternoon, guys. Kramer, I wanted to dive in on the renewal on the workers' comp agreement. Sounds like you probably have some improved profit potential from that renewal. Maybe you could comment to that. And then specifically wanted to circle back around on the last question with regard to what higher rate means for the business. I would assume that means you can go after a broader pool of clients potentially because you can underwrite risk a little more safely and then you have clients shopping. So I think this seems like a potential for a nice improvement in profitability as the result of this rate increase. Would you say that's fair?

Yeah. Do you want to take it?

Yeah, I can chime in, Jeff, on the impact of the insurance renewal. So, yeah, the rates have come down. The way we've structured this program now since we've had this fully insured program going back to 2021 is that if the claims perform better than expected, we get return premium back from the carriers. And every year, we've had claims performed better than kind of what was originally underwritten. So, we've continued to see those – those benefits and those do come back to us. And that's part of what we're seeing in these actuarial adjustments that we talk about each quarter now.

And so, with that trend, we do expect those rates to come down in the following renewal, right, to reflect that improvement, and we have seen that. So, that's great news and you're not wrong. That's lower cost to us. If those claims continue to perform even better, which has been the trend, we'll continue to accrue those benefits as return premium, and that – that's exactly right. And the real benefit here would be if we continue to see those lower costs paired with, you know, stable or upward trending market pricing. You know, typically what we've been seeing is our costs have been coming down, the market pricing has been coming down and essentially offset those savings. And so, that's really where the profit expansion opportunity comes in, if we do start to see that market shift, which we believe is happening.

Yeah. Great. And then, wanted to dive in on, you know, the, you know, the technology enhancements that you're planning coming up here. I would imagine that, you know, over the past couple of years, that's significantly helped your market positioning. Sounds like you're now able to and will, with the rollout of additional technology offerings, be able to go after the white collar market and maybe even the middle market in a more aggressive fashion.

Yeah. You know, specifically to the white collar, right? We've, you know, we've grown up as a blue collar business because of our workers' comp offering. But now that we have the health insurance products, it opens up a lot of TAM for us. Right? It opens up white collar business. It opens up employee benefits brokers. It really – it really makes our total addressable market be squared, if you think of it that way.

So, you know, the health insurance offering for the white collar business after payroll is their most expensive spend. So with this health insurance offering, we're able to go and offer to white collar businesses, right?

So we're bringing on things we haven't done before, like doctors and dentists and lawyers and law firms, like business we haven't been in before, it's creating good opportunities for us. But those clients expect a little more on the IT side. And what we're trying to do is by the end of the year, have an IT product that we can really go toe for toe with anybody out there on the HRIS platform side.

Okay. Then could you speak to the performance of the policies you've underwritten on the healthcare side? I know you don't take on the risk, but I think it, you know, it's worth asking the question. And in terms of pharmacy costs and large claim incident rates, are you seeing the performance of those plans on expectation or are you seeing similar trends that the broader industry is seeing?

You know, trend is real in health. You know, this year, it's going to be a higher renewal rate for the whole world, right? If you look at the big insurance companies, if you look at the other PEOs, it's been a – it's been tough sledding this last 12 to 24 months. You know, we underwrite our business. We're underwriting conservatively. We want to make sure that when we bring a client on, we're going to be able to offer them good terms and conditions for the subsequent year.

We're viewing this honestly, like we're good stewards of capital, we're prudent underwriters, but we're viewing this as an opportunity as well. Like Anthony mentioned that in his prepared remarks that, you've seen the insurance market on the health side, you've seen the articles in The Wall Street Journal, you've seen what's happening in the ACA market, you know, the rates are going to be more than they were. This is going to be a double digit probably rate increase market. And we digit probably rate increase market and we view that as a benefit because we have a small book of health but we have big capabilities to do more and there's going to be more people shopping because of the rate increases that we – that we're projecting in 2026.

And then last one from me, could you talk about, you know, some of the considerations that went into deciding the rate guidance for the balance of the year?

Yeah. I think it's largely driven by strong year-to-date performance and really, we've seen a consistent trend in controllable growth specifically, not just in adding new clients, but also retaining clients both ahead of our expectations internally. Really partnering that with hitting our margin and operating cost targets that were in line with expectations internally translates to consistent growth.

Great. Thanks.

I would add, as we think of our growth now, just the growth through the midpoint, you know it's been 80% from new business. We're not getting much tailwind from our clients hiring. You know, it's a little bit of an unknown right now for what's going to happen on the back half of the year for the economy. But what we can control, we're doing a really good job at adding new

business and keeping business and then if clients hiring that's, you know, clients hiring increases, that's just going to be a tailwind for us.

Appreciate it. Thank you.

Your next question comes from the line of Vincent Colicchio from Barrington Research. Your line is now open. Please go ahead.

Yeah. Good afternoon, Gary. Nice quarter. Very strong net new client additions. Are you tweaking anything? Is there anything you can share with us in terms of what strategies are working best? Anything of that nature.

No, I – I'm not going to – I'm not going to give the secret sauce. But, if you think of all the things we've done, we've got – we've got great people, we've got more product on the health side, we've got more product on the IT side. We've got a bigger total addressable market by being able to bring on larger clients, by being able to bring on white collar business.

And then we've got a lot of process around our sales and sales cycle and a lot of focus and emphasis on it. So, you know, it's a lot of things, but it's really everybody knowing which way the organization is going and working together to get there.

Has the competitive backdrop changed at all? I know in the past you've talked about, you know, a large number of the clients you add are new to the PEO market. Does that – is that still the case?

Yeah. That's still the case for us. I mean, we – we – we're having more PEO takeaways than we ever had. But the majority of our business that we're bringing on is business that's new to PEO for the first time.

Okay. And then any color on what's going on in the Pacific Northwest, or is there a particular verticals that are struggling? Any – any color will be helpful.

It's – it's our smallest region. And, you know, we have four branches in Oregon and one branch in Washington. And Portland is the largest and Portland has seen the most pullback. You know, it's a – I would say the economy in general is there is more people leaving Portland than entering Portland. And you're seeing a slowdown, you know, in construction. You're seeing a slowdown in a lot of the – the industries and the trades.

Okay. And Anthony, I missed what you said in terms of wage inflation. Was – was it – was a bit better? Did I get that right?

And also, I missed what you said on overtime hours?

Yeah, wage inflation has been very consistent as usual. Right? At the offset, that was offset by a decrease in average hours worked in the quarter, which is consistent with some of the macroeconomic uncertainty that we saw on the client hiring side, right where that really slowed down. So, the net average billing per WSE was 1.7% increase, which was the net of those two factors.



Thank you. Thanks, guys.

Your next question comes from the line of Marc Riddick from Sidoti. Your line is now open. Please go ahead.

Hey. Good afternoon.

Hey, Marc.

Wanted to touch a little bit on the openings in Chicago and Dallas. I know obviously it just happened, but maybe you could share some of your thoughts on the – some of your initial thoughts and sort of the preparation going into that and sort of how that plays into your expectations? And I think in your prepared remarks you're looking at another branch or two before the end of the year, and then how that plays into your thoughts for the potential for 2026?

Yeah, it was – and we had all of our market development managers in about six weeks ago when we had a – we do a meeting with them like every nine months. And it's kind of interesting and kind of cool, to be honest with you, because it's 21 folks all going, all trying to conquer the world, build their market. And in the beginning, we had a thesis and it's kind of nice now because the thesis has been proven, right. Hire somebody, hire good people, train them, get out of their way so they can sell and then support them. And then when they do well, start to hire locally. And then after they hire locally, they can build out their true BBSI branch. And we've proven that in multiple markets now. So, it's – it's more than a dream. It's a reality which is – which is fund when you see that on the faces of everybody that they can – they can own their geography, the harder they work, the more they get paid, the harder they work, the more they grow, the better the results. So, it's Dallas and Chicago where our first ones will have one to maybe two more coming on this year. But the nice thing, as we look out latter this, we can see that this is going to be successful and that it's going to continue to roll and it's going to continue to generate growth and profitability for the organization.

Okay. Great. And then, a lot of my – my questions were already answered. But I'm sort of curious as to maybe how you view the client activity and pacing through the – through the quarter and into 3Q, particularly, maybe if there was any tie in or read through via, vis-à-vis headlines, whether it's Big Beautiful Bill or maybe what client impacts have been to sort of the big picture stuff and sort of – sort of a real-time environment.

Yeah. We went through – our client hiring was lower than we expected. I mean, our clients grew, but – but at a much lower rate than historical and lower than we forecasted. And if you're a business owner, it was a tough time to make an investment, right? You had 10 different things coming at you from tariffs to ICE to you name it, right? It was a tough call...

Right. Right. Right.

I feel like we have better stability now. When you have the stability, you can do more long range planning. And the clients that we talked to are now making that shift to more of a long-term planning as opposed to a whole and wait approach.

Yeah. Great. Thank you very 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.

I just want to thank everybody on BBSI for all their hard work and dedication and great results and thank you to all of our shareholders for – for being on board with us. Thank you, everybody.

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