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TrueBlue, Inc. (TBI)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and my name is Chris and I'll be conference operator today. At this time, I'd like to welcome everyone to the TrueBlue Fourth Quarter 2015 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thankyou.

Derrek Gafford, Chief Financial Officer, you may begin your conference.

Derrek L. Gafford

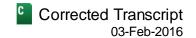
CFO, Executive VP & Head-Investor Relations

Good afternoon, everyone. Here with me is CEO, Steve Cooper. Before we begin I want to remind everyone that any forward-looking statements made by management during today's call are subject to the Safe Harb or statements found in TrueBlue's press release and SEC filings.

The company's fourth quarter earnings release and related financial information are available on TrueBlue's corporate website at www.trueblue.com under the Investor Relations section. This call is being recorded and replay will be available on the company's website. Any references made to our organic business, exclude the acquired results of SIMOS Insourcing and Aon Hewitt RPO.

The discussion today contains non-GAAP terms, including, but not limited to, EBITDA, adjusted EBITDA, and adjusted earnings per share. Adjusted EBITDA excludes non-recurring integration and acquisition costs and processing fees related to the capture, Work Opportunity Tax Credits.

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Adjusted earnings per share excludes non-recurring acquisition and integration costs, amortization of intangible assets, WOTC processing fees and adjusted income tax expense to the expected rate of 32%. The exclusion of WOTC processing fees and the use of a 32% income tax rate are changes to the adjusted calculations spurred by the recent congressional approval of the WOTC program. These are measurements used by management in assessing performance, and in our opinion, provide investors with additional insights to the underlying trends of the business. Please refer to the reconciliations of non-GAAP terms on our Investor Relations website for additional information.

I'll now turn the call over to Steve.

Steven C. Cooper

President, Chief Executive Officer & Director

Thank you, Derrek. Good afternoon, everyone. Today, we reported our fourth quarter and year end 2015 results. Fourth quarter grew 17% to \$811 million, which included 14% organic growth, which was a nice step up from the 8% organic growth in the third quarter.

Full year 2015 revenue increased 24% to a record \$2.7 billion, which included 7% organic growth for the year as a whole. I'm excited about the strong organic growth throughout the year and especially the strong step up in the fourth quarter. The growth continued to be widespread throughout our operating geographies with strong momentum in both local and national accounts.

We experienced double-digit growth in construction and in our on-premise accounts. Although manufacturing continue to lag, we did see low single-digit declines versus the slightly higher declines we experienced earlier in the year, in manufacturing.

At the end of November, we completed the acquisition of SIMOS, that's SIMOS, a leading provider of on-premise workforce management solutions. This acquisition added 3% growth in the fourth quarter.

Adjusted EBITDA was \$46 million in the fourth quarter, an improvement of 6%, while adjusted EBITDA for the full year increased 23% to \$147 million. Our adjusted EBITDA margins declined by 60 basis points in the fourth quarter to 5.7% mainly due to the investments we made, which produced the strong organic growth we experienced along with the 40 basis points of workers' compensation benefits in Q4 of last year that did not reoccur.

During the fourth quarter, we made significant investments by adding local sales and recruiting professionals in several markets, which help reduce the organic revenue surge in the fourth quarter. In addition, we experienced increased sourcing and screening costs, overall, related to a tightening labor market.

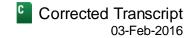
Our investments for growth also included the early stages of improving our ability to connect with both our current workforce and candidates alike by moving from our texting systems to an app build for smart devices. The early stages of this research and development have all been expensed.

The fourth quarter adjusted EBITDA margins took a slight step backwards with a high amount of investment made to drive revenue and support our future growth. We are confident we are making the right investments in the right areas and monitor the return of all investments closely.

We have pulled back slightly on certain costs to ensure our adjusted EBITDA margins can be maintained at our current rates during 2016. The additional professionals on the ground, selling and recruiting along with the



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further technology enhancements, will not be walked away from, as they should provide long-term sustainability in our recruiting and workforce management. However, we will moderate the investments and contain o ther costs as a balance in the short-term. Therefore, the organic revenue trends will likely not be sustained here in early 2016, as we work through the choppy economic environment. And this will also allow us to remain flexible with the increasing uncertainty in the economy.

Innovations within our company, along with the additional acquisitions, combine well for our existing business to put us in a strong position to keep a sustained growth trajectory. We believe the RPO market has tremendous potential on a worldwide scale, which is why we are so pleased we could bring on the Aon Hewitt RPO operations into our PeopleScout brand at the beginning of the first quarter here in 2016.

We've provided 2016 annual guidance today to help you see more clearly what our forward outlook is once we make it through the beginning of the year where the investments made for growth and the more volatile labor markets balance out to have a more profound impact on growing EBITDA.

For 2016, we are estimating an increase of 30% in adjusted EBITDA on 15% revenue growth. This will result in expanding our adjusted EBITDA margins to approximately 6%. We remain committed to continue to expand our adjusted EBITDA margins, while we are experiencing growth in revenue. Both things are important for us to provide improving rates and returns to our shareholders.

I will now turn the call over to CFO Derrek Gafford for a further analysis on our results. Afterwards, we will open up the call for questions. Derrek?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Thanks, Steve. Revenue for the quarter exceeded expectation by more than \$60 million; \$22 from the acquisition of SIMOS and the rest from organic operations. Compared to Q4 last year, revenue grew by 17%; three percentage points of the growth came from SIMOS and 14 percentage points from organic operations, which was an acceleration from Q3 of 8%.

Staffing Services revenue grew by 17% or 14% on an organic basis versus 8% in Q3. We saw improving trends across most industries. Within the branch based business, we experienced a step-up in small to medium-sized customers and double-digit growth with national customers. However, as we exited the quarter, we saw a diminished growth with national customers, as well as within the retail industry.

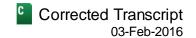
The on-premise staffing business delivered strong double-digit growth for the quarter and another record of revenue and profit.

Shifting to Managed Services, revenue grew by 15% versus 10% in Q3.

Now, let's discuss the company's profitability for the quarter. Adjusted EBITDA of \$46 million was \$2 million less than expected, or \$4 million less on an organic basis. Higher than expected organic gross profits, net of customary variable expense associated with the revenue growth, was offset by \$8 million of higher SG&A costs that fall into the following four categories. First is additional head count; since the end of Q1 2015, 300 new positions have been added in the branch-based staffing business, predominantly in higher paid sales and recruiting positions. 100 of these positions were added in Q4.



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Second is higher technology costs; we are increasing our efforts to advance the use of mobile technology in our business. Third is candidate sourcing and screening costs; due to the rapid surge of demand in Q4 and a tighter candidate pool in certain markets. And lastly, an adjustment to stock-based compensation expense attributable to higher future performance expectations as a result of the acquisitions as well as other miscellaneous adjustments.

I'll now provide a summary of the SG&A increase compared to Q4 last year. Total SG&A for the quarter was \$24 million higher due to the following items: \$10 million of variable expenses associated with organic revenue growth; \$7 million of growth-oriented investments including technology and additional head count; \$3 million of candidate sourcing and screening costs; \$2 million of costs related to non-recurring acquisitions, WOTC processing and stock-based compensations costs; and \$2 million of ongoing SIMOS operating costs.

On a segment basis, Staffing Services'EBITDA of \$53 million was up 15% or 10% excluding SIMOS. Managed Services'EBITDA of \$1.5 million (sic) [\$1.365 million] was \$900,000 less than last year due to a new customer implementation. This implementation has been slower than expected, resulting in a full load of recruiting resources on a lower revenue base. Customer contract discussions are in progress and a favorable resolution is expected in the second quarter. Excluding this customer, EBITDA was \$2.5 million higher – or excuse me; it was \$2.5 million for the quarter for a growth of 10%.

Total company gross margin of 22.8% was roughly the same as Q4 last year. The headwind from a higher favorable workers' compensation benefit in the prior year was offset by lower payroll taxes and successful pricing of new business.

Now, let's discuss income taxes. In December, the Worker Opportunity Tax Credit(sic) [Work Opportunity Tax Credit] was approved retroactively for 2015 and prospectively through 2019. The retroactive approval produced a tax benefit in the fourth quarter resulting in an effective income tax rate of 14%.

The approval of this program drops the expected effective income tax rate from 38% to 32%, resulting in additional earnings per share of nearly \$0.25 in 2016. We're excited about our recent acquisitions and the value they bring to our customers. Seamless in-sourcing manages on-premise staffing similar to staff management but outsources a complete workcell within a warehouse, pricing the work on a cost per unit basis.

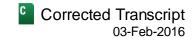
The productivity-based pricing model, in combination with its process engineering expertise, produces a 15% average reduction in customer labor costs. We're excited about the competitive differentiation SIMOS brings and the opportunities to further leverage this knowhow in other areas of our staffing business.

SIMOS Insourcing was purchased on December 1 for \$62.5 million, with the possibility of an additional \$22.5 million based on 2016 results. Net of the present value of the tax assets, the cash purchase price was 4.2 times forward-looking EBITDA. We expect SIMOS to produce annual revenue and EBITDA of \$185 million and \$13 million. Excluding intangible asset amortization, the transaction should add \$0.17 to adjusted earnings per share.

The Aon Hewitt acquisition solidifies PeopleScout's position as a leading provider in the U.S. and significantly advances our strategy to be the global RPO leader. About 90% of the acquired revenues are in the U.S., adding highly respected logos and additional scale, enhancing our ability to win new domestic business.

With 40% of the employees located outside the U.S., including hubs in India and Poland, it also extends our international reach and ability to compete on global deals. As n Hewitt's RPO business was purchased on January 4 of 2016 for \$72 million. Net of the present value of the tax assets, the purchase price was 4.8 times forward-looking EBITDA. We expect the Aon Hewitt's RPO business to produce annual revenue and EBITDA of \$65

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million and \$13 million. Excluding intangible asset amortizations, the transaction should add about \$0.17 to earnings per share.

Turning to the balance sheet, Q4 finished with \$245 million of debt. At the end of January 2016, total debt was down to \$235 million due to the seasonal deleveraging of working capital, which more than offset the purchase of the Aon Hewitt's RPO business. Cash plus borrowing availability was roughly \$100 million at the end of January.

Looking ahead to Q1 2016, we expect total revenue growth of about 16% or 7% on an organic basis. On a segment basis, Staffing Services revenue is expected to be up 14% or 7% on an organic basis, and Managed Services up about 75% or 10% on an organic basis. Adjusted earnings per share is expected to be \$0.23 to \$0.28. Adjusted EBITDA is expected to be \$20 million to \$23 million, equaling growth of 10% or a decline of 20% on an organic basis.

Please keep in mind that Q1 adjusted EBITDA is a relatively small dollar amount, roughly approximating a bout 10% of our annual profits, making it a more sensitive growth calculation than other quarters. The Q1 organic revenue growth expectation of 7% is comparable to the growth achieved in Q3 last year, but a drop from the growth achieved in Q4.

During January, we experienced a drop in demand within the National customer business and the construction and retail industries. While underlying trends are hard to determine, given the January weather, we believe that there has been some softening in fundamental demand which is reflected in our expectation.

Given the change in revenue trends, our cost structure needs to be reduced. We have a plan approaching \$10 million of annual savings. We expect about \$7 million to \$8 million of the cost reduction to occur in 20 16, with the benefit starting to show in the second quarter.

We've provided a full-year outlook today. Although we do not intend to update this outlook, we believe it is helpful to provide more transparency on our organic expectations as well as the combined company, given the recent acquisitions.

We expect total revenue of about \$3.1 billion and adjusted EBITDA of \$190 million or revenue and adjusted EBITDA growth of about 15% and 30%. These results would expand the adjusted EBITDA by nearly 60 basis points. On an organic basis, we expect revenue of \$2.9 billion and adjusted EBITDA of \$165 million or revenue and adjusted EBITDA growth of about 8% and 15%.

2016 is a 53-week year and the outlook I just shared does not include the extra week. Although the extra week is the least profitable of the year, it will add about \$45 million of revenue and \$1 million of EBITDA. However, our discussions as we move through the year will predominantly focus on the 52-week period for comparability purposes.

Additional expectations for capital expenditures, depreciation and amortization, non-recurring costs related to the integration effort and other items for both the quarter and the year can be found in the earnings release deck on our website.

Strong profitable organic growth continues to be our top priority, due to the strong shareholder return and higher adjusted EBITDA margin it produces. Providing our customers with a scalable workforce is a key value proposition of our business model. And we're well-versed in our ability to scale our own cost structure. We remain committed to advancing the use of mobile technology in 2016. We're excited about the opportunity it provides to

increase our competitive differentiation to both customers and candidates, as well as lower the cost of our delivery model.

Acquisitions continue to be an important aspect of our growth strategy. Our attention over the next six months will focus on the recently completed acquisitions to ensure customers and employees are retained, and relevant integration activities are completed to enable future growth. Success with these activities will provide capacities to complete economically-priced deals in the future that provide unique value to our customers, yet are complementary to our current portfolio of services.

That concludes our prepared comments. We can now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question is from Sara Gubins with Bank of America Merrill Lynch. Your line is open.

Sara Rebecca Gubins

Bank of America Merrill Lynch

Hi, thanks. Good afternoon. Could you talk in a little bit more detail about the slowing that you saw in January? How do does the small-to mid-size customers do exiting both quarter and into the year? It sounds like national had slowed a bit, but the small slowed as well?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Hi, good afternoon, Sara, this is Derrek. That was one of the bright spots actually as we went through January, was the small-to medium-size business. To give you an overview just of how the trends have played out over the last couple of quarters, in the third quarter, our growth in that area was relatively flat. It bounced up to 5% in the fourth quarter. And as we exited January, that growth approached 10%. That was one of highlights.

The softening really was in our national account business, larger customers, particularly in the retail industry, and then construction as well. The construction part is really hard to determine. What all that means, it's our — one of our lowest-volume months of the year when it comes to construction, but we certainly saw softening there. We grew at about close to 20% in the fourth quarter in construction, and exiting January, that was in the mid-single digit range. Some of that surely is due to weather, but some of that could very well be to some softening in our fundamentals and that's the way we're approaching it.

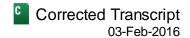
Steven C. Cooper

President, Chief Executive Officer & Director

Sara, this is Steve. Just to add a touch of summary there, it was really the retail – large retail accounts that probably created most of the pain, which lead to the comments that we've made here about that it might be a bigger softening since its larger accounts and it's across the board, pulled back, like some of our retail accounts have started closing stores and they're surely not doing the remodels anymore or reset.

So, things like that are causing the largest thing. The little bit of slowdown in construction early doesn't have us that worried. That feels like a pretty good pipeline of projects that are out there and the weather was a little more serious in January, and like Derrek just mentioned, that's one of our slowest month, so.

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Sara Rebecca Gubins

Bank of America Merrill Lynch

Okay. Great. And then, I was hoping to understand a little bit more about the cost commentary. You mentioned that you're planning on cutting it. I think you said \$10 million in cost, now it is \$7 million to \$8 million this year. Are those costs that you had ramped in the fourth quarter and you're now looking – I was looking to saying that that needs to be pulled back or are they coming in other areas and you would have made this 4Q investments anyway, just trying to understand, where that's coming from.

Steven C. Cooper

President, Chief Executive Officer & Director

Yeah, that's a great question. Now, the strategies that we put in play throughout the back-half of 2015, we're sticking with. The move of our organization into more professional recruiters and professional sales teams is definitely a strategy we're sticking with. Moving forward with more technology, especially the mobile app, that we can move that forward is a strategy we're sticking with.

Additional cost cuts and the reason we bring them up is, we knew that over time, that we would have an opportunity to come back in other areas. And so this just gives us the opportunity to really jump on that early in the year rather than wait till some of these investments are a little stronger.

So, there is just going to be a gradual shift in our entire organization over the next year or two. Continuing to move the larger teams in markets, moving some of our brands together, that's creating some of this. So, right now, on our contingent work force, our – we have a lot of separate selling teams and we're moving those teams into – they can sell more than one brand, and that we might be able to go to market actually with less brands in the future. So, it's things like that are going to help us cost containment.

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Bank of America Merrill Lynch

Great. Thank you overy much.

Operator: The next question is from Randy Reece with Avondale Partners. Your line is open.

Randle Glenn Reece

Avondale Partners LLC

Good afternoon.

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Hello, Randy.

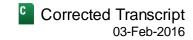
Randle Glenn Reece

Avondale Partners LLC

I wanted to get a little bit of a better angle on how much your spending expectations changed from when you gave guidance for the fourth quarter?

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Derrek L. Gafford

CFO. Executive VP & Head-Investor Relations

Related to the fourth quarter, Randy, or are you talking about longer term?

Randle Glenn Reece

Avondale Partners LLC

Just for the fourth quarter. I am just trying to figure out how to characterize the big SG&A number in a more

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations



Yeah, that's about - if we take out - exclude some of the variable costs that just go along with the additional revenue that came post our - of the guidance that we gave, that was about \$8 million, about \$8 million of costs broken down into those four categories I mentioned, head count, technology, candidate sourcing and screening, and then a miscellaneous bucket, some of which was stock-based compensation related.

Randle Glenn Reece Avondale Partners LLC



It looks like your core revenue guidance excluding acquisitions still looks fairly good versus where everybody was? And between the Labor Ready business and everything else, I'm curious as to what's acting best right now?

Steven C. Cooper

President, Chief Executive Officer & Director



As we mentioned here a bit, January just had a gradual slowdown to it and we're still growing. It's just not at the pace we were in the fourth quarter. Obviously in the fourth quarter, we were pretty excited about the trends that we're developing and it ramped up from the third quarter, and obviously we've done that at a cost, but we were fairly excited about that.

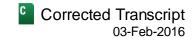
Now, it's early, we're going after three weeks or four weeks trends in January. The weather has been crazy. It wasn't like this in January of last year. Now, might have been worst in some pockets. So we hate to pull that out too much. Starting with the local area still is a strong suite. We have branch teams in play and they're out of the market. They're selling local accounts and that held up pretty good in January. Most of the pullback really had to do with larger accounts, where - and really in the retail area, where they - there have been some pretty significant, announcements out there actually about large retailers pulling back and not doing remodels and closing some stores and tightening business. It's hard to predict where that goes and how long that lasts and is that how strong is the pullback of economy will that be. I just made a comment about construction though is, is our pipeline feels pretty good in construction and we're feeling that we can get back on that trend here in 2016.

So, just a little bit choppy here in the first four weeks of the year, and it was hard for us to come out and say that those fourth quarter trends can hold, that we're not cutting back on those teams that drove those results either. So, I want to make - be very clear there, that cost containment programs we'll put in play our different costs than the ones that we believe drove the results.

Derrek L. Gafford

CFO. Executive VP & Head-Investor Relations

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Yeah, we're — we're still feeling really good about 2016. So, this is just a matter of balance here. Exiting the fourth quarter, the results we put up are not probably outpacing the growth in the market by 3x and dropping from 14% growth to our expectation of shares year-to-date for the first quarter of 7% and for the year of 8%. That's a drop in about a churn of that growth.

And so, we liked it what we're seeing out there, we're still getting good momentum, but in the drop of that revenue growth rate, we just need to make some adjustments here. That's really what our business is about, its helping other customer make adjustments to their business and that just requires us to be just as flexible and responding to how you run ours.

So, still feeling very good about 2016. We're just going to need approach it a little bit differently than we had thought we were going to approach it three months or four months ago.

Randle Glenn Reece

Avondale Partners LLC

Is it, that you have some locations where margins have fallen off and you need to pull back expenses or is there another way to look at it?

Steven C. Cooper

President, Chief Executive Officer & Director

Yeah, probably a better way to look at it would be is, this was a strategy that was coming. We had a pretty significant brand consolidation program going up through the end of 2014 or partial towards the —may be the third quarter of 2014. We stopped that program, where we were closing 10 branches or 15 branches a quarter, mainly due to worker shortages, that we didn't want to find ourselves in a situation last sum mer, where we might not have enough workforce.

Some of the technology is working very well for us. We're able to reach further with that technology and that goes into play here at the end of the first quarter and we see that result happening in the spring. And that's why Derrek says some of this doesn't get hit and we don't start seeing a lot of it until in the Q2 is - with good results on other things to ensure that we have a candidate flow and a good acquisition process for candidates.

Then we can consolidate some of the real estate we have out there, some of the markets and the cost, and go about that. And really, we're talking about lower-level customer service employees and we're moving those in the consolidated centers. We're moving some of that into larger consolidated warehouses if you will. Those things are on their way. We just are moving them forward faster than we might have, Randy.

Randle Glenn Reece

Avondale Partners LLC

Very good. Thankyou, very much.

Operator: The next question is from Jeff Silber with BMO. Your line is open.

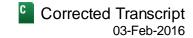
Henry Sou Chien

BMO Capital Markets (United States)

Hey, good afternoon, it's Henry Chien calling in for Jeff. I just had a question on your acquisition strategy. You made a number in the past month, just wondering if you could talk about your current acquisition criteria, if there is any market that you're targeting and just overall your M&A strategy? Thank you.



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Steven C. Cooper

President, Chief Executive Officer & Director

Yeah. Thank you for that. We've had a really successful M&A strategy over the years and it shifted slightly the last couple of years, where we started making larger investments in on-premise companies and that drove the Seaton acquisition, that drove the SIMOS acquisition. Also along that path, I wanted to invest in RPO, recruiting process outsourcing.

So, as we started working with larger accounts coming out of recession in 2010, the two main requests that we're receiving from customers during that period of time had to be – can you manage our on-premise account or sites, can you help us manage these larger workforces?

And then the own productivity was coming in often into these conversations and more measurables and accountability about productivity, and that will really drove our enthusiasm about the SIMOS acquisition, the influence that will have on our on-premise business that we've put together.

So that's driven – recently it's about managing large accounts, on-premise and then managing their full-time workforce. We haven't done a branch-based acquisition in our contingent business for quite some time, almost three years now. And so as we look forward and you've asked, where you're going next, we don't intend to go after the branch-based business. We feel very strong about our contingent staffing network across North America, and especially with the additional technology we'll have to get a broad reach into the Canada pool.

So, we feel pretty good there. There could be a little bit further acquisition M&A work in on-premise, large account work. Gaining specialization, maybe that comes with some technology or certain accounts, if you will, to buy into that space a bit more. We'd like to see that double actually that on-premise business over the next five years. And so, a little bit of investment there.

And really what we're more focused on is building up the RPO piece, this Managed Service piece, and having the opportunity to advance PeopleScout to a global brand is really exciting. And so this latest acquisition with Aon Hewitt to bring their RPO business advanced our game. It moved us into —stronger into Canada. It gave us some service centers over in India and Poland. So we can work that business on a worldwide basis with good support. And we're continuing to look for great opportunities to get into Asia and Europe, mainly because about a third of the deals going to market in that RPO space are multi-continent deals and we need to be in that space. We are —we feel we are the service leader in that space in North America. We've been voted that by the Baker's Dozen, by hro.com and our revenues. The size of our organization in North America has proven us to be the leader. So that's kind of where we are headed now. At what pace? We're going to be very careful about this. This is — we loved the deal we did with Aon Hewitt that advanced the game with some significant accounts on a worldwide basis. And as we move this ball, we'll be careful, but that's directionally where we are headed.

Henry Sou Chien

BMO Capital Markets (United States)

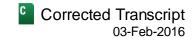
Got it. Okay. And just to put some financial metrics on there. Are there any criteria that you're looking at specifically, whatever, size or multiples or any criteria you're looking at, are you framing it by?

Steven C. Cooper

President, Chief Executive Officer & Director

It's a hard question to answer, because we want to be very strategic about it. And sometimes a small partner in the new geography will come with a uniqueness that's worth it.

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However, in general, our deal size is getting larger and larger as you can tell in our last three deals. Matter of fact, our last 20 deals, the largest three had been our last three. So, the significance is necessary. The amount of effort that our team puts in is the same on these last three deals as it was on even smaller deals.

So, we're using our own internal resources, especially when it comes to people, better by looking at larger deals, and my goodness, with \$147 million of adjusted EBITDA and next year's target being \$190 million, it takes a bit larger acquisition to make an impact on those size of numbers. And so, it'll be larger opportunities in general. However, a unique opportunity could come with us – would be small, especially as we get strategic about how to build out that worldwide brand inside of RPO.

I think inside on-premise work, it will have to be of some significance or very unique specialization about helping clients to be more productive in their own work and how we might bill. Derrek shared with you the multiples on these last two deals, very smart acquisitions, very strategic, very great returns, we're going to be made on them, and the sellers were happy. So, that's when you get to the best place.

So think you can model these last two or three and say it's going to be in those framework. You go from Seaton to through these last two, there's an average multiple of probably 5.5% or 6% in there.

Henry Sou Chien

BMO Capital Markets (United States)

Got it; okay. Great and I appreciate that. Thank you.

Operator: The next question is from Paul Ginocchio with Deutsche Bank. Your line is open.

Paul L. Ginocchio

Deutsche Bank Securities, Inc.

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Thank you. Derrek or Steve, if you could just may be talk about how much online shopping or e-commerce helped your fourth quarter numbers, that would be helpful. Also I've got a few sort of numbers questions, but also I'd love to talk about that sourcing and screening number of \$3 million in the quarter. Is that because of tighter labor markets just a higher cost of doing business? And are you able to offset at all with the higher bill rates? Then I've got a couple of more numbers questions.

Derrek L. Gafford

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CFO, Executive VP & Head-Investor Relations

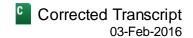
Sure. Thanks for the questions, Paul. Related to the e-commerce business, that has helped. It's helped from the standpoint really – this is really on our – particularly on our on-premise business, that business has been growing at high teens to 20% most of the year, and at least half of that growth in that space. By the way, the purchase of SIMOS also does a fair amount of work in that space. We like the positioning there, because we think this is a trend that's going to continue to happen and we want to make sure that we're aligning our work that we do with warehouse operations really around that model. And as you heard from our discussions about the future, in the first quarter, we saw some softening in retail, and that was more bricks and mortar type of operations that we're involved with.

Paul L. Ginocchio

Deutsche Bank Securities, Inc.

And Derrek, the move from 8% to 14% -- how much of that can you attribute to e-commerce online shopping in the fourth quarter, which is obviously with Christmas a big quarter?

Q4 2015 Earnings Call



Derrek L. Gafford

CFO. Executive VP & Head-Investor Relations

Yeah. That probably – I'd have to take a look at this, but it was probably a couple of – good couple of points of that.

Paul L. Ginocchio

Deutsche Bank Securities. Inc.

Okay.

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Mainly, the beat that we had – it was – the beat was probably two-thirds in our on-premise business. Okay, let's call it 60% in on-premise business, 40% in the branch-based business. And a good chunk of the beat on the on-premise side was related to e-commerce operations.

Back to your question about the sourcing of screening costs, there's kind of two things going on. One is a broader challenge that's out there just because of the smaller candidate pool of applicants. So in other words, where it might take — before taken five people to screen and put into a job in our funnel, that might be more or like seven or eight now. And then of the seven or eight, once we get someone placed, generally sometimes the retention period is not as long for that. So it's not like that all across the country; this is in certain markets.

The other part that accentuated this was the seasonal peak in the fourth quarter; meaning there is a both a surge in demand from what we guided to as well as the peak particularly in the latter part of -- back-half of November and into December. This is particularly more pronounced in our on-premise operations, many of these operations are in semi-rural locations. So you have an operation that maybe going from 2,000 to 4,000 people in a matter of a couple of months, two or three months, sometimes even a greater amount of growth. And that is where the pinch comes in even more so, is in these somewhat rural locations to find that number of folks on top of a more challenging or at least a tougher candidate pool, that's partly what drove those costs up: the shortage of candidates and the seasonal search put together is what drove that.

Paul L. Ginocchio

Deutsche Bank Securities, Inc.

Great. And then, can you – would you be willing to give us maybe the organic growth assumptions baked into these numbers you provided for both SIMOS and Aon Hewitt's RPO for 2016 roughly?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Well, let's see. The Aon's numbers, those are relatively – they're relatively flat. There is may be a slight amount of growth there. That business has not grown as much over the last two years or three years, not because of the lack of value in the services that they've provided. There have just been other areas of focus in the Aon Hewitt organization. And believe it or not, this business is accretive as it is to ours, is actually decretive to that business. And a \$65 million business in a \$12 billion business doesn't get the amount of attention that it should.

Related to the on-premise business, I won't give specifics there, but the growth rate is above that average organic growth rate that we gave of 8%. That's a little bit of direction for you, but it's not as high as it has been in 2015.

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Corrected Transcript
03-Feb-2016

Paul L. Ginocchio

Deutsche Bank Securities, Inc.

Great. And if I could just sneak one more in. A very large e-commerce provider recently put in their 10-K, I heard this from our transportation analyst that they now label logistics providers competitors. Obviously you're not a logistics provider, you're a talent provider. But does that change – does that give you more opportunities? Did you – have you heard that from your clients or does that change anything for you?

Steven C. Cooper

President. Chief Executive Officer & Director

Well, you're talking about moving goods and transporting goods. We're playing in that business a bit, but it's far, far, far from being material. We're trying to learn how we could do that better with that e-commerce business on the delivery routes and not just in the pick-and-pack and unloading. Yeah, it's a growing piece of the business. The e-commerce business is getting so large. They're overwhelming UPS and FedEx and these clients are having to figure out how to get goods out, especially when you're promising one day delivery or less. So they're working hard on that and we're working hard on it on providing the labor and we're also curious and close to the strategy of would we be a logistic supplier or not, but yeah, we're at the table and we're at the test market, but it's far from material or moving anywhere right now, Paul.

Paul L. Ginocchio

Deutsche Bank Securities, Inc.

Thanks for that. Thanks, Steve.

Operator: The next question is from Kevin McVeigh with Macquarie. Your line is open.

Kevin McVeigh

Macquarie Capital (USA), Inc.

Great. Thanks. Hey, Derrek, in terms of the head count additions in Q4, can you give us a sense of where they were focused in terms of was it more legacy businesses or the acquisitions to enhance them?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

I'm sorry, Kevin, you cut out just a little bit. Could you repeat that?

Kevin McVeigh

Macquarie Capital (USA), Inc.

Yup. So the head count additions that you had in Q4, where were they focused, on the legacy businesses or the newly acquired businesses in terms of the additions?

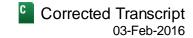
Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Yes. Well, we had additions on both sides, where we had added more than original plan that I would refer to earlier in the prepared comments. This was predominately on the legacy business, so in our branch-based business. So like Steve talked about before, we see some opportunities as we start bringing these brands together as well as the use of technology to consolidate to a certain degree, some of the employee populations in our lower paid positions.

TrueBlue. Inc. лво

Q4 2015 Earnings Call



But as a part of that though, we'll have a higher level of folks in our higher paid positions with -in skilled types of positions running our branches of - in the recurring and sales areas. So that's basically where those positions were placed, partly because of the increasing demand and then partly for some long-term planning as we take a look at how best to run the business in the long-term?

Kevin McVeigh

Macquarie Capital (USA), Inc.

Got it. And then can you just remind us to what percentage of the business is related to retail?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Yeah, on a combined basis overall, it's about 20% and it's a bit higher in our on-premise business. If we were to just take a look at that on our branch-based business, it's just a little closer to 10%, but let's just call it 20% all-in.

Kevin McVeigh

Macquarie Capital (USA), Inc.

Got it. And then it sounds like you've met my math right. The acquisitions help you by about \$0.35. In 2016 and how much - and I could do the math, I just want to make sure I did it right. How much does the lower tax rate help the year-on-year earnings?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Yeah. So if we take a look at how accretive the two questions are combined on a 12-month basis, on a 12-month basis, you're right, excluding amortization, that's about 35% - or \$0.35. Now that's done on a marginal rate basis basically because not every incremental dollar is at the same rate.

Back to your question on while for TrueBlue as a whole moving from 38% ongoing tax rate with WOTC involved now and being at a 32% tax rate, how accretive is that to reported earnings per share, I want to stress reported, not just adjusted. On reported earnings per share net of the fees that would approach about \$0.25 of additional

earnings.

Kevin McVeigh Macquarie Capital (USA), Inc.

Got it. And just so I have it right, the \$0.35 on the acquisition, that relates to the \$2.65, right, so the adjusted earnings?

Derrek L. Gafford CFO, Executive VP & Head-Investor Relations

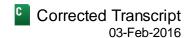
That's taking the EBITDA less of those two acquisitions, less and leaving amortization out. So just taking the EBITDA and taking at a tax rate, a marginal tax rate of 40% and that's what's producing the \$0.35 that you and I

iust talked about.

Kevin McVeigh Macquarie Capital (USA), Inc.

Got it. So the \$0.35 is taxed to 40% versus the core business which is 32% now.

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Derrek L. Gafford

CFO. Executive VP & Head-Investor Relations

That's right. Those businesses do not bring WOTC credits with them. And so I'm trying to give you a real mix of just the incremental really due to those two deals.

Kevin McVeigh

Macquarie Capital (USA), Inc.

that's very helpful. Thank you.

Operator: The next question is from Mark Marcon with Robert W. Baird. Your line is open.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

With regards to the expenses that ended up being higher and now they're going to come down, which of the four buckets are going to get the biggest reduction? Because it sounded like we had roughly \$8 million more in expenses than expected, but now we're looking at \$10 million reduction, is that – did I hear that correctly?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Yeah. So our SG&A, if we exclude variable expenses for the fourth quarter, was about \$8 million more than what we had previously talked about.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

Right.

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

About \$2 million of that falls in the category of items we don't expect to repeat. So that's the stock-based compensation adjustment, there is a few other miscellaneous items that fall in that bucket that'd be – that's about \$2 million of that. Also there was about \$2 million more than previously expected in the sourcing and screening category.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

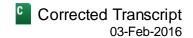
Right.

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Some of those will naturally wean themselves off, because not all of that is because of a tighter candidate pool. Some of that was just the more challenge particularly in the back half of November and in December in these more challenging markets, particularly, rural markets to recruit the candidates.

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The other, let's call it basically half about \$8 million, fell into the head count and technology cost area. The — where we're not planning on changing any thing on the technology costs, we're committed to making this 2016 a year of significantly advancing our game in mobile technology. So we're moving forward with that.

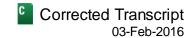
The head count piece, we may manage some of that through attrition, but there is not a big push to go and take a big chunk of cost out there. We'll manage it closely in certain areas, we'll manage it smartly and maybe not replace the attrition or pull back may be in some other areas of the country where the investment just hasn't paid off.

The rest of the cost followed some other categories that Steve mentioned on reducing the branch footprint. We think there are some methods in our processes that we can change in how we approach screening candidates to may be knock out some of those candidates earlier on our own before we use external resources is – and some other cost synergies that we can get out of the business that fall into that \$10 million of annual spend, call it \$7 million or \$8 million of which we'll hit this year.

Mark S. Marcon Robert W. Baird & Co., Inc. (Broker)	Q
\$7 million to \$8 million will hit this year?	
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	A
Yeah.	
Mark S. Marcon Robert W. Baird & Co., Inc. (Broker)	Q
In terms of the reduction?	
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	A
That's right.	
Mark S. Marcon Robert W. Baird & Co., Inc. (Broker)	Q
Okay. And so the rest – the full impact we'll see by 2017?	
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	A
Yeah. That's right. On some of these things that we're moving on, we're already or of these take a couple of months to get down the runway on and for them to get in start to see some of these benefits in the second quarter. And then as we go into the full quarterly run rate, but because of that not all \$10 million of the cost reduction year.	to the run rate. So I expect y ou'll ne third quarter, you should see a
Mark S. Marcon Robert W. Baird & Co., Inc. (Broker)	Q

Okay. Great. And then with regards to the RPO clients with a little bit of a resolution coming up, is there any more color that you can give around that just in terms of what the nature of the discussion is?

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Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Well, this is a – unfortunately or maybe fortunately for all of you, the segment is so small, it doesn't take much to raise it to a level of discussion in our RPO business. So we broke out that segment because it's an area that we plan to grow rapidly. But also when there are – we hiccup here or there with a customer, which we have across our staffing business, routinely, it shows up more prominently here. So I feel like I need to get some explanation to it.

This is a larger customer implementation. It's a first generation RPO account and so with the first generation RPO account meaning that they haven't had RPO in their business. One, it's already large scale to boot, and on top of that, we are working with the customer on refining some of their recruiting practices to really run this efficiently. And so that's part of what has slowed things down here a bit.

And they've shifted some of their plans on how fast they're going to implement this through their whole company. So what this means for us is we have built up a full set of recruiting capabilities and recruiters to handle the expected higher run rate of revenue, but we haven't got there yet. So it's just a conversation with the custome r around what their expectations are and if they're not planning on taking the engagement to the full level of revenue that we had anticipated — earlier, or we talked about earlier when we landed the deal, then it's just an agreement on pacing down the level of recruiting resources to match the level of demand.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

Got it. Thank you. And then with regards to some of the verticals that you're operating in, you gave great color with regards to national retailers. On manufacturing, it sounded like in the press release, things are going well, but I mean that's counter to what most people are seeing. Can you give a little more color there in terms of what your expectations are on the manufacturing side and how much of a percentage of the business that is at this point?

Steven C. Cooper

President, Chief Executive Officer & Director

Yeah, while Derrek is grabbing that percentage, I'll make a couple of comments. No, manufacturing has not picked up, the bleeding is just slowing down as all that's going on there. And the fact that the declines are just lesser is we're into our fifth quarter or six quarter now of declines. So when you get into those year -over-year basis, so it's....

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

Got it.

Steven C. Cooper

President, Chief Executive Officer & Director

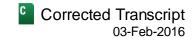
It's been coming for a bit and it's still here, no doubt.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

Okay.

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Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Yeah. Mark just to add on to that and answer your question here. This is a matter when we're talking about manufacturing and the trends improving. What we're really talking about here is getting closer to being flat. So things has — at least at this point look like they're certainly stabilized. If we were to talk about the trends in manufacturing over Q2 and Q3, we would have been, let's call, a high-single-digit declines as we've finished the fourth quarter, we were in low-single-digit declines and so that's really what we're talking about.

Interestingly enough, as we went into January, we've really stayed at this level of a single-digit decline, so it didn't worsen in this area or soften more even given the weather than like we talked about in other industry verticals, though, that did see some of that.

To your question on mix manufacturing for us overall all-in for the company is a little over 20%

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

Okay, great. And then are you seeing any regional differences, I mean like, obviously people are concerned about Houston as an example, are you seeing any regional variations?

Derrek L. Gafford

CFO, Executive VP & Head-Investor Relations

Well, I would say standouts for us, certainly for this year, have been California and Florida. Those two markets for us make up about 30% of the mix of business on the legacy side and will be relatively close for the overall company. California has been — we've been doing exceptionally well there, over 12% during the last about three quarters or four quarters. Florida not quite to that extent, but almost a double-digit growth there.

Texas runs probably 7% or 8% of our business and that has been a laggard for us, because of some of the energy impacted areas. Houston to a degree, but more or so for us at some of the rural communities that had a more significant oil presence in them. Some other areas though like Dallas and others, a much more diversified metro markets for us and have been doing fairly well and actually have gotten off to a pretty good start this year.

So, from a geographic perspective, I think Texas -- we start to anniversary some of those comps that were much more significant during the first half of 2015 and puts us into an area where we might be able to get back to a little bit of growth.

Mark S. Marcon

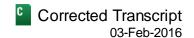
Robert W. Baird & Co., Inc. (Broker)

That's great to hear. And lastly, just can you talk about bill pay spread in terms of what you're seeing? And are there any areas that you would expect to experience organic acceleration as the year unfolds?

Derrek L. Gafford

CFO. Executive VP & Head-Investor Relations

Yeah. You know what we've been talking to investors about when it comes to our organic gross margins, setting mix aside, let's just call it the fundamental gross margins of our business, is we expect those to remain in line with the prior year. There might be some room for expansion of those gross margins and we think that we need to get some expansion in those gross margins. Not that it will all drop down to the EBITDA margin line, but because of some of these higher screening and sourcing costs.



So it's a big area of focus for us amongst our branch operations in 2016 from a couple of perspective s. One is as our folks go and approach customers in these more challenging markets that have shortage of candidates, it's arming them with the right information about where unemployment sits, where pay rate sits. Sometimes these have to be an increased. It makes the recruiting much easier and teaching them how to approach the customer with the right information. Most customers, not all, but most customers are pretty reasonable if we move forward in that fashion and there's solid reasons behind it to talk about why the price should be higher.

To a lesser degree, while this hasn't been a huge focus of our business at least a huge mix in the past, when it comes to conversion fees that's an area where we think we have some opportunity as well to help offset some of these higher recruiting and screening costs. So that's also a conversation with customers about — and in just having that conversation upfront about those expectations in these tighter job markets. I think both of those, to the degree we could get some traction there, would provide us with some higher gross margins and help offset some of these SG&A costs we've mentioned and may be get a little bit of extra that dropping down to EBITDA margins as well.

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

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Great. And any areas that you expect to see organic acceleration as the year unfolds?

Steven C. Cooper

President, Chief Executive Officer & Director

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Well, I think, we have to base it on what we saw in Q4, moderated by what we're seeing here in January. And I had made an earlier comment -- we still feel really good about construction. We'd waited for probably maybe six quarters or eight quarters thinking that construction was on its way back and we finally got there in 2015. And the teams that are in contact, especially with the larger accounts in that vertical, remain confident. So I'd have to say that'd be one of our stronger areas that we feel confident in.

Questions here on this call today about retail, especially e-commerce retail are strong, and we've been picking up new accounts besides our largest. I think a lot of times when we answer questions, we're thinking about that largest account and – but there are others doing e-commerce and are starting to rely on us and having stuffready for daily shipping and may be even faster than that.

So those are good growth things even in this little bit of choppy environment we're in; don't see any indication that manufacturing is rushing back, but like Derrek just described, it's flat. So we're good there. As long as we can hold where we are and keep it strong there, we'll stay prepared to bring that one back.

Retail's kind of choppy right now and in some of the bricks and mortar, it's just interesting. I mean, it's a time that some retailers are closing up shop; Amazon announces that they're opening a bunch of book stores, which shocks us all. So you never know, do you?

Mark S. Marcon

Robert W. Baird & Co., Inc. (Broker)

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No.

Steven C. Cooper

President, Chief Executive Officer & Director

A

TrueBlue, Inc. (TBI) Q4 2015 Earnings Call	Corrected Transcrip
You got to stay in tune with the client, what they're doing.	
Mark S. Marcon Robert W. Baird & Co., Inc. (Broker)	Q
Great. I really appreciate the color. Thanks.	
Operator : The next question is from Paul Ginocchio with Deutsch	e Bank. Your line is open.
Paul L. Ginocchio Deutsche Bank Securities, Inc.	Q
Oops, sorry; my line was on mute. Hey, Derrek. Just on the worker just – I'm sorry, if you already talked about, just I can go and read t through it again, exactly what it was related – and is it related to th Thanks.	he transcript, but can you just walk me
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	A
Hi Paul. Yeah, the discussion on work comp is more about what ha what our run rates for work comp as a percentage of revenue, it's be particular quarter that you went into it would be 3.6%, 3.7% of revet the benefit that we received on priory ear reserves was quite large a expense as a percentage of revenue in Q4 of 2014 was 3.2%. So this about – more about a priory ear event in our compversus any char structure right now.	een very, very consistent this year. I mean, any enue. However, in the fourth quarter of 2014, and as a result of that workers' compensation discussion around the headwind was really
Paul L. Ginocchio Deutsche Bank Securities. Inc.	
Great. So workers' comp was 3.6% this year?	
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	A
Workers' compensation expense for the fourth quarter of 2015 was	3.6%.
Paul L. Ginocchio Deutsche Bank Securities, Inc.	Q
And was there any write backs? And what was – what percentage o	fGP was that of revenue, sorry?
Derrek L. Gafford CFO, Executive VP & Head-Investor Relations	Α
Yeah. If we're referring to workers' compensation, any reversals or years, that there was that this quarter and it amounted to about 2	
Paul L. Ginocchio Deutsche Bank Securities. Inc.	Q

 $Thank\,you\,very\,much.$

Operator: I'm showing no further questions at this time. We'll turn the call back over to our presenters for any closing remarks.

Steven C. Cooper

President, Chief Executive Officer & Director

Thank you. As we've talked about here today, managing costs and maintaining strong gross margins remains a focus for us as we continue to grow organically. This strategy will provide an opportunity for us to continue to improve our adjusted EBITDA margins from here, and we hold that out as an important measure of growing value for our shareholders.

You've heard us talk about a shifting cost structure, and that's really going to come as we continue to build out within our Staffing Services segment two different businesses. One being what you hear us refer to sometimes as our branch network and that's made up of three brands. And as we continue to focus on that network and bringing them – those three brands closer together, they're selling together, they're recruiting together, we are bringing our service engine together and that's this last set of costs that you've heard us talking about.

So there will continue to be a shift as we've added sales people, we've added recruiters and we're reducing the service cost through technology and through consolidated locations. That's going to be a powerful play for us. And as we advance through 2016, the closer we get, you could see us bring those three brands closer together and come out stronger in our Staffing Services segment as one brand in the local markets and that's going to be exciting for us.

The other part of that Staffing Services segment is our on-premise business, really led by staff management now, fueled heavily by SIMOS with a couple of specialties in there around managing drivers and managing aviation mechanics on site and on-premise and that's – bringing them closer together is an important goal for us and we're just getting started there.

So we're a ways out on that, but bringing that segment together and showing you two different businesses of the local business and the on-premise business will be important for us, as we advance through the year to share with you that changing cost structure. Balancing it on any given day is hard, but balancing it as we go forward will be important and we'll stay committed to it.

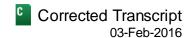
We believe that it will make us stronger in the marketplace as we simplify our branding and really move that towards something the marketplace can understand better. So that was an important thing you've heard a lot about here today and as we go through 2016 you'll hear more about. It's most important to know that we will manage these costs as we move through this transition and keep you abreast of. The gre at impact it's having on the top line is the most important measure we can go through, because that's sustainable. These are large accounts, we have great sticky relationships with and we're quite proud of.

So thank you for your time today on the call and the questions you've asked and we look forward to updating you as we head into the year.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.



TrueBlue, Inc. (TBI)
Q4 2015 Earnings Call



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