Corrected Transcript

05-Feb-2020

TrueBlue, Inc. (TBI)

Q4 2019 Earnings Call

Total Pages: 15

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the TrueBlue Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today Derrek Gafford. You may begin.

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

Good afternoon, everyone, and thank you for joining today's call. I'm here with our Chief Executive Officer, Patrick Beharelle.

Before we begin, I want to remind everyone that today's call and slide presentation 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 non-GAAP measures when presenting our financial results. We encourage you to review the non-GAAP reconciliations in today's earnings release, or at trueblue.com under the Investor Relations section, for a complete understanding of these terms and their purpose.

Any comparisons made today are based on a comparison to the same period in the prior year, unless otherwise stated. Lastly, we will be 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 be available soon after the call.

With that, I'll turn the call over to Patrick.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, Derrek, and welcome everyone to today's call. Before I dive into quarterly results, I wanted to take a moment to reflect back on 2019. This past year had its share of challenges evidenced by a 5% revenue decline and a 4% net income decline.

Some of the revenue decline was expected and came from a smaller number of large clients that simply experienced issues within their own businesses. As the year unfolded we saw a broader softening in revenue trends similar to other industrial staffing providers, as clients pulled back in response to lower volumes. While overall job data was positive for the United States, the contingent portion which makes up 2% of the workforce experienced a pullback as businesses used contingent services more sparingly in light of rising economic uncertainty. While we cannot control the macro environment we will continue to focus on what we can control, which includes balancing smart cost management with strategic investments.

I am pleased with the success of our cost management efforts in 2019. In total our selling, general and administrative expenses came down by more than $25 million or roughly 5% compared to the prior year. In the third quarter, we announced a set of cost actions that are expected to result in approximately $8 million of net annualized savings during 2020. At the same time, we've been making targeted investments in sales and marketing to drive long-term growth. One example is PeopleReady's new client experience team. This is a dedicated team of professionals focused on client care and retention by proactively reaching out in the critical early days to understand their satisfaction and help clients move up the curve in terms of JobStack usage.

While the program is still relatively new, the feedback from our branch based colleagues and our clients has been overwhelmingly positive. The team is also helping to proactively drive more activity through our strategic cross-selling program.

Our cross-selling efforts generated nearly $50 million in sales for 2019, boosting growth for the company by approximately 2%. These investments combined with the strategic focus of our team give me confidence that we're on the right path and we'll maintain our industry leadership into 2020 and beyond.

Our industry is ripe for digital transformation and we believe we are on the leading edge to digitally differentiate our services and capture increased market share. Staffing and recruiting have always been people-first businesses and the accelerated adoption of digital strategies in our businesses has come with the realization that technology can actually help build stronger human connections.

Our PeopleReady segment has an app called JobStack that has filled more than 6 million shifts digitally since its inception and is currently filling a job every nine seconds. After we onboard our workers, they can proactively book jobs through a mobile app anytime anywhere versus having to go to a branch early in the morning or wait for a call or text.

On the flip side, clients can post job assignments 24/7. As we begin to leverage the power of digital technology it is transforming the way we do business. Approximately 25% of our JobStack orders are now placed outside of traditional branch hours, and 21,300 clients use JobStack, up more than 50% from just one year ago.

Throughout 2019, we've seen disproportionately high revenue growth from clients that are heavy users of JobStack. And we believe there is potential to capture even more wallet share as we focus on removing process friction. The staffing industry is highly fragmented across a wide variety of mom and pop and regional businesses. I believe our JobStack strategy provides us with the opportunity to clearly differentiate our PeopleReady services to capture more market share. On the recruiting side of our business PeopleScout's Affinix improves outcomes for recruiters and candidates by making applying for a full time job simpler and more convenient.

Moreover clients that are fully implemented on Affinix are experiencing increased time to fill candidate flow and candidate satisfaction. This reduced friction for candidates and for clients in our view is the future of the industry.

Our mission at TrueBlue is to connect people and work, and we're proud of it having connected 724,000 people with work in 2019. Approximately half of these workers were connected to temporary jobs through either our PeopleReady or PeopleManagement industrial staffing segments. The remaining half were connected to full time jobs via our PeopleScout segment.

Each worker who comes to TrueBlue has their own unique story. Whether it is a truck driver who is between jobs, and needs to pick up another paycheck to pay the rent or a recent college grad who is happy to land their first full time position with a Fortune 500 company.

Here at TrueBlue we've been connecting people with work for more than 30 years, and we're very good at it. As the world of work continues to evolve, we continue to find new and exciting ways to leverage our expertise, and our new strategic Uber Works relationship is a great example of this.

While Uber Works has a great platform, one area they do not have experience is in paying and managing W2 employees. So, Uber Works turned to TrueBlue for help, and we've created a new business venture called PeopleWorks to serve as an employer and payroll service provider for workers booking jobs on the Uber Works app. While it's early days for the PeopleWorks venture, we are excited about its potential.

Now let's discuss our Q4 results. Total revenue for the fourth quarter was down 9%. Clients were conservative in the use of our services during the quarter in light of softness in their own business volumes and continued economic uncertainty, particularly in industries associated with physical goods.

While this created a challenging environment, I'm pleased with our strong cost management results and I am encouraged by recent improvements in the demand for PeopleReady services. Now let's take a closer look at the performance of each of our three businesses.

PeopleReady is a leading provider of on-demand labor and skilled trades in the North American industrial staffing market and this business represented 62% of total company revenue and segment profit in fiscal 2019. PeopleReady's revenue was down 9% during the quarter due to lower business activity across our client base. This decline was slightly worse than our expectation, though we did see the trend improve to minus 7% in December after adjusting for the Thanksgiving holiday shift.

Turning to our next segment, PeopleManagement provides onsite workforce solutions in the North American industrial staffing market that offer compelling value and are a perfect fit for larger clients with longer duration strategic needs for contingent workers. This business represented 27% of total company revenue and 10% of segment profit in fiscal 2019. Revenue was down 7% in Q4 versus down 12% in Q3. The improvement is due to the runoff of previously disclosed revenue headwinds.

Turning to our last segment PeopleScout is the global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings, and represented 11% of total company revenue and 29% of segment profit in fiscal 2019. Revenue was down 18% during the quarter primarily due to previously disclosed headwinds, namely one client that was lost after being acquired and less volume and less margins from another large client.

We also saw some softness in our PeopleScout UK business as political and economic uncertainty weighed on client order volumes. As we close the books on 2019 I'm pleased with the strategic progress we've made and excited about the path ahead. Our balance sheet is in excellent shape and we are very pleased that we're able to leverage excess free cash flow to return approximately $39 million of capital to shareholders via share repurchases in 2019, marking the third consecutive year that annual share repurchases exceeded $30 million.

When I look at TrueBlue's digital strategy and competitive position, I'm pleased by what we've accomplished. We have more clients and workers using our technology than ever before. As we move into a New Year and decade, I believe our digital strategies provide further opportunity to differentiate our services, capture additional market share, and deliver industry leading growth.

I'll now pass the call over to Derrek who will share greater detail around our financial results.

Derrek L. Gafford

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

Thank you, Patrick. Total revenue of $591 million was near the low end of our $587 million to $612 million outlook. Total revenue was down 9% which was larger than the decline in Q3 of 6%. Approximately 1 percentage point of the step down was due to the roll-off of project work that positively impacted Q3 but did not continue in Q4, and the remainder due to softening demand trends.

Lower than expected revenue was offset by efforts to deliver lower than expected SG&A expense resulting in earnings per share results that were in line with our expectation. Net income per diluted share of $0.23 was in line with our $0.18 to $0.28 outlook as was adjusted net income per diluted share of $0.39 in comparison to our outlook of $0.35 to $0.45.

EPS was down 38% and adjusted EPS was down 36%, primarily as a result of previously disclosed headwinds, which contributed about 25 percentage points to the EPS decline. The effective income tax rate for the quarter of 7% was below our 14% expected rate primarily due to additional tax credits. Gross margin of 25.4% was down 110 basis points from lower gross margin in our PeopleScout business and our staffing business.

Half of the consolidated gross margin drop was due to previously disclosed headwinds of PeopleScout and the remainder in our staffing business associated with a prior year payroll tax benefit, and additional costs associated with a shorter holiday peak season.

Our disciplined approach to managing costs showed in our results this quarter. SG&A expense was down $11 million, $1 million of which was due to lower adjusted EBITDA exclusions, and the remainder from lower costs in the core business. SG&A was down 8% and SG&A as a percentage of revenue was up 30 basis points. Throughout 2019, we discussed some isolated client revenue and segment profit headwinds within our PeopleScout and PeopleManagement businesses.

Q4 was the first quarter without any of these headwinds impacting our PeopleManagement business. The only headwinds impacting Q4 were within our PeopleScout business associated with one client lost after being acquired and lower volume and margin on another large account. The first client will cease being a headwind after Q1 2020. The second client will cease being a headwind after Q3 2020. For Q4 2019, these items suppressed total company revenue by $8 million and adjusted EBITDA by $4 million. Please see our earnings release deck for more information regarding these headwinds.

Adjusted EBITDA of $21 million was down 36% due to lower revenue and gross margin which also contributed to a drop in adjusted EBITDA margin of 150 basis points. During the quarter we repurchased $8 million of common stock bringing our full year repurchases to $39 million which represents 59% of free cash flow. This leaves $119 million of total repurchase authorization.

Turning to our segments, PeopleReady revenue was down 9% which was lower than the midpoint of our expected decline of 7%, and a step down from the 4% decline in Q3. Contributing to the declining trend was two points of benefit from project work with one of our clients in Q3 that did not continue in Q4. And the remaining step down was due to softening demand trends in the core business concentrated in the construction and manufacturing industries. However, after adjusting for the Thanksgiving holiday shift we were encouraged to see the revenue trend improve in December to a decline of 7% with continuing improvement into January. Segment profit for Q4 was down 19% due to the decline in revenue and the timing of our prior year payroll tax matter that benefited Q4 last year, but had a neutral impact for the year as a whole.

PeopleManagement revenue was down 7% consistent with our expectation. While we have yet to return PeopleManagement to growth we are pleased to be lapping the previously disclosed headwinds, and see the revenue trend improve from a decline of 12% in Q3. We are also encouraged about the prospect for future revenue growth with new business wins up 21% in 2019. Segment profit was down 45%, primarily due to the revenue decline and additional recruiting costs associated with a shorter peak holiday season in 2019.

PeopleScout revenue was down 18%, which was lower than our expected decline of minus 16% to minus 8%. The lower than expected results occurred in our UK business due to uncertainty surrounding the Brexit vote. Segment profit was down 54%, which is primarily associated with the previously discussed headwinds and the incremental revenue weakness in the UK.

Turning to cash flow for the company, year-to-date cash flow from operations totaled $95 million and capital expenditures were $28 million, netting to free cash flow of $67 million. The overall strength of the balance sheet continues to improve. Total debt of $37 million is down from $80 million at the end of 2018. And our debt to capital ratio is 6% compared to 12% a year earlier. On a trailing 12 month basis, our total debt to adjusted EBITDA multiple stands at 0.3.

Turning to our outlook for the first quarter of 2020, we expect the revenue range of minus 9% to minus 4%. The midpoint of the range is an incremental improvement from Q4 and consistent with current trends. We expect a net loss per basic share range of $0.07 to $0.00 or an adjusted net income per diluted share range of $0.04 to $0.11. These figures assume a basic share count of 37.8 million and a diluted share count of 38.4 million.

The adjusted net income per diluted share outlook we provided translates into an adjusted EBITDA decline of roughly 50%. It's important to note that Q1 is our lowest revenue volume quarter of the year. Consequently, the decline in revenue has a more pronounced impact on year-over-year profitability trends in Q1, due to the smaller dollar base of all profitability measures in Q1 relative to other quarters.

Also contributing to the drop in profitability is $3 million of adjusted EBITDA headwind from the two clients I mentioned earlier. In regard to our effective income tax rate, we were pleased that the Work Opportunity Tax Credit was extended for another year. We expect an effective income tax rate of about 12% in Q1 and for fiscal 2020 which is lower than our previous rate of 14%.

While economic uncertainty exists, we're staying committed to our digital strategies. We believe we are leading the industry in moving to a more digitally oriented business model to differentiate our services and acquire market share. We plan to invest in customer acquisition and retention initiatives to not only acquire more business, but to ensure we come out strong when the economic climate improves. We also plan to stay diligent in managing our operating costs. And lastly, we are committed to returning capital to shareholders through stock repurchases. This concludes our prepared remarks. Please open the call now for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Jeff Silber.

Jeffrey M. Silber

Q

Analyst, BMO Capital Markets (United States)

Thank you so much. In your prepared remarks you gave us a little bit of color on intra-quarter trends and trend going into January. I think it was mainly just for PeopleReady. I'm just wondering if you can talk about the other two segments as well that'd be great.

Derrek L. Gafford

A

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

Sure. Yeah. Thanks, Jeff. I'm going to just give a little bit, since you've asked the question, a little bit more color on PeopleReady and I'll do the same for the other segments. Well maybe start off with the other segments. We're expecting to see continued improvement in the – in the PeopleManagement trends. To put this into perspective third quarter was down 12% and the fourth quarter is down 7%. Our guidance, the midpoint of it is assuming that we'll be down about 2.5% which is right and kind of line with how we think what we've seen in January will trend itself out.

If you take that and some of the wins we've had, we're optimistic about what the rest of 2020 looks like for PeopleManagement.

For PeopleScout we're anticipating that the decline will get about five points worse going into Q1. We expect to still see some pressure in our UK business around the Brexit vote. Our UK business in addition to having some RPO business has some communications related business doing legal notices and so forth for the government. And we expect that to continue to be slow in Q1. But pick back up going into Q2 and the rest of the year.

The PeopleReady trends are the ones that were the most encouraged by while there are still recent trends we've been seeing some nice turn in the demand trends. Still negative, not where we want them to be, but we finished – the quarter finished down 9% for PeopleReady. In December adjusted for the Thanksgiving holiday, down about 7%, and our outlook for Q1 is for the business to be down about 5.5%. And so, and that's on top of Q1 last year, was a pretty decent quarter for us at least us in relative comparison, that's the only quarter we had growth in PeopleReady at a positive 3%. So we're pleased to see the trend. We do get into some easier comps with PeopleReady, more work to do here. But we're encouraged by what we've seen over the last few weeks.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Okay. That's really helpful. I appreciate that color. When you were discussing PeopleReady, you talked about softening demand, and I think specifically you noted construction and manufacturing. Can you just remind us as a percentage of that segment, or percentage of the company whatever you have in front of you, what those two verticals represent, I'm just wondering were there any verticals within PeopleReady that actually grew?

Derrek L. Gafford

A

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

Sure. One second here. So I'm going to just give you what the ...

Jeffrey M. Silber

Q

Analyst, BMO Capital Markets (United States)

Rough numbers.

Derrek L. Gafford

A

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

... I'm going to give you what the mix of business is for our core construction business, which excludes any energy related work, and then manufacturing. So these are – this is going to be for the total company and then I'll go over to the PeopleReady trends in a moment. So overall construction for all of TrueBlue represents about 17% of the business, and manufacturing overall represents about 21% of the business.

If we go over to PeopleReady and we're taking a look at all of the verticals that we serve, basically all of those verticals were in some form of decline. We do have some energy related business and that did grow. But the range of this to give you – they range pretty widely from the segment, the industry vertical that had the least amount of pressure was hospitality, makes up roughly PeopleReady business is about 10%, that was down 2%. Whereas the manufacturing business for PeopleReady down 23%, and that makes up about 11% excuse me about 11% of the business.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Okay, great. I appreciate that color. Let me just add one more quick follow-up and then I'll jump back in the queue. You called out the UK weakness in the PeopleSoft business. Can you just remind us what percentage of that segment is UK and do you have any of the UK exposure in the other segments? Thanks.

Derrek L. Gafford

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

A

Yeah. That business runs between $50 million and $60 million of revenue, I think we're closer to $50 million, $55 million, little north of $55 million in that business.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

And that's the only segment where you have UK exposure?

Derrek L. Gafford

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

A

Yes, that's right.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Yeah, I'm sorry I called it PeopleSoft, I think that was PeopleScout, that's what I meant. But you understand. Thank you so much.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Jeff, this is Patrick, just a little more color on the UK. What really happened over there was when that new election was called, we saw some real softness in October and November, and partly because we're – as Derrek mentioned we're pretty heavily weighted in the government sector there. And so we saw a pullback from those clients that are government related from the time the election was called and until the results actually came in. We've actually seen a little bit of a bounce back in December and January versus what we saw in October, November. And a lot of it had to do with the business that we have over there with those government clients where we're doing a lot of talent advisory work and they did put those on hold for that that couple month window that that created a headwind for us in Q4.

Jeffrey M. Silber

Analyst, BMO Capital Markets (United States)

Q

Okay, great. That was really helpful. Really appreciate all the color. Thanks.

Operator: And your next question comes from John Healy with Northcoast Research.

John Healy

Q

Analyst, Northcoast Research Partners LLC

Thank you. Derrek want to ask a question about the cost management. I think in the slides you guys talked about kind of managing SG&A levels to the revenues of the business and understand there's probably some productivity savings with the digital transformation you guys have going on, but understand there's probably some investments as well. So just trying to think about how hypothetically we should think about SG&A levels this year relative to revenue. So hypothetically if your revenues were down 5% on enterprise basis, what sort of levels do you think SG&A would move, what sort of revenue decline is too pronounced that you kind of match the SG&A to the revenue?

Derrek L. Gafford

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

A

Yeah. Thanks for the question John. So I'm going to directly answer your question in just a moment, but I'm going to give just a little bit of background that I think may be helpful to you and to others. So 2019 was definitely a year of a lot of cost [Technical Difficulty] (00:26:51) and cost discipline. We reduced operating expenses. I'm referring to sales, general and administrative expenses here by $28 million. So a lot of that was good blocking and tackling.

We also did some things that I would call more reform related where we did some a little bit of restructuring fundamental in some of the businesses particularly PeopleReady.

And our last one that we did a larger scale was in the third quarter. That's – that individual action will create about $8 million of cost savings in the PeopleReady business in 2020. I just give that as background because what we feel like we've done at this point where the demand levels are is as far as any wider restructuring actions cost wise. We feel like we've done what we needed to do. Don't get me wrong. Costs are still important; we're still managing those in a disciplined way. But we don't feel like we need to do anything big right now. We want to make sure – we want to make sure that we got the businesses kind of right sized to demand, but also not to go too deep to where we weren't ready to respond when the environment turns. So we think we're in about the right spot from a more strategic perspective when we take a look at the costs.

Now that that said, going into Q1, I mean, midpoint of our revenue guidance is – is a decline of about 7%. We've got SG&A declining at about that amount too. I would suspect unless other things happened that that kind of decline in SG&A's expense will taper itself off, because we're still getting some – some heavy benefits from the cost actions that we have done in the past.

However, as a general rule, while this would vary by quarter now we feel like we would like to manage the business on a particular revenue decline whatever that is and percentage points, that SG&A will be declining by about the same, about half that amount. So for example, if revenue was down 4%, we'd be managing to – to operating expenses down about 2%. That would of course be lumpy based on different timing of the quarter, but I think that's a – that's a general rule that we try to manage to [indiscernible] (00:29:05) and I think is applicable as we look forward in to 2020.

John Healy Q

Analyst, Northcoast Research Partners LLC

Okay, great. It makes sense. And then, I think you guys made the point, I think you said this is the third year in a row where you guys returned over $30 million of capital to shareholders. As you look at the business in the state that it's in today, do you feel like that it's more prudent to kind of keep the cash for yourselves or and kind of wait for a rainy day or do you think that share repurchase and those options are going to continue to be as high on the priority list as we've seen in the past.

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah. Thanks for the question John, I appreciate you asking this. And just for everyone here I know that John's aware of this. Our strategy has really become much more organic focused over the last two or three years versus if we went back three years plus you saw a lot more acquisitions. And that's really a strategic decision on our part because we think that digitally transforming the business right now is the most important and the highest return activities we can be doing. So what all that means is that the costs that we're putting into digital transformation while we're investing there is certainly much less capital than go buying companies which leaves us with more capital to return to shareholders.

So we plan to stay active in this. We don't want to build up a lazy balance sheet. So we're planning on continuing to stay healthy and returning healthy amounts of capital back to shareholders. And we want to make sure we're doing some of that consistently, but we also want to make sure we're doing it opportunistically as well.

And the balance sheet is in great shape. We've got about a third of a turn of EBITDA on the balance sheet debt. We feel like we could take on some more debt to buy opportunistically as well. We wouldn't get too far ahead of ourselves. Maybe up to a turn of debt in today's environment, but those are our latest thoughts on use of capital and our thoughts on share repurchase John.

John Healy

Analyst, Northcoast Research Partners LLC

Q

Great. Thank you, guys.

Operator: [Operator Instructions] And your next question comes from Kevin McVeigh from Credit Suisse.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you. Hey I wonder you'd mentioned, Derrek, I think a couple of client losses in the quarter. Just any context around that and is there any client loss factored into that Q1 guidance?

Derrek L. Gafford

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

A

Well what we've been reporting on Kevin I want to make sure I'm clear about this, as we've been reporting on some headwinds of client losses that we have going back. Really the main client losses or headwinds, we called them out have been ones where we've lost a couple that continue to be headwinds right now are couple of clients that we lost at PeopleScout; one because they got acquired, and another who's just a large aerospace manufacturer that's having a lot of problems. And those are the two main headwinds we've had.

They weren't lost clients necessarily in the quarter. The ones that were – that [ph] preceded (00:32:18) this quarter, but they were significant enough that we wanted to call them out because of the impact on the company trends and PeopleScout. And some of that we've provided in our investor materials a look at how that continues to provide a little bit of headwind going into 2020. So but I want to pause there and make sure those were the head – the client losses that you were referring to Kevin.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

They were and then just any sense of when you should kind of start to run off Derrek or when do you think they would ultimately [indiscernible] (00:32:50)?

Derrek L. Gafford

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

A

Yeah it's really down to the one large aerospace manufacturer at this point and so we've laid it out by quarter. I won't go through all of that with you but the big picture is we're expecting about $11 million of revenue headwind from that client in 2020 which would be about roughly $6 million of EBITDA headwind. About half of all that headwind happens in Q1, and then tapers itself off over Q2 and Q3, and drops to no headwind in Q4.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. And just any thoughts in terms of the guidance just relative to the macro environment overall, and [indiscernible] (00:33:36) sense of how you end the year in December, and then ultimately start back up in January, feel like January the trends are a little bit better but just any thoughts from a client perspective, how the discussions are going from a macro perspective?

Derrek L. Gafford A

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

Well, for us, we – we're certainly not experts on the macro more experts on running our business. And what our history has told us as far as the macro is that our PeopleReady business is a very, very good leading indicator of some of the macro trends. Particularly when it comes to more macro trends in blue collar industries in the industrial space largely because of this, the PeopleReady, the workers it's a collection of small projects that that sometimes last four days or a few weeks versus much longer assignments.

So we tend to see we think the positive turn quicker than some others and also when things drop off. There – this is probably our most, if we were to talk about our thoughts right now going into the first quarter versus our thoughts in the second third or fourth we're feeling much more optimistic than we were over the last three quarters. The trend changes that we've seen, they've been very recent.

So that doesn't. There's still some question for their sustainability. But versus what we've seen over the last 9 months or 10 months with demand slipping and seeing positive traction here it's very encouraging to us. And I'll also say that the demand trends improvements that we've seen I'm talking about the decline that PeopleReady getting smaller that pickup has been. It's been very widespread. It's been virtually across every industry between the middle of December and where we stand now. So small amount of time but widespread which we feel is encouraging for our results and we think if our results are lifting, it will probably carryover into what you see in some of the macro factors as well.

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Hey, Kevin, this is Patrick, I'm going to follow-up also on the first question you had to Derrek around PeopleScout. If you look at Q4, PeopleScout was down in terms of raw dollars about $12 million on a year-over-year basis. About $8 million of it was that aerospace manufacturer that Derek mentioned; we had another $2 million or so in the UK.

So those two things make up the bulk of the decline. And one of the trends that we're seeing that that has us concerned is in PeopleScout we're winning a lot of deals. In 2019 we had nearly 60 new clients. But the relative size of those wins had been a lot smaller than what we've seen historically. And so that that's something that's having an impact on our year-over-year growth rates is we're used to winning a lot of deals that are big.

And what's happening right now is we're winning a lot of deals that are small coupled with that aerospace headwind, coupled with the UK headwind, and that's the result that we find in Q4, and in our outlook for Q1. So we're working hard to take those smaller wins that we've had and turn them into larger clients with expansions of scope and the like. And so that that's a big part of what's going on at PeopleScout.

Kevin McVeigh Q

Analyst, Credit Suisse Securities (USA) LLC

Very helpful. Thank you so much.

Operator: [Operator Instructions] And your next question comes from Josh Vogel with Sidoti and Company.

Josh Vogel Q

Analyst, Sidoti & Co. LLC

Thank you. Good evening, Patrick and Derrek. I apologize I hopped on the call late here so if any of these questions or commentary is redundant I'm sorry. But my first question I had is, last quarter you talked about rolling out some new features I believe on JobStack in the first quarter of this year something that could help drive more candidate flow. And I'm curious if that's still the plan, and also are there other strategies or capabilities that you're looking at with regard to your digital business model?

Derrek L. Gafford A

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

Yeah. Thanks, Josh. Related to the new features what you're referring to is our onboarding. Today, the onboarding is done through some other systems that then flow into JobStack. And so one of the areas that we're focused on is creating a much more frictionless process when we onboard candidates and then ultimately hire them and move them into billable assignments. And so that's a big area of focus for us. Our target is to have that implemented right at the end of Q1 or early Q2. And so we're working hard on that and we think that's going to help our supply quite a bit. And that's particularly relevant in a tight candidate market like we're operating in today.

In terms of other strategies, probably the biggest one is something I alluded to in my prepared comments is our focus on heavy users of JobStack, which today heavy users roughly account for about 15% of client revenue at PeopleReady. And when you take out clients that are new and you take out clients that have been lost, and you look at an apples-to-apples year-over-year comparison what we're seeing is that those clients are running at roughly 20 basis 20 to 25 points higher in terms of growth rates of a year-over-year basis. So they're running at in the 20s in terms of the growth rate and the rest of our clients would are running in the negatives. And so a big area of focus on in 2020 and beyond is to convert more clients that are non-users of JobStack to become more heavy years.

So in Q4 that actually created a couple of points of lift for us. Our results would have been even weaker without the heavy use of JobStack. The other thing that we're seeing among those heavy users is we're seeing significantly higher client retention among those clients. And so the double benefit of having higher growth rates on a year-over-year basis coupled with higher retention rates becomes pretty obvious so that's an area of focus for us. And so what we've done specifically in 2020 is we've changed comp plans for our field organization to drive more heavy JobStack user usage.

We've put more sales and marketing effort towards those heavy users. We launched a client engagement team in the back half of 2019 and a big part of that client engagement team is onboarding new clients. And so as we've been onboarding clients we've been making sure that not only do they get off to a good start with PeopleReady but they're fully aware of the capabilities of JobStack and we're working hard to get them signed up. And so I suspect this is the year is as the year goes on and even in the future years, we're going to continue to see that heavy user percentage of revenue climb, we'll continue to see some pretty healthy year-over-year growth rates among those clients, so that's a big area.

We've invested a lot of money in JobStack and so that's a big deal for us coupled with some of the onboarding technology we talked about earlier.

Josh Vogel Q

Analyst, Sidoti & Co. LLC

That's helpful. Thank you. Again I apologize if I missed it, but are you still expecting to achieve a net $8 million in annualized cost savings in 2020?

Derrek L. Gafford A

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

Hi, Josh. Yeah, thanks for the question. Yeah. So as far as the cost savings that we went through on the PeopleReady organization, and the savings that were generated out of some of the restructuring activities we did in Q3 we are expecting $8 million of savings from that action that will carry into 2020.

Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Okay. Thank you. And then if what if we see a more pronounced or unexpected step down some point this year. I'm just curious how dynamic you could still be in managing the cost structure outside of that that $8 million?

Derrek L. Gafford

A

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

Sure. Well you know we talked about the $8 million that's carrying into 2020 and in 2019 we carved out $28 million of operating expense. So I think we've got some track record here in being able to go through and right size the SG&A based on where we are. However, with every step down, it doesn't get – it does get harder, it gets harder. And some of the actions carry more risk. And what we've really been trying to avoid in our cost reduction efforts up to this point is being very careful about any cost reductions involving employees that are directly serving or selling to clients. And so we've really tried to do those outside of the branch network and I think we've been very successful in that at PeopleReady which is where we've had the most pressure.

So, to that degree we take another step down we'll be able to take some more costs out. Will it be in the same rate of revenue? I'm not sure, when I say the same rate of revenue, I mean are our expenses were down almost as much as the drop in revenue. I don't know if we could keep a one-to-one match for that, but we'd certainly make progress and we'd have to go into some other areas that might carry a little additional risk, but we'll be able to respond if things turn down more.

Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Thank you. Just one last one look. Looking at your outlook outside of PeopleScout, and you note of incremental improvements at PeopleReady and PeopleManagement. So there's no other itemized or you can say client related headwinds that we should expect as of today at PeopleReady or PeopleManagement?

Derrek L. Gafford

A

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

No, what we provide in our 2020 outlook just we've got one client that we reported on in 2019 that was creating headwind for the company and is continuing in 2020. So, we've broken that out. Certainly we win clients and we lose clients, but there's not any big client loss or anything that's on the horizon that we feel like we need to call out. So, if there were something like that we'd let you all know. But that doesn't exist at this time.

Josh Vogel
Q

Analyst, Sidoti & Co. LLC

All right. Thank you. Thanks for taking my questions guys.

Derrek L. Gafford
A

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

Thanks, Josh.

Operator: [Operator Instructions] I will now turn the call back over to Patrick Beharelle for closing remarks.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, thank you everyone. I appreciate you're listening in to our fourth quarter earnings call. We look forward to chatting again next quarter and have a great week everyone. Thanks.

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