

07-Feb-2018

TrueBlue, Inc. (TBI)

Q4 2017 Earnings Call

# CORPORATE PARTICIPANTS

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue,

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

# OTHER PARTICIPANTS

Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)

Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue Q4 2017 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] Thank you.

Mr. 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 today with our Chief Executive Officer, Steve Cooper; and our Chief Operating Officer, Patrick Beharelle.

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. Any comparisons made today are based on a comparison to the same period in the prior year unless otherwise stated.



The company's 2016 fiscal fourth quarter included a 14th week and two additional days from moving the week ending date from Friday to Sunday. To facilitate comparison to the prior year, the company is providing 13-week and 52-week comparable operating results.

On the call today, we will be referencing growth rates that refer to both the 14-week and 53-week fiscal periods as well as comparable periods. Due to the reduction in the use of our services by Amazon, which was announced in 2016, we are also providing certain year-over-year comparisons excluding this customer. We believe these comparisons are helpful in understanding the underlying business trends. This is the last quarter we expect to provide these comparisons since the revenue headwind has met its anniversary.

Also starting today, we will begin providing a copy of our prepared remarks on our website at the conclusion of today's call, and a full transcript and audio replay will also continue to be available soon after the call.

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. I'd like to start off with a big picture strategic update and then move into our results. The pace of business is rapidly evolving, particularly when it comes to talent acquisition and workforce management. Widespread skills shortages, the need for just-in-time workforce adjustments and a tight labor market in which workers can choose from many offers are making it increasingly difficult to get the right worker in the right position at the right time. Job candidates are also demanding greater flexibility and are increasingly turning to technology to find the work they want when they want it.

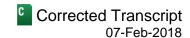
We're leading the way in helping our clients address the changing world of work. We've organized our service offerings around three business units and introduced compelling next-generation technology.

In 2017, we completed our transition to three business units: PeopleReady, PeopleManagement, and PeopleScout. The importance and impact of this change goes beyond rebranding, as we've made internal changes to ensure our teams are working on talent solutions for our clients that involve all our resources. Our new segmentation has simplified our suite of services in the eyes of our customers and made them more accessible, all while expanding cross-selling opportunities and enhancing transparency for investors.

We're leading on the technology front, too. The second major step in TrueBlue's evolution in 2017 was the deployment of cutting-edge technology that includes the deployment JobStack at PeopleReady and the introduction of Affinix at PeopleScout. We'll talk more in depth about both of these later in the call. We're excited about our new digital strategy and its potential to create value for our workers, clients, and shareholders.

The changes we made in 2017 with respect to our brand structure and our digital strategy have helped us solidify our position as a leader for filling contingent and permanent positions. Our revenue growth improved throughout the year, and gross margins have expanded for eight consecutive quarters. We are one of the largest U.S. industrial staffing firms and number one in global recruitment process outsourcing or RPO.

This was a solid quarter for us. The improving revenue trends we saw in the third quarter continued throughout the fourth quarter. On a comparable basis, revenue declined by 2%, an improvement over the decline of 5% in the third quarter. The improving trends were broad-based with progress in all three of our segments. We exited the



quarter with a year-over-year comparable growth rate that was flat for the month of December, an improvement over the negative 3% rate for September and the negative 9% rate in June.

Turning to profitability, adjusted EBITDA margin was nearly flat with the fourth quarter of 2016, with gross margin up 50 basis points as a result of disciplined pricing in our staffing business, increased recruiter efficiency in our RPO business and favorable workers' compensation. This was the eighth consecutive quarter of year-over-year gross margin improvement.

Now, I'm going to update you on our financial performance and our key drivers by segment. PeopleReady is our largest segment, representing approximately 60% of annual total company revenue and 54% of adjusted segment EBITDA. PeopleReady's local relationships and national footprint of branch locations help clients find contingent industrial labor quickly and efficiently.

Revenue trends were soft in the first half of 2017 due to the low-growth macro environment, as well as temporary disruptions from operational changes related to our brand transition. Now that these headwinds are abating, we're seeing continued trend improvements.

PeopleReady posted comparable growth of negative 1% in Q4 compared to negative 5% in Q3 and negative 9% in Q2. I'm excited about the future for this segment, especially since PeopleReady is just beginning to leverage our digital strategy. Our focus for PeopleReady going forward is on driving rising customer adoption of JobStack.

PeopleManagement, representing approximately 32% of annual company revenue and 19% of adjusted segment EBITDA, provides on-site workforce solutions in the North American industrial staffing market. Comparable revenue for this segment declined by 6% in Q4 compared to 9% in Q3 and 12% in Q2 on diminishing Amazon headwinds.

Our go-forward focus is on returning to growth and expanding margins by focusing on the rapidly expanding and labor-intensive world of e-commerce, as well as productivity solutions. We believe our cost per unit model through our SIMOS Insourcing Solutions will help us achieve these goals.

Our third business unit is PeopleScout, the global leader in filling permanent positions through recruitment process outsourcing. PeopleScout represents approximately 8% of annual total company revenue and 27% of adjusted segment EBITDA.

Similar to PeopleReady, PeopleScout is deploying digital solutions to stay a step ahead. In November, we introduced Affinix, a mobile first cloud-based platform that Patrick will provide details on. Looking ahead, our focus for PeopleScout is on the ongoing rollout of Affinix to further enhance the customer experience and ensure our continued leadership in the RPO arena.

Now, I would like to turn the call over to Derrek for a more in-depth review of our financial results.

#### Derrek L. Gafford

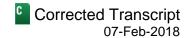
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Thank you, Steve. Revenue for the fiscal fourth quarter declined by 9% and net income was \$16 million or \$0.40 a share. Revenue of \$670 million was \$2 million above our midpoint expectation, representing a comparable revenue decline of 2% which was an improvement from a decline of 5% posted in the third quarter of 2017.



# TrueBlue, Inc. (тві)

Q4 2017 Earnings Call



Similar to our results in the third quarter of 2017, monthly revenue trends improved during the quarter. Exiting the fourth quarter, December revenue growth was flat, which was an improvement over the third quarter exit rate of minus 3% posted in September.

Adjusted EBITDA was \$36 million and adjusted net income of \$0.51 a share exceeded the high end of our outlook, driven by stronger revenue and adjusted EBITDA results in the PeopleReady and PeopleScout businesses. Adjustments to EBITDA include Work Opportunity Tax Credit processing fees, as well as a net addback of \$200,000 comprised of two items.

First, a \$2.5 million workforce reduction charge associated with the PeopleReady business, which aligns our employee count with the current revenue base. It's also important to note this action did not impact any branch employees. Second, a \$2.3 million benefit from a favorable settlement with a former workers' compensation insurance company and other workers' compensation items not considered part of our core operations.

Gross margin of 25.1% was up about 50 basis points over the fourth quarter of 2016, driven by 30 basis points of favorable workers' compensation benefits related to the adjustment I just discussed a moment ago, as well as strong performance in the RPO business.

SG&A was down \$13 million year-over-year to \$133 million. \$10 million of the reduction is due to the extra 14th week in Q4 of 2016, and the remainder from less adjustments to net income and EBITDA in the current period, as well as lower core business expense in the current period.

The effective income tax rate came in at 30%, slightly higher than our 28% expectation, driven by both the revaluation of a deferred tax asset and repatriation tax liability associated with tax reform, offset by additional benefits from the Work Opportunity Tax Credit.

I'll now discuss the results of our segments on a comparable basis. PeopleReady revenue declined by 1%, an improvement from the decline of 5% in Q3. Adjusted EBITDA was down 11% related to the revenue decline, higher pay rates, and the size of the workers' compensation in Q4 2016.

PeopleManagement revenue declined by 6%, an improvement from a decline of 9% in Q3. Adjusted EBITDA was down 25%, associated with the revenue decline and a workers' compensation benefit in the fourth quarter of 2016.

PeopleScout revenue was up 15%, an improvement over the third quarter growth rate of 10%. Underlying the growth is a record level of new logo wins in 2017. Proprietary technology advances and our increasingly recognized leadership reputation continue to differentiate our service offering with new clients. Adjusted EBITDA was up 55% driven by revenue growth and a continued focus on recruiting process efficiency, which helped increase adjusted EBITDA margin by 520 basis points.

Our balance sheet and liquidity remain very solid. In 2017, cash flow from operations was \$100 million and capital expenditures were \$22 million, netting to free cash flow of \$78 million. We ended the year with total debt of \$119 million and a debt-to-capital ratio of 18%.

On a 12-month trailing basis, our total debt to adjusted EBITDA multiple stands of 1.0. We repurchased \$7 million of common stock during the quarter, leaving \$93 million under the authorization. Total repurchases for the year were \$37 million, representing nearly 50% of free cash flow.

# TrueBlue, Inc. (тві)

Q4 2017 Earnings Call



Now, let's shift the discussion to our future outlook starting with our effective income tax rate. We expect our effective income tax rate to drop from the historical rate of roughly 28% to roughly 16% in fiscal 2018 and 2019 as a result of tax reform legislation. The lower rate could extend beyond 2019 if Congress renews the Work Opportunity Tax Credit. However, if the tax credit is not renewed, we expect our effective income tax rate to return back to the historical rate of roughly 28%. Our adjusted net income outlook for the first quarter of 2018 is based on the 16% rate but our historical reporting including the fourth guarter of 2017 uses 28%.

I'll wrap up this topic by noting that due to the significant change in the tax reform legislation and differing interpretation in its application, our outlook is preliminary and could change.

Let's now talk about our outlook for the first quarter of 2018. We expect a year-over-year revenue trend of minus 2% to positive 1%, and expect net income per share of \$0.03 to \$0.11 or \$0.18 to \$0.24 on an adjusted basis which assumes a share count of 40.6 million. We expect \$1 million to \$2 million of add-back adjustments to net income, primarily related to financial system upgrades.

Please note that PeopleScout will be impacted by the new revenue recognition standard. The impact is limited to timing within the fiscal year, resulting in some revenue being deferred in the first half of 2018 to the back half of 2018. The impact to Q1 2018 is a drag on PeopleScout revenue growth of about 3% or \$1 million, which creates a similar drag on pre-tax income.

We are excited about the opportunity ahead in 2018. The level of positive business sentiment has clearly improved over the last quarter, with more and more businesses announcing new investments. We are uniquely positioned to help businesses manage their on-demand, on-site and permanent workforce investments in an increasingly tight labor market while enhancing shareholder return through share repurchase.

I'll now turn the call over to Patrick to discuss our growth strategies.

#### A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

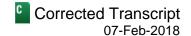
Thanks, Derrek. I'd like to take a few minutes to provide an update on key operational developments and exciting digital strategies across our three segments that Steve and Derrek have discussed.

Starting with PeopleReady. In 2017, we began testing and deploying JobStack, which is a next-generation mobile app that algorithmically matches workers with jobs. The platform has the potential to significantly increase our market share through larger candidate pools, around the clock dispatch and higher win rates. This is a big change for our workers and employees. And our goal for 2017 was to lift adoption and fill rates. We successfully met these goals and are setting our sights on new targets for 2018.

By the end of the fourth quarter, more than half of our contingent workers were actively using the app. Because they're enthusiastically embracing the app, we expect this number to grow. Our goal is to hit 70% by the end of 2018.

Between Q3 and Q4, we more than doubled the ratio of jobs being filled by JobStack across our entire network. 18% or nearly one out or five jobs is being filled through our digital exchange. We expect to double that ratio again to 35% by the end of 2018.

Customer adoption is the next big goal, since the biggest synergies for TrueBlue can be only be realized once both the worker and the customer sides of the digital exchange are up and running. By the end of the fourth



quarter, we had 1,600 customers using JobStack to place orders, rate associates, and approve hours. Customer feedback has been overwhelmingly positive. In a recent survey, 80% of our clients agreed that JobStack provides greater flexibility for on-demand work, access to more qualified workers, and a more productive workforce solution. We expect customer adoption to grow by more than five-fold, reaching 10,000 customers by the end of 2018.

Turning to PeopleManagement, now that we've anniversaried the Amazon headwinds, our focus is on returning to growth and expanding margins. We plan to do this by growing our workforce productivity solutions that carry a strong client value proposition and generally higher margins. SIMOS, our highest margin business within PeopleManagement provides an appealing productivity-based pricing model that helps customers become more efficient and reduces average workforce spend by 15%.

Our second area of strategic focus for PeopleManagement is the e-commerce vertical. E-commerce continues to make headlines, making the nature of the retail supply chain more labor-intensive and increasing the demand for TrueBlue's ability to deliver a flexible, fully-sourced, and managed workforce. PeopleManagement is well-positioned to both expand the presence of its high margin SIMOS brand and to serve the growing labor needs of e-commerce.

At PeopleScout, we took another important step forward in our digital strategy in Q4 with the introduction of Affinix. Affinix is a next-generation HR tool with a cloud-driven mobile-first approach. PeopleScout is already a leader in the recruitment process outsourcing with more annual placements than any other provider, and this proprietary technology keeps us at the cutting-edge.

Affinix is embedded within PeopleScout's existing talent solutions to empower faster connection with the best talent and create a seamless experience for both the candidate and the client's hiring manager. For TrueBlue, this means we'll be able to enhance the candidate experience and leverage valuable data gleaned from engaging millions of candidates every year.

Always looking to the future, we're also exploring how other brands within TrueBlue can leverage this technology. For anyone who would like to learn more, I encourage you to visit PeopleScout's website, which is peoplescout.com. I look forward to providing more Affinix updates on future calls.

Finally, I'd like to update you on our expanding cross-selling initiatives, facilitated by the rebranding efforts that Steve described. The steps we've taken include enhancing our focus on strategic accounts, developing comprehensive account plans, and perhaps most importantly, making cross-selling part of the TrueBlue culture.

I hope to share more on future calls as we are just beginning to scratch the surface on this potential opportunity.

With that, operator, we'd like to open the call for questions.

# **QUESTION AND ANSWER SECTION**

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

#### Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)

Q

Thank you so much. In the prepared remarks, when – or actually in the slide when you talk about PeopleReady, you cite higher contingent pay rates in 4Q 2017, one of the reasons that drove the adjusted EBITDA margin down. Can we get a little bit more color on that? I'm just wondering what kind of wage inflation trends you saw, what you're expecting for 2018? Thanks.

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



Yeah. Good afternoon, Jeff. How are you doing? So, for TrueBlue – at the TrueBlue level, in the fourth quarter, our bill rates were up about 4% and pay rates up about 5%. Most of the higher pace of inflation that you see, hear us talking about compared to maybe some other staffing companies in which you see in the economy is really driven by our PeopleReady business, which has a lot of minimum wage increases in it.

So, as we came through the back half of the year, we saw a little bit more pressure in this gap between bill and pay rates and our team has done a really, really nice job preparing for our annual bill rate increases at the beginning of 2018. Wanted to make sure that any new minimum wage increases are passed through properly with the right amount of markup, but also to really address this trend.

And January came in really solid for us on this. Our bill and pay rate spread is really, it's neutral, they both advance at the same rate. So, while we saw a little bit of pressure on this coming down of the back half of 2017, I think the team has taken the right measures to make adjustments here, and we're off to a good start in 2018.

#### Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)



So, I'm assuming your guidance for the first quarter includes that being less of a headwind?

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Yeah, that's right.

## Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)



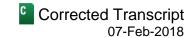
Okay. Great. And then, just continuing on the guidance for the quarter, is it possible to get a little bit more color of what you were expecting by segment that drove the overall revenue guidance?

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



Q4 2017 Earnings Call



Sure. Let me let me give you a breakdown of this. So, for PeopleReady, we are expecting it to be flat to minus 2% for the first quarter; for PeopleManagement, minus 2% to minus 5%; and for PeopleScout, growth of 10% to 20%.

#### Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)

 $\bigcirc$ 

Okay. Great. And then, just a couple of other guidance questions, just for the year. What should we be modeling for both capital spending and interest expense?

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



I think from a capital mix perspective, roughly about maybe \$5 million a quarter. We'll see. We've been managing really the spend on average to about 1% of revenue, might be a little bit less than that. That's probably a good range for you. And for the first quarter, we put \$5 million out there in general.

In interest expense perspective, we don't really give guidance on that, Jeff, but what I can say is coming out of the fourth quarter into the first quarter that left – that debt will deleverage quite a bit and bring that debt balance back. That's really what's driving the interest expense. And then, well, should have a good solid year cash flow wise to continue to work that down. So, I'd look at it from that perspective.

#### Jeffrey Marc Silber

Analyst, BMO Capital Markets (United States)



Okay. Great. I'll jump back in the queue. Thanks so much.

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

#### Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.



Great. Thank you. Hey, Derrek, Steve. How are you?

#### Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.



Hey. Good, Kevin. Thank you.

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



Hi, Kevin.

#### Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.



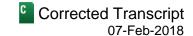
Good. Hey. I'm wondering – Derrek, can you give us a sense of ultimately where the workers' comp [ph] will (00:27:20) settled in Q4? And then, how are you thinking about that as it relates to 2018?

#### Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



Q4 2017 Earnings Call



Sure. Sure can. So, work comp as a percentage of revenue for us came in at 2.9% for the quarter. In my prepared remarks, I also mentioned though that we had a bit of unusual windfall benefit in there of about 30 basis points, so which we have included as an adjustment to our EBITDA and adjusted net income and net income.

So, if you take that and normalize that, that's where comp of about 3.2%. In prior quarters during the year, we were running closer to, I don't know, call it, 3.4% or 3.5%, which is probably a fairer run rate for us looking forward.

Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.

0

Got it. And then, hey, Derrek, would you expect any benefit from pseudo taxes as we work our way through 2018, just given where we are from a [indiscernible] (00:28:23) perspective.

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



Well, [ph] they'll be (00:28:26) a little bit of pseudo. I think that will be less of a headline for us and more – where more of the headline will be is on minimum wages potentially. As you know, Kevin, that's been a pretty big cost increase for us over the years, and that will still be a cost increase for us going into 2018. However, from a relative perspective, if we were to compare the amount of wage increase that we expect just from minimum wage, the headwind is lighter. It's probably about 40% lighter than it was in 2017. So, that's a welcome addition for us as we go into 2018 from a pricing and margin perspective.

Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.



And it's a big help. And then, Steve, on the e-commerce initiative, I know it's early, but any sense of how much that can scale to be as we think about it from a revenue contribution perspective?

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.



Yeah. Thank you for that. We're sure putting a lot of strategies to be prepared to serve the e-commerce world and really focused heavily on how we can put some skin in the game that is charged by the case versus by the hour. And that service line has got a lot of demand behind it. Looking down the road, it's hard for us to put a guidance on that, of how much it might be, but we are anticipating in the short term that that outpaced our industrial staffing by two to three times.

Kevin McVeigh

Analyst, Deutsche Bank Securities, Inc.



Super. Good luck. Thank you.

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

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.



Good afternoon, Steve, Derrek, and Patrick. I was wondering if you could talk a little bit just on the PeopleManagement. It was a little bit lighter than what we were expecting. I was wondering if there was any color there. It looks like it was down 4% on a comparable basis excluding Amazon.

#### A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

Д

Yeah, Mark. This is Patrick. It's really client-driven. We've just got a handful of clients both in the SIMOS and the Staff Management business that are large and we've seen some headwinds there. It's not as if we've lost several clients. It's more of a same-store sales decline among a handful of large clients both in the staff management and SIMOS.

# Mark S. Marcon Analyst, Robert W. Baird & Co., Inc. Even at SIMOS? A. Patrick Beharelle

Yeah, even at SIMOS.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Was there any replacement or they just had reduced demand themselves?

# A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

President & Chief Operating Officer, TrueBlue, Inc.

Well, in one place, the client is closing a facility, and so they've started to move some of that business out. So, you see some of that in our Q1 guidance as well. So it's isolated to a couple of clients, just some same-store sales headwinds in one facility that's closing in one of our larger clients in SIMOS.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Okay. And then...

A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

We've had some wins, by the way that are offsetting that. But the...

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

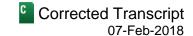
That's what I was going to ask.

A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

Yeah. We've had some nice wins in that business. They're just starting to ramp up. It'll be Q2 before we see the full impact of those.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.



Got it. And then with regards to the guidance, do you have a perspective in terms of how we should think about the adjusted EBITDA guidance by segment for the coming quarter?

Derrek L. Gafford

А

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Yeah. We really don't give that part out, Mark. But, I think you can kind of follow the trend here. I mean for the most part, when you take a look at our guidance, let me just start with some of the headlines there, and then I'll give a little color on each of the segments.

The guidance that we're giving from an EBITDA perspective is about \$1.5 million or \$2 million lighter than it was the year before. About two-thirds, say three-fourths of that is more just because of some revenue recognition changes at PeopleScout. So, the new revenue recognition has went into place from an accounting principle perspective.

And what that does is, it just creates some timing differences in the year and pretty much for every dollar of revenue that is being deferred to later in the year is a dollar impact at EBITDA. So, if you exclude that, our EBITDA midpoint guidance, it's close to flat, maybe call it \$0.5 million down from where you would see it compared to Q1 of 2017.

For each of the segments directionally, you can kind of infer this from the revenue guidance, but we're expecting another strong quarter from PeopleScout growth wise, both on the revenue and the EBITDA line. From a PeopleManagement and PeopleReady perspective, flattish to slightly down from an EBITDA perspective some of that just because of the fixed costs that come along in the first quarter and being pretty sensitive to where those revenue levels are. So, let me pause there and see if that answers your question, Mark.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

Got it. That's along the lines of what I was assuming but I just wanted to confirm that. In terms of the bill rate increases that you would expect here across the board, given the minimum wage increases, what are you assuming?

Derrek L. Gafford

Δ

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

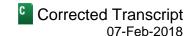
Well, I would expect that we'll have bill rate increases when we finish the quarter, somewhere in the 4% to 5% range. Mix could shift that a bit, but we've been running about that's maybe slightly lower than that in 2017. But from a bill and pay rate spread perspective, we're expecting the bill rate inflation and pay rate inflation to be about the same. So, neutral impact on gross margin which is what we saw as we closed the books in January, and that's what we've reflected in our guidance for the first quarter.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. I'm going to jump back in the queue, but I have more questions. Thanks.

**Operator**: And there are no further questions at this time. I will turn the call back over to Mr. Steve Cooper for closing remarks.



## Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

Д

Yeah, let's make sure there's no one else in the queue or that someone didn't get back in before we end the call. We'll just give it a couple a couple of seconds here.

**Operator:** Certainly, will do. And we do have another question from the line of Mark Marcon from R. W. Baird. Your line is open.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

I would have kept on going.

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

Д

Thank you, Mark for being respectful but we want to take all your questions here. Appreciate that.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. With regards to just on JobStack, with the 1,600 customers that you currently have, what sort of differences are you seeing just in terms of the usage, the repeat? And then also with regards to the temps who are using it, what are you seeing there just in terms of how often they come back for new assignments?

#### A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.



Yeah. I'll touch – this is Patrick. I'll touch on some of the headlines. The first is, from a stickiness perspective, we're finding that the folks that are on JobStack are substantially more sticky than the folks that are not on JobStack. We've been tracking folks every month that are signing up for JobStack, and we sort of watch their retention levels, and they're substantially higher for the folks that are on JobStack versus the folks that are not.

The other thing that we're seeing is folks that are on JobStack take twice as many shifts as the folks that are not on JobStack. So, from a stickiness and from an activeness perspective, we're seeing more stickiness and more activeness. Related to the clients, what's interesting is clients have rated over 60,000 workers over the last 90 days. So, they're using the tool to rate workers. Half of the clients that are on the tool are using it to place orders.

Over a third of the clients that are on the tool are using it to approve hours. So, clients are using the tool in different ways. But the three ways we'd hope they'd use it which was rate workers, place orders, and approve time, that's coming in pretty strong. And just in terms of the pace that we're on right now, we finished the end of the year at 1,600 clients on the tool. We finished January, 2,500.

So, we're seeing some pretty heavy lift. We'd put a marker out there of 10,000 by the end of the year, and we're pacing in that direction in a pretty healthy way.

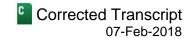
Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.



If we get to 10,000, what percentage of your total revenue base would that be?

Q4 2017 Earnings Call



## A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

А

Well it would depend on which 10,000 signed up.

#### Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

Yeah.

#### A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.



But, in terms of transactions, we've assumed over 50% at the high end. We've put out a number at 35% in terms of the number of positions that it would go on. So, if we assume that the average assignment is equal, we'd go 35% and potentially higher than that.

#### Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.



Great. And then can you just give a little bit of color. Go ahead.

#### Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.



Mark, well, before you jump into your next question, I just want to make an emphasis on JobStack and how excited we are about it. This tool is really meant to take us back to our roots of having available people before the assignment came. And that was really the roots of who we are and what we developed back in the early days of going public as Labor Ready.

And as we sit here – and this tool, we're talking about being implemented at PeopleReady of having available candidates for our clients on demand, very quickly. Patrick may have emphasized this with you, but these orders are being filled on average at about 19 minutes from the time that the client puts the order in and they have their candidate on their way to the assignment.

Now, we have story after story of clients just being blown away of how quickly these candidates are getting there. The nice part is when we were only branch-based, candidates often had to come by the branch to pick up the work ticket and the directions to the client and job assignment information. All of that's on the app now and they go directly to the site. So, the arrival time has been cut in half, not only the order placement and fulfillment. This has really taken us back to our roots of being on-demand, quick fill, and serving that customer in a way that only we did on a national scale. So, we couldn't be more thrilled with the progress we're making on JobStack.

#### Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.



That's great. And then, Steve, what percentage of your branches are now fully on board?

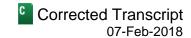
#### Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.



Yeah. So, our goals in 2017 was to get this in every PeopleReady branch, and we met that goal. The – all branches have the tool, been trained on the tool, and they've -they started onboarding their associates.

Q4 2017 Earnings Call



Early goals were met in 2017, and how many associates downloaded it, and where that would be. And now, we've doubled the size of those goals. I think if we get a third of the transactions going through this system, by the end of 2018, we'll be celebrating. What 2017 was about was getting it into the branches and get our teams over the fear of using it and get the associates on.

The real success measure in 2018 is going to be about the client usage. And Patrick touched on that a bit. It's only the 1st of September when we started putting this in the hands of clients, and already, this adoption rate at the client level that will be well in excess of 10,000 clients using this very, very quickly.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

That's great. And can you also give us a little bit of color in terms of what you're seeing from just an industrial or regional perspective, particularly as it relates to the traditional PeopleReady area, just in terms of West Coast, East Coast, light industrial, et cetera, what you normally give us?

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.



I'll give a little bit of color on that, Mark. As we take a look at the PeopleReady trends, from a geographic perspective, things have been – the improvements that we have seen in the trends have been pretty broadbased, not a lot of standouts.

I would say that, though, if we were to pick one area regionally that's a standout, California has been doing well for us despite some of the minimum wage challenges there. From a margin perspective, the revenue has been doing quite well there and continuing to [ph] sell (00:41:54) strong as we ended the year and went into the month of January.

From a vertical perspective, kind of the same story, I would say. If we were to pick one area, though, we did see an uptick in construction from a PeopleReady perspective. That's been running maybe 1% growth, flat to negative. That spiked up to 4% just during the colder winter months, but that's still nice to see. And that's an area that we're really focusing on to put more growth into.

One of the things that we did during the fourth quarter is we made some cost moves at PeopleReady, nothing within our branches, but some areas outside of the branch to get some more alignment between where our head count is and our revenue base, and also to create some more room to invest back into our construction business, particularly the skilled trades area.

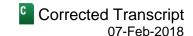
It's an area that we think that we've got really nice opportunity to build off of this increase that we just saw here in the fourth quarter when it comes to construction. So, some new folks from a recruiting perspective, a sales perspective, a little pinch here and there, some extra leadership around that area to really get us staffed up right and prepared for the summer months when construction comes on.

Mark S. Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. Thank you very much.

**Operator:** At this time, we are still waiting for callers to join the queue. Mr. Cooper, would you like me to hold the call open for another minute while we gather additional questions?



## Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

No. We are fine to end. Thank you for that. We sure appreciate everyone joining us here today on our announcements and our strategies. And I look forward to updating you here at the end of Q1.

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

#### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.