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TrueBlue, Inc. (TBI)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue Fourth Quarter 2021 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, you may begin your conference.

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

Good afternoon, everyone, and thank you for joining today's call. I'm joined by our Chief Executive Officer, Patrick Beharelle. Before we begin, I want to remind everyone that today's call and slide presentation contain 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 discuss our fourth quarter results, I want to take a moment to reflect on the past year. 2021 was an extraordinary year across many levels. As the world continued to learn how to live in a pandemic, I am very proud of the TrueBlue community for growing together to deliver solid results. The demand for our services has never been higher as businesses turn to flexible solutions to solve their workforce challenges.

Despite the ongoing challenges associated with COVID, including lower worker supply and supply chain disruptions, our ongoing commitment to our digital investments and numerous operating adjustments positioned us to emerge stronger from this downturn. Revenue grew 18% for the year and is on pace to recover to pre-pandemic levels two years faster than the previous recession. New client wins at PeopleManagement and PeopleScout throughout the year and existing client recovery at PeopleReady and PeopleScout in the second half drove this growth. Compared to where we were prior to the pandemic, we now find ourselves with a stronger, more agile and more efficient business model. 2022 will be my fourth year as CEO of TrueBlue, and I've never been more optimistic about the momentum we have in the business.

Now, let's turn to our fourth quarter results. I am pleased to announce our fourth quarter results surpassed pre-pandemic levels. Revenue was $622 million, an increase of 20% compared to Q4 2020 and up 5% versus Q4 2019. PeopleReady's revenue growth accelerated throughout the quarter driven by improved worker supply and strong performance within the retail sector, while same customer demand and new customer wins continued to produce impressive PeopleScout results. These factors produced adjusted EBITDA of $36 million, an increase of $14 million compared to Q4 2020 and an increase of $15 million compared to Q4 2019.

Let's take a closer look at the performance of each of our three segments, starting with PeopleReady. PeopleReady is our largest segment representing 59% of total trailing 12-month revenue and 63% of total segment profit. PeopleReady is the leading provider of on-demand labor and skilled trades in the North American industrial staffing market. We service our clients via a national footprint of physical branch locations as well as our JobStack mobile app. Year-over-year PeopleReady revenue was up 22% during the quarter. Compared to the fourth quarter of 2019, we recovered 99% of our revenue, which is an improvement of 15 points from the recovery rate in the third quarter of this year. Performance was boosted by improving worker supply trends and solid results within the retail vertical. For worker supply, we saw an increase in the number of applicants resulting in a 13-point improvement from September to December in associates put to work compared to 2019. Retail results were strong during the quarter, increasing 100% year-over-year, led by a seasonal surge combined with ongoing project work.

PeopleManagement is our second largest segment representing 29% of total trailing 12-month revenue and 10% of total segment profit. PeopleManagement provides industrial staffing and commercial driving services in the North American industrial staffing market. The essence of a typical PeopleManagement engagement is supplying an outsourced workforce that involves multiyear, multimillion-dollar onsite and driver relationships. Even though PeopleManagement revenue exceeded the comparable 2019 period by 4%, revenue declined 1% in the fourth quarter. This decrease is primarily due to lower same-site sales, which are being negatively impacted by recent supply chain disruptions impacting several of our clients.

Turning to our third segment, PeopleScout represents 12% of total trailing 12-month revenue and 27% of total segment profit. PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing services as well as offering managed service provider solutions. Revenue momentum at PeopleScout continued during the fourth quarter growing 96% year-over-year and surpassing the comparable 2019 period by 49%. PeopleScout's strong results were driven by growth in existing client volumes of 71% year-over-year due to surging client demand and new customer wins.

Now I'd like to shift gears and update you on our key strategies by segment, starting with PeopleReady. At PeopleReady, our most important strategy is to further digitalize our business model to gain market share and improve the efficiency of our service delivery cost structure. The U.S. temporary day labor market is highly fragmented and there are very few large players in the industrial staffing segment where PeopleReady competes, with the bulk of the market made up of smaller companies. These smaller, regional companies are typically not able to spend the type of investment required to deploy something like our JobStack mobile app. So this, along with our nationwide footprint, is what makes us a leading provider within industrial staffing.

Our goal is to use JobStack to deliver value through differentiated associate and client experiences leading to increased market share and operational efficiencies. Since rolling out the application to associates in 2017 and to our clients in 2018, associate adoption has grown to over 90% and our JobStack client user count ended the quarter at 29,700, up 13% versus Q4 2020. We continue to focus on converting clients to heavy users. As a reminder, a heavy user has 50 or more touches on JobStack per month, whether it's entering an order, rating a worker or approving time. Overall, heavy client users account for 56% of PeopleReady U.S. on-demand revenue compared to 35% in Q4 2020.

We've also seen continued growth in our digital fill rates, which have increased 3x since roll out to nearly 60% with 964,000 shifts filled via the app during the quarter. With our digital strategy providing a differentiated experience, our centralized service centers to better serve existing clients and reach new ones more effectively is a major focus. As a reminder, the service centers increase our accessibility as they operate 85 hours per week versus 60 hours for a typical branch. This enhanced go-to-market approach includes repurposed job roles with the creation of dedicated, territory-based account managers who are responsible for new client acquisition and management of existing client relationships. We expect the new structure will deliver a greater sales focus and provide elevated customer service, while non-client-facing positions will be reduced, resulting in a net cost reduction.

Based on progress made over the past nine months, I am excited to announce we have expanded our two service center pilots by consolidating additional branches into each. In addition, we are testing a virtual service center model and opening a service center to support our skilled trade customers and tradespeople. We view these actions as the next step in the journey. We will expand existing locations and add new ones over time as long as we are able to meet the needs of our clients and achieve a variety of operational performance metrics.

We have developed a standard rollout framework to ensure service continuity for our clients and associates. This includes aligning account managers to specific territories and client portfolios in advance of go-live, adjusting service center staffing levels to ensure adequate coverage, and a robust training and quality assurance process to ensure operational and service delivery excellence. Once the service center rollout is complete, we expect annual run rate cost savings of $10 million to $15 million.

Turning to PeopleManagement, our strategy is to focus on execution and grow our client base. Last year we sharpened our vertical focus to target essential manufacturers as well as warehouse and distribution centers and made investments in our sales teams to enhance business development activities. With these initiatives implemented, we have broadened the strategy to expand our geographic footprint by targeting more local and underserved markets. PeopleManagement secured annualized new business wins of $95 million this year, up more than 40% versus the three prior year comparable average, helping to offset recent supply chain challenges.

Additionally, we are investing in customer and associate care programs in an effort to better serve our clients' needs and improve retention.

Turning to PeopleScout, our strategy leverages our strong brand reputation to capture opportunities in an industry poised for growth. Many companies reduced or eliminated their in-house recruiting teams during the pandemic, and now we are seeing companies return to hybrid and fully outsourced models. Our ability to hire large volumes of workers quickly has us well-positioned, and to capitalize further, we made investments in our sales teams to expand wallet share at existing clients and obtain new clients. Our efforts are delivering results with annualized new wins of $39 million this year versus the three year prior comparable average of $11 million.

Finally, I want to quickly address vaccine mandates. On January 13th, the Supreme Court blocked the Biden Administration's vaccine mandate for large employers. Leading up to the ruling, we were taking the appropriate steps to comply with the mandate. As such, in the event vaccine mandates are enacted at the federal, state or local levels, we will be prepared to service our clients. Looking forward, connecting people and work remains at the center of the TrueBlue strategy. As the economy improves and people return to work, we are excited about the prospects of the industry and our business.

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 for Q4 2021 was $622 million, representing growth of 20% compared to Q4 2020 and growth of 5% compared to Q4 2019. This growth was driven by strong results at PeopleReady and PeopleScout. Strong overall demand, particularly in the retail sector, along with improvements in worker supply drove the PeopleReady results, while PeopleScout benefited from strong client demand as well as turnover in the employee base of its clients.

We posted net income of $20 million, or $0.57 per share, an increase of $12 million compared to Q4 2020 and an increase of $11 million compared to Q4 2019. Revenue growth and gross margin expansion contributed to the net income growth in 2021.

We delivered adjusted EBITDA of $36 million, an increase of $14 million compared to Q4 2020 and an increase of $15 million compared to Q4 2019. Adjusted EBITDA margin was up 160 basis points compared to Q4 2020 and up 230 basis points compared to Q4 2019, with growth in 2021 again driven by revenue growth and gross margin expansion.

Gross margin for Q4 2021 of 26.8% was up 350 basis points. Our staffing segments contributed 310 basis points of margin expansion comprised of 110 basis points from lower workers' compensation costs mainly due to favorable development of prior-period reserves, 70 basis points from favorable bill/pay spreads, 70 basis points from increasing PeopleReady sales mix, which carries a higher margin than PeopleManagement, and 60 basis points from PeopleReady customer mix. Higher PeopleScout sales mix contributed the remaining 40 basis points of expansion.

SG&A expense increased 33%, which was higher than our revenue growth of 20% due to the magnitude of the cost actions taken in Q4 last year. As a reminder, in Q4 2020, our cost management actions produced a decline in SG&A of 22%, which outpaced the revenue decline of 12% for the quarter. As we anniversary these cost reductions, we expect SG&A growth to moderate. We are running the company more efficiently than we did prior to the pandemic, thanks to numerous improvements in how we operate and leverage technology. SG&A as percentage of revenue in Q4 2021 improved by 30 basis points in comparison with Q4 2019.

Our effective income tax rate was 21% in Q4 which was slightly higher than expected due to lower tax credits.

Turning to our segments, PeopleReady revenue increased 22%, while segment profit increased 69%, and segment margin was up 210 basis points. PeopleReady revenue growth accelerated throughout the quarter driven by improved worker supply and high demand in the retail sector. Revenue in the retail sector increased 100% year-over-year largely due to a seasonal surge from one client, which contributed about half of the retail sector growth, or 4 percentage points of growth for the PeopleReady business, which we do not expect will carry into the first quarter. The rest of the retail growth came from a combination of retail and distribution-related support as well as store remodels. Revenue growth trends were also favorable across most industry sectors and geographies. Segment profit margin benefited from lower workers' compensation costs and positive bill/pay spreads.

PeopleManagement revenue decreased 1% while segment profit decreased 20% with 60 basis points of margin contraction. Same-site sales are being negatively impacted by supply chain disruptions, which created a drag of approximately 4 percentage points during the quarter. This headwind is being offset by solid performance from commercial driving services and new business wins. The decline in segment profit margin is a function of the decrease in same-site sales, which carries a higher margin than new business wins due to the associated implementation costs as well as higher employee-related costs reinstated during 2021 that were temporarily cut during 2020.

PeopleScout revenue increased 96%, with segment profit up $7 million and over 300 basis points of margin expansion. During the quarter, same-customer demand surged 71% year-over-year. Of the increase, approximately 15 percentage points was related to clients catching up to pre-pandemic hiring levels. Operating leverage from higher sales volume contributed to the improvement in year-over-year segment profit margin.

Now let's turn to the balance sheet and cash flows. Our balance sheet is in great shape. We finished the quarter with $50 million in cash and no outstanding debt. While we experienced an improvement in net income this year, cash flow from operations is down primarily due to the repayment of 2020 employer payroll taxes that were allowed to be deferred as part of the CARES Act, and higher accounts receivable associated with our revenue growth. Days sales outstanding increased 3 days compared to last year, which was a multi-year low, but was 1 day lower than Q4 of 2019.

During the quarter, we repurchased $17 million of common stock and $13 million was purchased during the first quarter of this year. The Board of Directors also authorized an additional $100 million in share repurchases, which we intend to complete over the next three years.

Now, I'd like to take a moment to provide additional color on two items impacting SG&A and depreciation within the forward-looking information we are providing in our earnings presentation. We are in the early stages of redesigning our PeopleReady technology platform to better support our digital strategy and new service center model. This investment will replace a 20-year old, internally built system and improve our ability to interact with clients and associates, which will also help us run our business with fewer branches.

In the first quarter, we expect approximately $3 million in operating costs as we prepare to implement this system at the end of this year and roughly $10 million for the full year. Once the system implementation is complete, we do not expect these costs to continue and as such, we are excluding them from our adjusted EBITDA and adjusted net income results.

In connection with this transition, we are accelerating the depreciation of the existing systems that will be replaced by the new technology platform. We expect $2 million in accelerated depreciation for full year 2022. The accelerated depreciation will be excluded from our adjusted net income results. For additional details on our outlook for the first quarter and the full year 2022, please see our earnings presentation filed today.

As we head into 2022, we are optimistic about the business. Our services are in high demand and with the supply of workers improving, we are better able to meet customer demand. And, our technology strategies are creating competitive differentiation and additional operating efficiencies to further enable sustainable growth.

This concludes our prepared remarks. Please open the call now for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Your first question today comes from the line of Jeff Silber with BMO Capital Markets. Your line is now open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thanks so much. I'm not sure if you talked about billing and wage rates in your prepared remarks. If you didn't, if you don't mind just discussing that, I'm just wondering what the trends are and if you're having any difficulty putting through some of the wage inflation we hear that's going on in the market.

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

A

Hi, Jeff. Welcome today. Derrek here. I'll take that question for you. We continue to see high levels of pay rate inflation in our business. Pay rate inflation for the fourth quarter, for our PeopleReady business, pay rates were up 11.4%, which is a step-up from the 10.6% that we saw in the third quarter. So, we continue to see high level of pay rate inflation.

The pay rate inflation is actually a friend for us, as long as we're getting it passed through in our bill rates, which we are doing. In fact, in Q4, our bill rates went up 12.4%, so call that a positive bill/pay spread of 90 basis points. And so although pay rates still are advancing quite well, high, we're getting that passed through. And this is actually one of our better quarters in our history, as far as positive bill/pay spread, due to the supply and demand imbalance with the labor pools out there.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right. That's great to hear. And just continuing on that theme, in terms of trying to find people, are you doing anything different over the past few months or so to try to find labor supply compared to before the pandemic?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah, Jeff, this is Patrick. I'll take that question. We're very much using an all-of-the-above approach. So, when we think about finding people, the first thing is, you have to retain the people you've got. And so we've got programs we've put in place to help retain workers. We're using the JobStack app for in-app marketing to make folks aware of opportunities for jobs. And so, what we've seen is, the average number of hours per worker increase over the last couple of quarters.

The second thing we're doing is, we're doing what we call a rejuvenation program, where we look for former workers, folks that have been out of the market, that had worked for us previously. And we've got back-to-work campaigns that we've put in place to communicate with those folks and let them know there's opportunities. If they're ready to come back, then we're encouraging them to do that and reaching out to them.

And then the third piece is around new workers. And so we've put in place some pretty effective grassroots recruiting campaigns. We've added centralized support that we didn't have pre-pandemic. We've upped our incentives as well. And so we've seen a really nice trend in terms of worker supply that started to turn favorable in a more pronounced way once the enhanced unemployment benefits ended in early September. And so we've seen a slow, steady, relentless improvement every month that's continued from September all the way through January.

We saw a 13-point improvement in worker supply from September to December. And when you look at the revenue trends throughout the quarter, our revenue trends got stronger as the quarter went along. So we're feeling really good about things. And by the way, there's still a long ways to go. If you look at our worker count, kind of where we ended the quarter and compare that to pre-pandemic levels in the fourth quarter of 2019, we've still got a lot more workers yet to come back. So we're doing some things different. We think they're pretty effective, but I think there's still some more supply yet to come back.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

All right. Great. If I could just sneak in one more, I really appreciate the amount of information you gave in your outlook. But as you say on the slide that we are not providing customary revenue guidance, what do you need to see to start providing revenue guidance once again?

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

A

Hi, Jeff, it's Derrek here. I don't know if we'll start providing revenue guidance. One of the things that we've been doing here is trying to give more color around the unique trends, specific things to call out for our investors to be aware of. But as far as giving traditional top line and bottom line guidance, we haven't been doing that for a while. I don't know if we necessarily need to. We've been enjoying spending more time talking about what's actually driving the business and where we're going with the business as opposed to where we came in versus the guidance.

As it pertains though to our first quarter guidance, we are giving historical information. And when we're providing that information to you though, it's not like we're arbitrarily grabbing it. I mean, we're looking at different periods, historical time periods, we're taking out anomalies, and we're putting that out there. So, it's still, I think, very good information for investors. And if there's something that's different than the historical trend, like there was last quarter, we noted that PeopleReady was starting to accelerate, we'll provide that, too.

So, I think, we're really accomplishing the objective with giving everybody the direction they need without giving specific top and bottom line guidance. Since we're on the topic though, I'll just go ahead and give the translation what that would be if historical trends hold true in the first quarter, is 15% less than the fourth quarter, that would pan out to revenue growth for the company of about 16% year-over-year.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Really appreciate the feedback. Thanks so much.

Operator: Your next question comes from the line of Josh Vogel with Sidoti & Company. Your line is now open.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Thank you. Good afternoon, Patrick and Derrek. Congrats on a very impressive year. Just building off that last question, I'm sorry if I missed it in your prepared remarks, but did you – Derrek, did you give out trends that you saw across the three segments for January?

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

A

No, we didn't give it out because we're not giving guidance. And so if we're not giving guidance, giving information about performance during the quarter would be problematic. However, what I can say is when we provide our historical averages that I just talked about, which would translate into year-over-year growth of 16% for the first quarter, we definitely were watching those trends in January. So, if we'd seen anything that was inconsistent in the trends for January, that would be in opposition to the historical trends that we've provided in the outlook, we would make note of something there to call that out for you.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

That's helpful. Thanks. Switching gears a little bit, and I don't know if this is easy to answer, but I'm just trying to think about the – thinking about the leverage in the model and your commentary, is there any way to ballpark and quantify how much lower the cost of delivery is today versus pre-pandemic, especially as you leverage the digital capabilities in JobStack? Is that something you can provide?

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

A

Well, I think there's a few different ways that we could talk about that. From an SG&A perspective, this quarter, our SG&A was 30 basis points lower than in Q4 of 2019. I think, some other ways that we can take a look at it is what our productivity levels are from a revenue perspective per employee. The biggest area where this makes the most difference is in our PeopleReady business. And if we take a look at what revenue per employee is running in the fourth quarter, 2021 versus 2019, the revenue per employee is up 12%. So, I think we're making good progress on continuing to lower the service delivery costs.

And, as you know, part of it's not just about lowering the cost, it's also bringing the technology in to make it more scalable, meaning that we don't add as much cost as we normally would as the revenue builds in the future.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

All right. Great.

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

A

And on that note Josh...

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Yeah. All right.

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

A

...and one thing I'll note is – another thing that we've called out is some investment – more investment in the PeopleReady business next year. We've – our JobStack technology, we've got in our plans to bring that in-house. We want to keep the intellectual property of that in our hands, and we think we can innovate faster doing so.

And then with our front office technology at PeopleReady, think applicant tracking systems, onboarding systems, shift management, things that are kind of done at the front end of the staffing process, that's on some very old proprietary technology going back 20 years. That, we will be moving off of our proprietary technology into some hub-based systems. And so I think all of that brings even more scalability to the cost structure going forward. And with more modern platforms in place on our front office technology for PeopleReady, which, by the way, JobStack sits on top of and is somewhat dependent on, we think we can really increase the agility of the innovation in that business to continue to digitalize the business and make the cost structure not only more scalable, but our service offering more appealing to customers.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

That's really helpful. Thank you. I want to ask a question about the market pilot. Obviously, you're seeing a lot of success there with the delivery model. And actually, as I'm saying this, I'm seeing the footnotes now that you're looking to expand the pilots this year and full implementation expected for 2022. I'm just curious, what percent, when we think about the branch network, is – do you currently have pilots? And what's – as you expand throughout 2020, how big do you expect this to be?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah, Josh, this is Patrick. Thanks for that question. Just to remind everyone kind of what we're doing with the market centers, the first thing is we've expanded hours from 60 hours to 85. And a key part of the strategy is we're adding more client-facing resources and fewer non-client-facing resources. And so we're going to take those savings and bank some of that, and we shared some of the numbers in the prepared commentary. And we're also providing more consistent delivery and training and coverage and things of that sort.

From a metrics perspective, we're looking at financial and non-financial metrics of things like revenue growth and pay/bill spreads on the financial side and the number of associates we're able to recruit, the number of clients we're able to sign on and retain, average hours per associate, things of that sort. And we're really pleased with the progress that we're making. And there's been steady progress.

We didn't come out of the gates particularly strong in the first couple of quarters we ran these, but we're building some momentum. So, we expanded the pilots in Q4, as an example, to include rural market pilots. We've got five of our branches in Downstate Illinois, Peoria, Bloomington-Normal, Decatur, Champaign, those types of locations. And so we've started piloting those, and those are off to a good start. So, we're going to be making some decisions over the next couple of months and finalizing rollout plans and details. And if all goes according to plan, we'll be moving from a pilot phase to a rollout phase in Q3 and would be fully rolled out in the first half of 2023.

In terms of the number of branches, roughly half or so are within 50 miles of a major metro and roughly half are in secondary cities. And so, depending on how the pilots play out related to the rural market locations, that will really impact how many branches we ultimately move into kind of a service center model. But the headlines are, we're really pleased with the progress and we're going to be making some decisions and likely go to a rollout phase in Q3.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Those are great insights. Thank you. And just last one, just trying to bridge some – on the gross margin, by back-of-the-envelope math, coming out with about $7 million added to gross profit from the workers' comp adjustment in the quarter, about $0.15 – $0.16 EPS. So what did workers' comp add to the full year? I really want to get a handle on what type of – given your guidance, what type of headwind is built in or that – or tailwind won't be there in 2022, and it's kind of masking all the leverage you're seeing in the model with digitization and delivery and the likes?

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

A

Yeah. I'm glad you asked that question, Josh, because you'll see in our outlook for Q1, we're expecting gross margins to go up. But for the full year, we're expecting gross margins to be down, call it, maybe 40 basis points. So, here's what's going on, is that in 2021, we had a very good workers' compensation year. Many of those – when I say good, what's being driven by is favorable development on prior-year claims. So, one of the advantages that we have and being largely self-insured and a good balance sheet is that we can go and put capital towards closing claims, particularly high-dollar claims in jurisdictions that are not very employer-friendly, and we've had a lot of success doing that. And so, what has happened this year is our workers' compensation expense, as a percentage of revenue, is about 1 percentage point lower nearly than it was in 2020. Well, the 2020 rate really is a more sustainable run rate for us. So, we will be expecting workers' compensation to go back up, not because of any degradation in the overall cost structure on a run rate basis, but just less favorable development on prior-year reserves.

So, we're looking at, call it, nearly 1 point in headwind on gross margin from workers' compensation in 2022 and favorable bill/pay spreads helping offset that to bring it down to about 40 basis points. I should also mention, though, when we're talking about gross margin while we're on the topic, you should expect gross margin 25% to 27% in – 25.5% to 25.7% in Q1, Q2 and Q3, and then about a 50 basis point drop in Q4. What that will do is, that will be a more pronounced gross margin headwind in Q4 of 2022 because workers' compensation, we got some very favorable development in Q4 of 2021. And that brought workers' compensation down to nearly 1% of revenue in Q4.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

All right. That's really helpful. Thank you for all those insights and for taking my questions, guys.

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

John Healy
Analyst, Northcoast Research Partners LLC

Q

Thank you. Wanted to stick with the gross margin question a little bit more. Just when we look at the performance, and you guys always put the slide in there. I think, it's slide 4 or 5, just bridging the gross margin performance. That performance in staffing continues to really surprise me to the upside and the bill and pay rate combination there. So, how are you able to do that in such a tight labor market? Is there a mixing of clients that's going on? Is there less competition in the verticals that you guys are competing in? So I would just love to know how you're pulling off the staffing gross margins continuing, just on a core basis move higher despite the wage pressures that everyone is talking about.

And then when you just look out like later 2023 and 2024, like what's the right level of gross margin for the company? I know you guys have evolved and changed a lot over the last couple of years, and it seems like one year there's something that's helping or one year that's hurting from a segment standpoint. So, that longer-term range of gross margin, is it higher than this 25.5%, or do we start to kind of move to a lower level or just kind of little longer-term viewpoint of the mix and the moving factors there?

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

A

Well, let me try to take both of those. So if we're talking about the fourth quarter, the staffing gross margins were up very sizably. So we had 310 basis points of our 350 basis points of gross margin expansion that came from the staffing side. Now we talked about some of that being lower workers' compensation that won't necessarily carry. That was about 110 basis points. Better bill/pay spreads, and we'll queue that to fundamental gross margin expansion, is 70 basis points. Revenue mix was helpful at PeopleReady that added about 70 basis points. What I'm reflecting there is PeopleReady growing faster than PeopleManagement, and PeopleReady is a higher gross margin. And then we had a drop year-over-year in our energy-related business, which is a lower gross margin, which ends up benefiting us.

If we come back to the bill/pay spreads, the 70 basis points, which I think is the fundamental part of your question, now that's something that we're working very, very hard on. And it is a short demand – or a short supply market. But if we can't get bill/pay spreads when there is supply and demand imbalance, I don't know when we can get them. And so that's how we talk about it here at the company, this is really the time. And so we've got everyone ultra-focused on making sure that we are getting paid the right wage or the right bill rates in today's times.

Looking forward what the gross margin will be going forward, I do think we have more opportunities to have faster growth in our PeopleReady business and our PeopleScout business, which carry higher gross margins. You can see that's also where we are investing largely the technology dollars. So I do think there's opportunity for that gross margin to go higher, and as a result of those two business units, having a higher mix of the business in the future than they do today.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Awesome. That's super helpful.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Hey, John...

John Healy
Analyst, Northcoast Research Partners LLC

Q

I just wanted to ask...

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

...again, one other thing I'd add to that, just over time you kind of look out a couple of years into the future, using data science and machine learning to identify associates that we can match to jobs and that have the highest probability of showing up and successfully completing the job, which, of course, is how we get paid. We think there's some opportunities over time to take our business to the next level with leveraging more data science and machine learning. And so we're incorporating that going forward in our JobStack tool. And my sense is, there's going to be some opportunities long term, not just at TrueBlue, but within the industry to get a lot more efficient in how we engage workers and pick the highest probability workers for showing up and completing the assignments, which will help our margins because there will be fewer call-offs and fewer disappointing customers and things of that sort.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Makes sense. And then just on capital allocation, I know you guys are doing a fair amount on the tech side of things. But just kind of the buyback activity in the quarter, I think you guys did $17 million. Is that something that you guys are prioritizing more and will continue to be active on this year, or how do you think about the kind of returning capital and given what the business is doing, maybe being more aggressive there?

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

A

Yeah, it's an area that we plan to be more active in going forward, John. So, for us, getting past the third quarter of this year was really important for us. We had approximately $60 million of payroll taxes that we had deferred under the CARES Act out of 2020 that we need to repay. And then with our revenue growth, we had a sizable amount of capital going into stocking back up our accounts receivable base.

Now, with those two behind us and the business producing strong cash flows, we're in a position where we will be allocating more capital back to shareholders and have more excess capital to do that. So, yeah, we purchased back $17 million in Q4. We filed a 10b5-1 plan in Q4 to purchase those. We bought $13 million more back in January for a total of $30 million. We authorized, our board did, $100 million of additional share repurchase. So, that's something that we plan to complete over the next three years. So, yes, we've been a little absent on the share repurchases when 2020 hit, first half of 2021, making sure the balance sheet is intact, but we believe we're past that now. So, you should plan on seeing more from us in that area going forward.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Great. Thank you.

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

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

Q

Good afternoon. Just wondering with regards to the consolidation of the offices and the service centers, can you talk a little bit more about the results that you ended up seeing out of the pilot programs in Q4? Obviously, they were good and encouraging. Otherwise, you wouldn't be doing what you're doing. But I'm wondering if you can quantify them, like how much – on an indexed basis, how much better did the Dallas and Chicago do relative to matched markets?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Thanks, Mark. This is Patrick. I appreciate the question. Unfortunately, I'm not going to give you a detailed answer on this one. We're keeping that to ourselves. I'd just leave it at that we're very encouraged and that's why we decided to expand our pilots and in addition to including the rural markets, but we're not going to be giving out those details.

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

Q

Okay. In terms of the retail client that really picked up in Q4, what's your anticipation with regards to the success that they ended up seeing from utilizing you, to what extent do you think that's repeatable?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah. So this was a large retailer that has a name everyone would know, and we were in their retail outlets doing things like cleaning their stores, cleaning out their fitting rooms. It was a very successful project from the client's perspective and from our perspective. So, it was a – to a large degree, it was a seasonal project, though, Mark. So we would expect the good service that we delivered will continue to do business with them and probably have some spikes again next year in Q4 – or sorry, later this year in Q4 like we did it last year. So, I expect something similar in Q4 later this year.

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

Q

Okay. Great. And then can you comment a little bit in terms of what sort of puts and takes you ended up seeing from absenteeism during the quarter?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah, I could take that one. We definitely saw higher instances of absenteeism, particularly in the late November, December timeframe. It was about a 5-point drag in the PeopleManagement business through the quarter and sort of peaked at about a 10-point drag in December. We've seen that ease off quite a bit, though, recently. Obviously, it was driven by folks calling in sick or concerns they might be sick with Omicron, and it's a very manageable situation, but it definitely – we saw a spike in that late November, December timeframe, and it's been easing off since. So, very manageable situation.

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

Q

Great. And to what extent do you think it ended up helping in terms of orders in terms of filling in for late-notice absenteeisms – absentees in your client base?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, it depends on what business we're talking about. If we're talking about PeopleManagement, it was clearly a drag because we have exclusivity at those sites. And so if people are calling off at the last minute, and we're not able to refill those right away, that's just revenue that's lost.

On the PeopleReady side, sort of a mixed bag, where we were having a lot – obviously, clients were having lots of folks calling off. And so they – so there was a spike in demand and a challenge from a supply perspective. And we don't really have a good way of measuring it in the PeopleReady side. So it's hard to put a specific number in PeopleReady like we can in PeopleManagement.

One other thing that's, I think, relevant that wasn't part of your question, but a similar type of issue, which is around the supply chain challenges, we're definitely seeing – we saw headwinds in Q4, pretty widespread across geographies and industries, particularly in our manufacturing clients. And Derrek had mentioned in our alternative energy, that was a smaller part of the business in Q4. We saw a lot of solar installations that were delayed out of Q3 and Q4 in 2021 into Q1 and Q2 of 2022. Lots of stops and starts, where clients will order a couple of hundred people, we'll go out and recruit those folks and get them started, and then there'll be a supply chain disruption, where they won't have all of the materials that they need. And so they'll work for two days, and then we have to call them off.

On the bright side, clients are telling us that they believe this is more of a first half 2022 type of issue and expect things to more sort themselves out in the back half of 2022 related to the supply chain. So, that was a much bigger issue for us than the absenteeism issue.

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

Q

Appreciate the color. And then on PeopleScout, can you talk a little bit about the RFPs that you were involved in, that you ended up seeing over the fourth quarter? Obviously, over the course of the last year, you've seen quite a few. What are you seeing in terms of the pipeline? And what percentage are you winning in recent months?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, at PeopleScout, we had a really good year from a sales perspective. We had $39 million in annualized wins, which is quite a bit more than we've seen, Mark, historically. If you look at our three-year average, we had $11 million of wins in the prior three years on average annually and nearly 4x that in 2021.

In terms of the types of RFPs that we're seeing, we're seeing a lot of first-time buyers, folks that haven't outsourced their recruiting before. And it usually takes one of two forms. One form is a big bang. So we had a very large retailer that we signed in Q3 and rolled out in Q4, that signed up for a multiyear contract, their first time, over 30,000 hires on an annual basis, and that's off to a really good start. It was a very competitive bid. All of the major players in the industry were part of that one. We had a number of other ones that we had won as well.

The second type of engagements that we're seeing are smaller types, what we call recruiter on demand, where clients are saying, I don't want to outsource all of my recruiting, but boy, we need help. And so we need some supplemental resources. And so, we've won more deals of the small variety than we've ever won in the history of PeopleScout in 2021.

So, we're feeling really good about our win rate. We've tended to run north of 40% in terms of win rates when we go after a deal. And that's not inconsistent with what we saw in Q3 and Q4. So, lots of first-time buyers, lots of clients that are also engaging in a smaller way, which is great for us because a lot of the engagements oftentimes start small, we prove ourselves out and then more and more of that in-house work goes in our direction. And that's our biggest competitor, Mark, is in-house, as you know. So, that's who we view as the strongest competitors trying to displace an in-house team, and boy, it was a great year for PeopleScout for doing that in 2021.

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

Q

It's great to hear. Thanks, Patrick.

Operator: There are no further questions at this time. I would like to turn the call back over to Patrick Beharelle.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

Well, thanks, everyone, for joining the call today, and thanks to all of the TrueBlue associates for the great work that they did in 2021 and that they're doing in 2022. We look forward to speaking with you all again on the Q1 earnings call in early May and hope you all stay safe and thank you for your time. I appreciate it.

Operator: This concludes today's conference call. Thank you for attending. You may now disconnect.