PARTICIPANTS

Corporate Participants

Derrek L. Gafford – Executive Vice President & Chief Financial Officer, TrueBlue, Inc.
Steven C. Cooper – Chief Executive Officer & Director, TrueBlue, Inc.

Other Participants

Jeffrey Marc Silber – Analyst, BMO Capital Markets (United States)
John Healy – Analyst, Northcoast Research Partners LLC
Mark S. Marcon – Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Chantelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue Second Quarter 2017 Earnings 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] Thank you.

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

Derrek L. Gafford, Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Good afternoon, everyone, and welcome to today's call. I'm here with our CEO, Steve Cooper. Before we begin, I want to remind everyone that today's call and slide presentation will contain several forward-looking statements, all of which are subject to risks and uncertainties, and we assume no obligation to update or revise any forward-looking statements. These risks and uncertainties, some of which are described in today's press release and in our SEC filings, could cause actual results to differ materially from those in our forward-looking statements.

We use several non-GAAP measures when presenting our financial results. Please refer to the non-GAAP reconciliations in today's earnings release and on our website at trueblue.com under the Investor Relations section. Also, any comparisons made today are based on a comparison to the same period in the prior year, unless otherwise stated.

Due to the reduction in the use of our services by Amazon, which was announced in 2016, we will continue to provide certain year-over-year comparisons, excluding this customer. We believe these comparisons are helpful in understanding the underlying business trends.

I'll now turn the call over to Steve.

Steven C. Cooper, Chief Executive Officer & Director, TrueBlue, Inc.

Thank you, Derrek, and good afternoon, everyone. Our results this quarter were right in line with our expectations with all of our segments falling within the growth outlook ranges provided as well as in line results for adjusted EBITDA and net income.

Total revenue for the quarter was $610 million, down 9% or down 5% excluding Amazon. PeopleReady revenue declined 9%. Overall, demand for U.S.-based industrial staffing has been challenging for the past year. And in addition, we are still experiencing some volume loss due to our disciplined pricing decisions associated with high minimum wage increases to past two quarters as well as temporary disruptions from certain operational changes related to moving our specialized staffing brands into one brand, PeopleReady.

Over the past two to three quarters, we've moved our legacy brands onto one operating system and also realigned personnel roles within our one brand strategy. Demand has recently stabilized, although, we have not returned to growth at PeopleReady.

Our PeopleManagement segment declined 12% overall, yet delivered positive growth of 2% on an ex-Amazon basis. PeopleManagement is our segment focused on helping our larger clients be more productive in managing their employees using onsite management and productivity pricing models in manufacturing, distribution and transportation. We served Amazon from this segment and, now that we have substantially moved through that transition, we'll see diminishing revenue headwinds.

PeopleScout came in at the high end of our expectation with a decline of 1%. Strong results from new business helped offset anticipated declines in existing customers. A key strategic focus in 2017 has been our pricing discipline, and this is evident in our results. We've been prioritizing long-term operating margin over simply expanding market share. I'm very pleased with the team's focus on disciplined bill rate adjustments to keep pace.

For Q2, gross margin of 25.5% was 20 basis points higher than Q2 last year, driven primarily by margin improvement within our staffing businesses. We're going to continue to stay disciplined on how we price our business to maintain our profit during this challenging, high wage inflation environment. We also continue to effectively manage our operating expenses. Our overall SG&A was $11 million lower versus Q2 2016.

We'll continue to trim costs wherever prudent and position the business to capture upside as revenue trends improve. This is the right approach given the current modest demand environment in addition to the wage inflation we're experiencing. Our long-term goal is to drive overall EBITDA margin expansion with disciplined pricing, a focus on higher margin services, smart cost management, and positive operating leverage as volumes begin to improve.

Now, I'm going to spend a little time updating you on our strategic initiatives starting with our largest segment, PeopleReady. We completed the transition to PeopleReady, a single specialized staffing brand over the last three quarters. This is a very important step since it simplifies our positioning in front of the customer and the jobseeker. It increases our agility in the marketplace and brings our full range of services to more markets.

We're excited about the path ahead even if there are a few challenges to tackle along the way. Early this quarter, we announced we have added additional leadership resources. Sean Ebner joined our executive team as President of PeopleReady. Sean has a strong track record of success in staffing and workforce solutions management.

Prior to joining PeopleReady, Sean was the President of Staff Care, the nation's leading medical workforce solutions firm. Sean also worked at Spherion earlier in his career. We're very happy to have him on board and we are pleased with how quickly he's demonstrating his leadership.

Our mobile strategy is another key area of focus. We're transforming the way we do business at PeopleReady with our JobStack digital exchange. This is a mobile app that integrates both a worker component and a client component to efficiently connect workers with jobs. We began piloting the JobStack Worker component late last year and started a phased rollout in 2017. The worker component of the digital exchange is now live in 130 branches or nearly 20% of the overall network. We plan to have most of all of our branches using the JobStack Worker component by the end of the year.

We're also pressing forward with our client component of the digital exchange. This gives clients the ability to place and manage their own orders and see jobs filled in real-time. This is a major milestone. It puts value-added tools right in the hands of our clients and has the power to increase client loyalty and free up our own branch resources to focus on growth opportunities.

We're obviously very excited about the potential of this digital exchange. And it's too early to quantify any potential impact on the financial results. We have two key objectives for the JobStack strategy in 2017. First is to successfully deploy the worker app that interfaces with the digital exchange. Second is to acclimate our branch employees to the power of this digital exchange and quickly adapt their daily procedures.

We have some branches that have been using a variety of mobile dispatch techniques and are very ready for this digital exchange, showing the great opportunity ahead for all of our branches as we prepare them for this transformation.

Two key success metrics we are focused on are adoption and digital fill rates. Adoption rates track what percentage of our active workforce is using the JobStack exchange. And digital fill rates track the percentage of orders now being filled directly by the JobStack exchange. Earlier results are very encouraging with our top performing branches seeing worker adoption rates of approximately 70% and digital fill rates over 40%.

We're working hard to replicate the success and believe similar metrics are achievable across the entire branch network. This has the power to change the demographics of our worker profile, which will then expand the profile of the types of jobs we are able to fill. The transformation of serving a broader workforce demographic provides the largest upside potential for us.

Turning to PeopleManagement, our first area of strategic focus is on growing our workforce productivity solutions because these services offer strong client value proposition, while generally carrying a higher margin. Our SIMOS brand is a great example. SIMOS helps customers become more efficient and reduce labor costs by using per unit pricing rather than a traditional hourly pricing model. We saw double-digit growth from this brand in Q2 and we see further opportunities to grow our worker productivity solutions across this segment.

For PeopleManagement, an additional strategic focus is the e-commerce vertical. Internet-based commerce has fundamentally changed the nature of the retail supply chain and we are well-positioned to capitalize on this unfolding transformation.

Pick-and-pack type operations are more labor intensive than the old model that relied on bulk pallet shipments to a retail store. We can deliver our fully-sourced and managed workforce ranging from a few hundred to even a few thousand employees to handle the logistics and fulfillment needs of e-commerce clients. One of our core strengths is within smaller retailers with under $100 million in annual sales, which is the fastest growing segment within e-commerce.

Next, I'd like to touch on our strategy for PeopleScout, which is a global leader in the recruitment process outsourcing, RPO, and managed service provider, MSP, industries, which are experiencing double-digit growth. PeopleScout is our highest profit margin segment. We leverage proprietary technology to provide a compelling value proposition for our clients in building their own teams. We're focused on growing this business both organically and through the disciplined pursuit of international acquisitions to improve win rates on multi-continent deals.

Finally, I'd like to touch upon an area of strategic importance that reaches across all of our segments, cross-selling. Now that we have simplified our branding structure we're in an excellent position to put more focus on extending our full range of capabilities to more clients with a particular emphasis on some of our largest clients. It is now much easier for our clients to see the value that each of our brands offers and our operating teams are coming together in front of the clients to show how these services can be seamlessly delivered.

Looking at the overall picture, we believe our strategy is solid and we're committed to driving long-term returns for shareholders. Derrek will give you additional information on share repurchases a little later in the call, but I also want to note that we were buyers of our stock to the tune of $16 million in Q2.

Share repurchases are an important component of our overall capital allocation strategy. We're committed to driving value for our shareholders and while high IRR acquisitions and investments in the organic business are still high priority, we're always pleased when we can return cash to shareholders.

With that, I will turn the call over to Derrek for further analysis of our results after which we will open up the call for your questions. Derrek?

Derrek L. Gafford, Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Thank you, Steve. I'll begin my comments by reviewing our overall financial results followed by a more in depth discussion including a look at each of our segments. I'll finish up with an update on our liquidity and outlook.

For the second quarter of 2017, adjusted EBITDA of $31 million was within our outlook range of $29 million to $32 million. Gross margin was up year-over-year. We made continued progress in reducing operating expense. And the previously disclosed change in the Amazon relationship did not negatively impact our bottom line.

Total revenue for the quarter of $610 million was within our outlook range of $600 million to $615 million. Revenue declined 9% or declined 5% excluding Amazon. Intra-quarter trends were stable and consistent with trends for the full quarter. Revenue from Amazon was $8 million; consistent with Q1 this year, but down from $37 million a year ago.

We expect Q3 2017 Amazon revenue to be similar to Q2 this year. Revenue from Amazon was $32 million in Q3 2016 and $34 million in Q4 of 2016. While we experienced a headwind from lower Amazon revenue, the relationship was not a headwind to adjusted EBITDA due to the lack of profit with this account in Q2 last year. This account was also not profitable in the back half of 2016.

In addition to the Amazon relationship, the modest demand trend within the industrial staffing industry has created a headwind in our revenue results. Some customers have been taking a wait-and-see stance looking for a catalyst within the broader economy or within their own business before filling certain positions.

Given the slow demand environment, some competitors are not including a markup within their bill rates for wage increases in an attempt to capture additional market share. Our strategic focus emphasizes pricing discipline over simply growing our market share through incrementally lower profit margins. This is the right approach to protect our reputation with customers that value the specialized nature of our services our strong compliance track record and our nationwide footprint.

From a vertical market perspective, construction was flat and manufacturing was down 5%, representing low-single digit decelerations in year-over-year growth trends from the first quarter. We saw low-single digit accelerations in year-over-year growth rates from the first quarter in hospitality and retail, excluding Amazon, which are growing 5% to 10%, but represent a smaller proportion of our business than construction and manufacturing.

Gross margin at 25.5% was 20 basis points higher than Q2 last year, with 50 basis points of expansion from higher gross margin in our total staffing business, offset by 30 basis points of contraction from lower gross margin in our RPO business.

Adjusted EBITDA in dollars were down 17% and related margin was down 50 basis points from negative operating leverage associated with the revenue decline during the quarter. We made continued progress scaling expense to the level of demand. Operating expense was down 8% or $11 million with about half of the decrease coming from right-sizing Amazon expenses and the rest from other parts of the business.

Turning to segment results, PeopleReady revenue declined to 9% driven by the modest demand environment discussed earlier and the challenges Steve mentioned. Adjusted EBITDA was down 36% as a result of negative operating leverage associated with the revenue decline and higher bad debt and timing-related support costs, which largely offset other expense reductions.

PeopleManagement revenue was down 12% or up 2% excluding Amazon. Adjusted EBITDA was up 57% and related margin up 140 basis points or, on an ex-Amazon basis, up 29% or up 60 basis points. The strong adjusted EBITDA results came from expense reductions and 10% revenue growth in our productivity solutions business at SIMOS, which produces an upper-single digit adjusted EBITDA margin.

PeopleScout revenue was down 1% as a result of two factors. As discussed last quarter, we walked away from an existing customer at the beginning of 2017 due to price and volume is down at two sizeable customers from lower demand trends within their own business. Outside of these specific customer events, our business is growing.

The revenue pipeline remains healthy and we expect the business to return to growth in the third quarter. Due to a benefit received in Q2 2016 from the Aon acquisition, adjusted EBITDA was down 11% in Q2 this year and related margin was down 230 basis points. However, the underlying margin continues to perform very well. Adjusted EBITDA margin in Q2 this year was the second best since Q3 of 2014, our first quarter of ownership.

The strength of our balance sheet and liquidity continues to improve. Year-to-date cash flow from operations was $64 million. Total debt stood at $111 million at the end of the second quarter down about $26 million from the fourth quarter last year, resulting in a debt to capital ratio of 17% versus 21% at the end of the fourth quarter of 2016. Our adjusted EBITDA to total debt ratio stands at 0.8x

While acquisitions have played an important role in the growth strategy of our staffing business, we are now squarely focused on the long-term organic growth prospects of this business through our mobile strategy, leaving more capital to return to shareholders.

During the quarter, we repurchased 586,000 shares of common stock for $15.5 million, leaving $14 million under our current authorization. We see share repurchase as an important lever to increase long-term return on invested capital in combination with the most important lever, organic revenue growth, as well as selective acquisitions in the RPO space.

Turning to our outlook for the third quarter of 2017, we expect a decrease in revenue of 5% to 7% or a decrease of 2% to 4% excluding Amazon. Our third quarter outlook for net income per share is $0.46 to $0.51 or $0.55 to $0.60 on an adjusted net income basis, which assumes a share count of 41.5 million. Adjusted EBITDA is expected to be $38.5 million to $41.5 million.

As a reminder, the fiscal fourth quarter of 2016 was a 14-week quarter. Please see our Q4 2016 earnings release materials for more information on these results, which include comparable 13-week information.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Jeff Silber with BMO Capital Markets. Your line is now open.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Thanks so much. I was hoping if you can go through some of your intra-quarter trends in your different business lines and how things have been tracking so far in the third quarter.

<A – Derrek Gafford – TrueBlue, Inc.>: Sure. Good afternoon, Jeff. From a revenue growth perspective, the trends were – this is really a story of stability through the quarter. So, whether we look at our total revenue trends, whether we look at our organic revenue trends ex-Amazon, or go into our PeopleScout, [ph] PeopleReady (22:10) or PeopleManagement, it's a very stable quarter. So, the growth trend that you see listed both for our total company as well as the segments, the monthly trends were right in the line that with what the full quarter results were.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Okay, great. I think, Steve, in your prepared remarks when you were talking about the PeopleReady segment, I think mentioned – or maybe it was Derrek, something about, from a competitive perspective, some of your competitors not being willing to pass through some of the wage inflation. Has that changed in this past quarter and do you expect that to subside a little bit or is that kind of business as usual going forward? Thanks.

<A – Steve Cooper – TrueBlue, Inc.>: Yeah. Thank you, Jeff. Well, as well mentioned in our remarks, our strategy is to stay true to that principle of holding our margins strong in a period like this, and that being demand being a little bit soft. In the competitive front, whether it be due to higher wage inflation or just the low demand environment, we have competitors that chase that down and will chase volume and give up margin.

And our analysis and where we stand in the marketplace, that's not a smart decision for us right now. So, as Derrek just mentioned, with things stabilizing during the quarter, we believe our strategy has set us up well that as demand picks up and our volumes pick up that our margins are in the right spot. So, as your question stated, yeah, that's continuing out there a bit.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Okay, great. And then just one more question regarding JobStack; I took a look at the app recently. It's a very intriguing app. I know one of the things you mentioned was potentially changing the demographic aspect of your workforce. I know it's still early, but can you comment on that? Are you able to tap in to a potentially younger workforce, maybe being able to put those people in jobs that you can't put your traditional workforce in right now? Thanks.

<A – Steve Cooper – TrueBlue, Inc.>: Yeah, definitely, Jeff. Thank you for that question. Strategically, this approaching the workforce with an app or any sort of digital mechanism lowers our average demographic of our worker. We have a market that we did some social media advertising in and the candidate that brought forward for us was 20 years younger on average, and the demographic between male-female shifted drastically.

So we know that it's possible. We know that that workforce is there. They just want us to meet them where they are and that just happens to be on their phone. And so we're well down the path. We're bringing our branches on at a pretty high rate because the technology is sound. And mostly, what we are working on is the change that takes place within our own employees of how the business is transacted.

So, our rollout is really based on that because the match of the right job and the right worker for that job is being handled very nice by the exchange. And we'll just continue to work through that with our own employees. And as we mentioned, by the end of the year, we'll have all of our branches using it and using the metrics that we talked about with well over half of the employees and somewhere up to 70% of the employees in a given branch already have downloaded this and are ready to use it before we start advertising for that changed demographic that you brought up. So, we remain very excited about this digital exchange, JobStack.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Okay. And just one other quick question for Derrek; from an outlook perspective, what should we be modeling for [un-allocated corporate expense? Is the 2Q run rate something they're based off of?

<A – Derrek Gafford – TrueBlue, Inc.>: I think $6 million to $7 million is a good average to be using.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Okay, great. That's helpful. Thanks so much.

Operator: Your next question comes from John Healy with Northcoast Research. Your line is open.

<Q – John Healy – Northcoast Research Partners LLC>: Thank you. I wanted to ask you guys a big picture question. When I think about the evolution of the company over the last 10 years or so, you've gone from kind of the legacy staffing business to a much more established and deeper within the customer employment assistance firm.

When you look at kind of what you're doing for the customers today, does it give you a different perspective on how you look at where we are in the cycle? And what I mean is, if you look across the PeopleManagement business or PeopleReady or PeopleScout, does it make you draw a different conclusion of where we are in the cycle compared to maybe what you guys would have thought before?

<A – Steve Cooper – TrueBlue, Inc.>: Well, John, we're still learning a lot about that given, as you mentioned, the legacy was definitely around staffing and primarily around on-demand staffing so that quick fill, that last minute need because their customers' business is spiking or they have a project that has come on. And we have moved not only into longer-term temporary positions, but moved into helping our clients hire their teams through our PeopleScout organization.

And definitely, in the PeopleScout organization, we see trends develop sooner than we even do in our contingent business. When they're planning their next year, they understand the number of hires that they're going to make. And using that kind of data helps us drive decisions a little bit better in our contingent business now that we understand how those work.

Now, we only have a couple of years' worth of these businesses working well together and us owning both segments, so we have to be a little careful not to jump into conclusions. But we're definitely learning a lot, John, as we bring these businesses together.

<A – Derrek Gafford – TrueBlue, Inc.>: And just to give us a longer-term perspective, John, from getting more – since we're close to the customer, we just get more information from the customer. So if we were to back up, let's say, 10 years ago from our branch network, that's a limited amount of information for us that's very project based. As Steve mentioned, with the PeopleManagement business and the PeopleScout business being close to their workforce planning that gives us another angle in and perspective other than our own revenue trends.

And because of that, I think if we didn't have that perspective right now, we would have maybe be a little bit more jittery about the economy right now. But I can tell you, as we look forward to our 2018 planning, while we are still scaling our expenses to meet the level of demand, we think that there's still a lot of opportunity here for growth, and so we're still prudently planning for growth as we look forward to 2018, which we might have looked at a little bit different if we were only relying on our branch-based revenue trends.

<Q – John Healy – Northcoast Research Partners LLC>: Okay. That's helpful because I was trying to understand if you're thinking about the business differently than the conclusions you may have drawn. A couple of kind of smaller item questions. How much of the business today in the PeopleReady is associated with retail and maybe what's sort of the trend there? And with all of the kind of changes happening in terms of how consumers [ph] are billing (29:46), are you expecting the retail business to have a stronger than seasonal pick up as it normally does going into the fourth quarter?

And then just lastly, on the JobStack app, any sort of, what I would say, better success, less success in terms of what you're seeing when you deploy those people through the app? Are you getting as high a quality marks in terms of the work they're doing or any sort of kind of qualitative observations what you're seeing in terms of the type of talent and the outcomes there?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah. So, I'll take the first one and I'll let Steve take the second one. When it comes to retail, if we exclude Amazon from that trend, retail for us has been growing as a company. So, we were up mid-to-high single digit, almost close to 10% as a company ex-Amazon and retail, and our trends in PeopleReady slightly less than that, but consistent with that. From a mix perspective, retail within the PeopleReady group is about 7% of revenue. And the company as a whole, retail excluding Amazon is about the same.

<A – Steve Cooper – TrueBlue, Inc.>: So, John, your question about JobStack and the change that we'll see there and the type of People we're putting to work and the quality there, I believe [indiscernible] (31:22) what we expect, definitely, in our test situations where we've put the exchange on the app in the hands of a different demographic, they're excited to go to work, they want to use the app. But it's important that we note here in 2017 that we're really going down two paths inside the branch.

First is to get the current workforce that we have and we've been using to download the app and start and be available to go to work through the app. And so, there's no change in the demographic of our current worker yet. Where we've gone out to advertise and do testing, we have found a strong change in that demographic.

And so, our goal in that category will be that we're not going to immediately close branches once we have the app up and running and we're pulling in demographic. Our goal is to balance the needs of the customer and the types of jobs that we need to fill between the new demographic that we pull in. And it will give us an opportunity to work with our current customers to show them the change in this worker profile that we have because of the app.

The second metric is how many of our current jobs get automatically matched digitally through the exchange. And we've only begun that because the customer component of the exchange is just now being tested beyond alpha; we're in the beta mark. So, we have under 25 customers currently using the app in a limited situation.

As that gets stronger and we get more customers on the app and they're placing the type of job, we're going to get more pull-through to put the broader group work. So, this year, it's just all about get the current workforce to use it, get the customer up and using it and an increase in the percentage of digitally-matched jobs that we have out there.

That will set us up well late this fall to start working on this exciting phase, which is a new type of worker coming into the app and a new type of job that we can place them in, while we keep the branch staff busy, not losing the current workforce we have or the current jobs that we need to place. So there's quite an evolution taking place. We can just take one step at a time so we don't drop any of the balls as we go through this process.

<Q – John Healy – Northcoast Research Partners LLC>: Great. Thank you for the color.

Operator: Your next question comes from the line of Mark Marcon with R.W. Baird. Your line is open.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Good afternoon. With regards to PeopleReady, in terms of the branches that have JobStack, how different were the monthly and quarter-over-quarter trends in terms of revenue relative to those that don't have JobStack?

<A – Steve Cooper – TrueBlue, Inc.>: Well, we're not going to be able to give those stats to you yet, Mark, but those – it's a great question and it's one we're watching closely. And the reason that I hesitate to give out that stat is, our very best branches are the ones that are adopting it the faster and they're – on average, their trends are better than the average cost of network anyway, so it would be a bit misleading.

And most importantly, the question that I just answered of we need to get the full workforce to download the app and get those percentages higher and get the branch releasing the jobs through the exchange and keeping them on there so we can get that percentage up. Your question is the real one and that is has – well, revenue, will there be revenue left from this? And absolutely, there has been and will be more, because the first thing that this app does or this exchange is it fills jobs that weren't getting filled; late afternoon, weekend jobs where the branch staff wasn't there or they turned to their current workforce and they work in the branch or they couldn't contact them.

Now, we sent out a notification to the selected workforce and tells them that they have a new stack of jobs to look at. And they open the app and they can flip down through it and accept those that have been sent to their direction on the late afternoon, evening or weekend. And so, we know that our lift is there. We're watching our weekend work percentage and it's climbing, the amount of work [indiscernible] (36:00).

Now, there are multiple methods we're putting on that to make sure, but the app really helps drive the weekend work and increase that percentage and the same thing will happen for the evening shift. So, that's the starting line, but it's surely not where this thing ends in its power.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Yeah, I was just trying to get a sense for the incremental change vis-à-vis the revenue trends within PeopleReady relative to the first quarter and just kind of getting a fence for where the – did the branches that didn't put it in place get worse?

<A – Steve Cooper – TrueBlue, Inc.>: Well, that's – again, I appreciate your question. I think it's a good one. It's one we'll be better prepared to answer in October for you. We just need more traction so we don't answer that misleadingly.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay. Then the other question along those lines would be just the cadence, Steve, in terms of like – you said by the end of the year, they'll all have it. Would that be like the vast majority will have it by the end of Q3 or is it really back-end loaded towards Q4?

<A – Steve Cooper – TrueBlue, Inc.>: Well, we're moving that up pretty quickly. We can bring at 15 or 20 branches a week on. It's really dependent on the training that we need and to really know that the branch gets it because it's not about the technology working. It's about the employees allowing these jobs to go onto the exchange and letting that digital match to happen.

It's also about the workforce that we have, getting them to download it and teaching them how to download it and look for the notification and go to the app looking for a new job on that stack that they have. So, it's really a process and human re-engineering. And so that's the bottleneck and we'll work through it. I think its pretty average; it's not back-end loaded. From here on out, every week, an additional 20 branches or so should come on.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay, great. And then, in terms of the 130, how many of those 130 are now working in an optimal manner as it relates to the candidate side? Obviously, on the employer side, we still are at the early stages.

<A – Steve Cooper – TrueBlue, Inc.>: Yeah. So I'd have to go back and say, of the Q1 class, I'm really happy with where they are. Those that come on over the – the 130 includes those that came on during late-May and June, and it really takes four or five weeks to start getting some traction. And the metric we're watching there is, are they getting the current workforce to download it, and are they allowing the exchange to do the digital match. And those percentages climb for those classes every week. So we're watching branch and every set of transactions to ensure that the employees are letting this happen, and that we can move forward.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. And then with regards to just PeopleManagement and PeopleScout, it looks like, on a year-over-year basis, we should see some improvement in Q3 relative to the trends in Q2 that's fairly material. On the PeopleScout side, how confident are you of that actually coming to fruition?

<A – Derrek Gafford – TrueBlue, Inc.>: Hi. Good afternoon, Mark. It's Derrek here. For PeopleManagement and PeopleScout, let's talk about those two here briefly. As you could see from our materials, PeopleManagement grew at 2% this quarter ex-Amazon, and we're expecting that to take a couple of ticks up.

The PeopleManagement group overall, we're very excited about the pipeline there, particularly in our SIMOS business. That's one of the best pipelines that we have seen in quite some time. And I know you know this, Mark, but I'll just recap it for everybody. SIMOS is our productivity-based in-sourcing solution where we price based on a per unit movement and save the customer about 15% based on some process redesign.

So, the pipeline there looks really good. We're expecting that growth rate to tick up a little bit in Q3. And most of that analysis that's expecting that to tick up is around pipeline. So, to the degree that it doesn't meet those expectations or surge forward, it would be mostly a timing-related issue. So, we got a good [ph] view on (40:26) the pipeline.

With PeopleScout, revenue was flat for the quarter, but those three customer headwinds I talked about in my script produced about 10 points of headwind. Ex that the business is growing. And we got a nice pipeline brewing there. And our Q3 forecast is to grow at, call it, mid-single digit revenue growth even including those headwinds, and that's all pipeline based. So things in the RPO pipeline moved through the pipeline a little bit slower during this first half of the year, maybe fourth quarter, but I think some things are starting to move through the final now and we're really optimistic about the yield that will come out of that pipeline.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. And then last one. DSOs, can you just talk a little bit about what you're seeing on the receivables side?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah, DSO was up a little bit quarter-over-quarter this year compared to the same quarter a year ago. A couple of days of that increase in DSO was we just had a pretty low DSO period Q2 of last year. If you remember, Q4 of 2015 where our DSO had spiked, and so Q1 and Q2 of 2016, as we deleveraged that, provided some benefit on the DSOs. I do think there's a couple of days though that we can take out of that. We're looking at some billing practices and I think we've got opportunities to [ph] have that lowered (41:50) on a normalized basis moving forward.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. Thank you.

Operator: Your next question comes from the line of Kevin McVeigh with Deutsche Bank. Your line is open.

<Q>: Hi, guys. This is [indiscernible] (42:05) for Kevin. Looking at the demand environment, you mentioned some of the company-specific issues that drove little bit more muted demand in the quarter, but has there been any broader change whether up or down in business sentiment and any noticeable change between your different end markets and verticals?

<A – Derrek Gafford – TrueBlue, Inc.>: Well, I think one of the biggest underlying things here facing the staffing industry right now is that when we take a look at GDP, and I'm talking about the business portion of GDP, that's something that's just been flat or down. And I think that's really the biggest underlying driver that we're seeing in our opinion that's flowing here into the industrial staffing market.

This kind of wait-and-see approach that customers are taking with some positions that are on the margin, whether they fill those are not, that's weighing into it. We see some customers waiting for some kind of catalysts here, and I think outside of our own trends getting some GDP growth from business investment, not just consumer is one of the biggest things that could power some of this underlying demand in industrial staffing.

Outside of that though, we like the growth strategies that we've got. Steve spent a lot of time here on the mobile app, what that can do for us from a growth perspective, particularly on our branch network. More and more of our wait is – from a business mix perspective, is towards our productivity-based solutions and PeopleScout, both with some nice secular trends behind them. So, those are some good things weighing in from a positioning standpoint for us.

<Q>: Got it. Thank you. And then, you guys have talked about the app quite a bit and appreciating that you aren't going to put a hard target out there, but can you talk about maybe the pacing and potential scope of cost saves associated with the app because it's implemented more across the branch network.

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah. Thank you for that, [ph] Kevin or Paul (43:57). Sorry about that. We're not really factoring in a cost play at this point in time. We see this as a revenue lift opportunity, the mobile exchange. There will be some cost benefit as the employee that's responsible for making that physical match, they're reassigned to a recruiting function to help on-board more jobseekers as we move forward. So, taking those payroll dollars and re-shifting them into recruiting dollars is going to be the most beneficial thing that we can do, so we can grow revenue through the exchange rather than seeing the exchange is a cost play.

So, there's a definite shift there. That's starting to happen a bit. These most successful branches that are allowing 20%, 30% of their jobs to start being matched have freed up resources and they quickly move them over and help them start on-boarding new employees. And so those top branches, we've seen this happen. That's what we're watching for in that second phase of moving this out as reallocating those payroll dollars into the right activities.

<Q>: Got it. Thank you so much.

Operator: [Operator Instructions] There are no further questions at this time. I will now turn the call back over to Steve Cooper, CEO.

Steven C. Cooper, Chief Executive Officer & Director, TrueBlue, Inc.

Thank you. We appreciate your time today on the call and look forward updating on these key strategic initiatives as we move forward. Have a great day.

Operator: This concludes today's conference call. You may now disconnect.