Barrett Business Services, Inc. First Quarter 2023 Earnings Call

Good afternoon, everyone, and thank you for participating in today's conference call to discuss BBSI's financial results for the first quarter ended March 31, 2023.

Joining us today are BBSI's President and CEO, Mr. Gary Kramer; and the company's CFO, Mr. Anthony Harris. Following their remarks, we will open the call for your questions.

Before we go further, please take note of the company's safe harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995. The statement provides important cautions regarding forward-looking statements. The company's remarks during today's conference call will include forward-looking statements. These statements along with other information presented that does not reflect historical fact are subject to a number of risks and uncertainties. Actual results may differ materially from those implied by these forward-looking statements. Please refer to the company's recent earnings release and to the company's quarterly and annual reports filed with the Securities and Exchange Commission for more information about the risks and uncertainties that could cause actual results to differ from those expressed or implied by the forward-looking statements.

I would like to remind everyone that this call will be available for replay through June 3, 2023, starting at 8:00 p.m. Eastern Time tonight. A webcast replay will also be available via the link provided in today's press release as well as available on the company's website at www.bbsi.com.

Now I'd like to turn the call over to the President and Chief Executive Officer of BBSI, Mr. Gary Kramer. Please go ahead, sir.

Thank you. Good morning or good afternoon, everyone and thank you for joining the call. We had a strong start to the year and I'm very pleased with our results. We were laser focused and successfully executed on our short term and long-term objectives. Our financial results are in line with our full year projections and we produced record Q1 profitability.

Moving to our financial results. During the quarter our gross billings increased 5% over the prior year quarter. I would like to state that we have no direct exposure to the troubled regional banks and very few of our clients bank at these facilities. This was in essence a nonevent for BBSI. Regarding our client and WSE stack, our controllable growth exceeded our expectations in the quarter as we continue to execute on our various strategies to increase the top of the sales funnel and I am pleased to say that we once again exceeded our expectations in Q1.

Next trend that we previously discussed is that we've been able to sell and support larger clients with our upgraded technology stack and national PEO licenses. This continues to progress favorably and the average size of the clients that we are adding are larger than the average size of the clients that are running off.

Regarding client runoff, our retention in the quarter was better than the prior year quarter and continues to remain stronger than pre-pandemic levels. I'd like to attribute that to the work we do with our clients and to the value that our teams provide. The results of all these efforts or what I refer to as our controllable growth is that we added approximately 3,000 worksite employees year-over-year from net new clients.

Our same customer sales were softer than we forecasted and is a mix of a couple factors. I mentioned last quarter that California was receiving a colossal amount of weather, which we believed could impact our clients operations. Our Northern California clients in the construction and landscaping industries were affected severely. In these industries and specific to Northern California, our clients reduced their worksite employees, reduced overtime and reduced hours worked. They were unable to work in these conditions moderated their staff accordingly. We had positive same customer sales in every other geography, which more than offset the weakness in Northern California and we finished the quarter at a net positive but by less than we forecasted.

To summarize, we grew our worksite employees by 3% which was on plan for the quarter as we sold and retained more business. This was partially offset by our clients growing slower than anticipated.

Moving to our staffing operations. Our staffing business declined 23% over the prior year quarter and was lower than we anticipated. This decrease is a combination of many factors including but not limited to supply, demand, weather and varies by geography. Anthony will give some regional color for what we're seeing in our markets.

Moving to the field operational updates. We are very pleased with our progress of entering new markets with our asset-light model. Our market development managers are doing well and largely achieving their goals of adding and servicing new clients and new referral partners. Our first 3 classes have all graduated and were selling in their respective 14 markets in the first quarter. We have hired our next Class of 5 and they start their training in Q2 with the plan to start selling in Q3. Our results thus far are better than we expected and are exceeding our internal return hurdle rate.

Regarding our product update, we continue to execute on the sales and service of BBSI Benefits, our new health insurance offering. As a refresher we rolled out a soft launch to a limited number of existing clients in select markets for the 1/1/23 enrollment season. Our intent was to perfect our craft and then shift our focus to California and to new prospects. Our soft launch was successful and in March we started selling BBSI benefits in every market to new prospects as well as existing clients.

Since our last earnings call, we have successfully sold medical and ancillary products to 31 additional clients, of which 11 are based in California. This brings our year-to-date total to approximately 101 clients on our various plans. More importantly, we have proven that our products sold successfully in every geography we operate in.

I'd like to take a minute and discuss some successes of BBSI Benefits. We have been able to sell into our existing clients, which is a great thing. We've also been able to take this product to new distribution channels and to new client industries. Regarding new distribution channels, our BBSI Benefits products aligns well with benefits brokers. We onboarded 74 new benefit referral partners in the quarter. This is approximately 15% of the new referral partners that we added in the quarter and we expect the velocity and quantity to increase throughout the year. Our distribution channel has been heavily skewed to property and casualty brokers because of our workers' compensation product and this new product will allow for better balance and better diversification.

Regarding our new client industries, we have had early successes in adding clients in the industries of consulting, healthcare and financial services. These white collar industries were previously more challenging for us to penetrate with the lack of a benefits offering. The company is extremely excited to work with all of these new markets.

Next I'd like to shift to our view for the remainder of the year. We've had consecutive quarters of great momentum, our controllable growth exceeded our expectations in Q1 and this trend continued into April. We are selling and servicing BBSI Benefits in all markets now and we continue to be optimistic regarding the road ahead.

Now I'm going to turn the call over to Anthony for his prepared remarks.

Thanks Gary and hello, everyone. I'm pleased to report we finished Q1 with strong financial results achieving our highest Q1 income as a PEO and with strong controllable growth as we added more worksite employees from net client adds in the quarter than in the prior year quarter.

Our overall gross billings increased 5% in Q1 2023 to $1.79 billion versus $1.71 billion in Q1 '22. With continued positive earnings leverage, we achieved diluted earnings per share of $0.12 compared to $0.04 cents in the prior year quarter. Looking more closely at our Q1 results, PEO gross billings increased 5.3% over the prior quarter to $1.8 billion, while staffing revenues decreased 23% over the prior year to $22 million.

As Gary noted, our increase in PEO gross billings in Q1 once again included stronger than expected growth from net new clients in the quarter. This was partially offset by slower client hiring our existing customer base. Overall, WSE's grew by 3% for the quarter, which was in line with our expectations.

With respect to client hiring, the decline in Northern California accounted for approximately 2/3 of our total slowdown in hiring. We have seen hours worked increase in April since the poor weather subsided in California but we continue to expect the pace of client hiring going forward to be slower than last year.

Client wage rates have remained resilient, and even increased in the quarter, which will continue to drive billing growth for the remainder of 2023. However, as previously mentioned, our average billing per WSE was impacted by fewer hours worked and less overtime in the quarter. Average hours per WSE decreased 5% year-over-year, and over time decreased 11%. As a result our total average billing for WSE increased less than 1% for the quarter.

Looking at PEO gross billings growth in total by region versus the prior year first quarter, East Coast grew 14%, Southern California grew 10%, Mountain States grew 8%. The Pacific Northwest increased by 1% when normalized for large onetime bonuses in the prior year. And Northern California declined by 2%.

Looking more closely at the decline in staffing revenues, we anticipated that Q1 would be our toughest compare for staffing due to strong staffing demand in the prior year first quarter.

Reviewing by region our primary challenge in the Mountain States continues to be the availability of labor to sell client orders as unemployment rates remain low. In the Pacific Northwest several larger customers have decreased orders and moved more of their labor in-house. Our California regions were impacted primarily by weather and decreases in demand due to softening economic conditions. We continue to roll out our PEO recruiting services and in the quarter we placed an additional 73 employees of PEO clients. Overall, we expect staffing revenues to continue to decline year-over-year due to the ongoing challenges in the economy. So the decline should be at a slower rate than the Q1 decrease.

Moving to our gross margin results. Our gross margin continues to trend favorably with continued cost savings from lower workers' compensation expense in the quarter while our pricing has remained in line with plan. Workers' compensation expense continues to benefit from favorable claim frequency trends. And the first quarter included a favorable actuarially determined reduction of prior year estimated liabilities of $1.1 million.

As a reminder, our workers' compensation exposure is now primarily covered by our fully insured program with no downside risk to BBSI for future adverse claim development. However, BBSI can still participate in the favorable claim development in future periods.

Turning to operating expenses. SG&A for the quarter is in line with our plan included increases associated with the launch of BBSI Benefits largely offset by savings driven by cost management efforts. The result is continued earnings leverage and higher earnings for Q1 than prior first quarters. Looking at the remainder of 2023, we continue to anticipate slower SG&A growth in 2022 and continue to expect favorable earnings leverage in line with our long term targets.

Moving to our invested assets. Our investment portfolios earn $2.3 million in the first quarter, up $700,000 from the prior year. Our book yield is 2.3% up from 1.8% in the prior quarter, and our portfolio continues to be managed conservatively with an average duration of 3.8 years and average quality of investment AA.

Turning to the balance sheet. We had $133 million of unrestricted cash investments at March 31, compared to $160 million at December 31. The decrease is primarily due to the timing of year-end employee profit sharing and quarterly tax payments. As a reminder, BBSI is completely debt free and we do not incur any increased expense associated with higher interest rates.

Continuing under the Board's $75 million share repurchase program in the first quarter BBSI repurchased $8 million of shares at an average price of $88.67 per share. The company also paid $2.1 million in dividends in the quarter and reaffirmed its dividend for the following quarter.

Turning to our outlook. Our expectations for 2023 remain consistent with our prior outlook. We continue to expect gross billings to increase between 5% and 8%. We expect average WSE to increase between 2% and 4%. We expect gross margin at the percentage of gross billings to be between 3.0% and 3.15% and we expect our effective annual tax rate to remain between 27% and 28%.

I will now turn the call back to the operator for questions.

Our first question comes from Jeff Martin of ROTH MKM.

Could you give a little sense of the California market? Did you see any delayed decision making tied to economic uncertainty or banking sector kind of ripples throughout the month of March? And then any other factors within California on the PEO side that may be unique to the market?

I would say that the banking situation in and of itself was pretty much a nonevent for us. We don't have any direct exposure and we went through all of our clients and looked at the bank accounts and we didn't have much indirect exposure. And then regarding any slowdown because of it, we had a very strong April. Our momentum continued in April actually probably one of our best Aprils we've had in quite some time, we went back and I think it was our best April since 2016, something like that as far as our unit counts whatever we added. Didn't see any slowdown in April regarding new business transacting.

We mentioned the weather in California and specifically Northern Cal, and it had an effect on our construction industry, right? If it's wet out there, they can't do the business. And we did see that slowdown, and we mentioned that in our prepared remarks, but we're starting to see that come back into April.

Remember, we're a couple of weeks behind when we have our payroll run. So we can't see perfect data yet. It's not real time. But we did see payrolls bounce back some in April, specifically in Northern Cal in those industries.

Okay. And then could you comment with respect to pricing on new and renewing clients? Are you seeing pricing strength there? I think one of your competitors said they saw unexpectedly strong pricing coming out of the quarter?

I would say for the health insurance, specifically, we're still learning our craft in that one. So I'll just talk specifically to the workers' comp and ultimately, the admin, we charge our clients. So we've been able to hold rate on the workers' comp. That market has been kind of bouncing at the bottom and even being able to hold rate pretty well on that. And then the other thing we've been able to do is increase our admin a little bit to offset the inflationary costs that we're feeling. So we have a strategy that if our costs are going up, we try to push some of these costs over to the clients, and we've had success with doing that over the last 18 months.

Great. And then my final question is with respect to the BBSI Benefits offering. What's your expectation in terms of kind of take rate? Do you expect more of that to come from new clients? Or are you looking at that as you probably have a pretty high batting average in terms of selling it to existing clients?

Yes. I think the sell-through, I'll say, over the next 9 months is going to be better for our existing clients, right? So our clients know us, they value us. They like us. This is a good product that if it's going to help them with administration, it's going to help them with plan design. If the underwriting fits, we can be competitive. So we think the existing clients for what we're seeing through our sell-through now is going to be where we get the most ads in the next 9 months. But we are able to sell this to new clients.

I mentioned in my remarks that we're adding. We're adding clients that we've never had the ability to bring on before, right? So we're seeing hedge funds, money managers, law firms, companies like that, that are white collar that typically would go with a different PEO because they had benefits. Now we're able to bring them on, and we're having good success rate on bringing on these new white-collar industries with our new product.

The next question is from Vincent Colicchio of Barrington Research.

If we set aside California, how is client hiring trends doing versus the prior quarter?

It's slower than prior quarter. It's slower than prior year quarter. But the example I would give you is Northern Cal, we were negative, negative about 1,800 as far as our clients actually pulled back worksite employees. And then as we got into Southern Cal, use that as a balance. Southern Cal, we were positive by about 1,300. So Southern Cal continued to add Northern Cal share, and it was predominantly due to those industries that were weather-related. But across the board, every region and almost every industry we're in, our clients added worksite employees, except for Northern Cal.

And it sounds like your traditional lead generation platform is building out nicely. The digital marketing side, is that -- did that meet your expectations in the quarter?

That's a loaded question because nothing ever meets my expectations. But I would say -- we talked about this last year, where we had our total available market strategy where we were going out and trying to find new referral partners. And that was predominantly based towards P&C brokers and other non-traditionals. We had very good success on that last year. We did some reporting to that in our quarterly calls. What we've done is taken what we learned there. And now we're using that to target -- we're calling it a TAM 2, which is now we're trying to target employee benefits brokers, right? Because we have a product that fits for them and they can sell it as well. So now we have a targeted approach for more referral partners on the life and health side. So feeling good about that. We started that in Q1. We've had pretty good success so far, but I think we're going to get better at bringing those all throughout the year.

And you had stated in your prepared remarks that most of your first through third asset-light classes are performing within your expectations, I think you said. Has there been any incremental setbacks since last quarter?

No. We're doing well. I'm looking at reports now for the year, we've added 20 clients out of that new group, about 200-plus WSEs and they got a big pipeline of $140-plus million of potential revenue in the pipeline. So doing real well there, getting real good success. And that's why we're comfortable with launching the next Class of 5 that we've already hired these folks and they're going through the training now with the intent to start selling in Q3.

And lastly, any changes in sales cycles or any other indications of a slowing economy?

No. I mean I feel a little bit like a home or when I talked about the weather, but the weather was, I would say, the only thing that was peculiar for us in the quarter. And the thing I'm just really optimistic about is we got more product to sell. We've got more people to sell it and our sales machine, our controllable growth. We've been executing above our plan.

The next question is from Chris Moore of CJ Securities.

So I just want to talk a little bit about the workers' comp model. Obviously, you've been significantly de-risked over the last couple of years. Is it fair to assume that at some point in time, the one-time workers' comp positive adjustments will start to get increasingly smaller.

Chris, the way that we think about this going forward is when we started to enter into these prospective transactions back in '21, we structured them so that we would share in our good underwriting, right? So we have these, I would say, scheduled so that we're setting ourselves up so that we continue to get favorability in the future on our prospective program. So we have return premium provisions in there. And our goal as an organization is try to get as much of that return premium back as an organization. So if you think about going forward, going forward, we're going to have potentially future benefits. If all things work out and our underwriting continues and the crystal ball is as clear as I hope it is, we'll continue to have these return premiums come in through the fully insured program.

Got it. That's helpful. And I was kind of looking at incremental health care earnings is filling that gap, but it doesn't seem like there's a gap to be filled necessarily. Just from an expectations on the benefit side, I was kind of thinking that 24% would be modestly impactful, and then 25% is when we really feel benefits from a revenue standpoint. Is that a fair way to look at it?

I'm going to hedge here because we -- as you know, we have a big California presence, and we literally just started selling in California at the end of March into April. We've had good success so far. I think I said we brought on 11 clients so far, just on those, call it, 6 weeks, and we're still selling for the 7/1 selling season. And the idea here is to get your reps and get ready and learn your craft so that you can really capitalize on the 1/1 selling season, which is a predominant selling season for health care.

I say all of this because whether it's material or not is going to be dependent upon how well we do in California. And I just don't have enough data to really give you a good estimate on that yet. So as we think about this, we're bringing on business this year. We're probably going to cover our freight as far as the revenue and things we bring in the profit is going to cover the expenses for '23. For '24, depending upon how we do, it could -- it's going to be profitable. It's just a question of -- it's going to add profit. The question is just how much profit is going -- is that going to be, and we won't know that until we get a little more experience under our belt.

Got it. That's helpful. And maybe just the last one for me. I know BBSI has had some significant unrealized losses on investments and restricted investments. I guess the question is, is there any scenario where the losses on that investment portfolio could impact earnings if these are held to maturity?

And the answer to that is no, really right. So these are primarily held in our trust account. There's not a scenario where we would need to liquidate those investments. So as we noted, our average duration is 3.8 years. So it's not long duration, not long maturity. We're fully content to let those run out and amortize time to par value. So no risk of any kind of forced transaction that we required to realize those losses.

Yes. There's no -- it's not a bank where you can get a run on depositors when in a day, right? These are there to support workers' comp claims and the payment curve of workers' comp is very hard to modify. So we don't have to worry about a run on the bank. We can let them age.

The next question is from Jeff Martin of ROTH MKM.
Wanted to ask Anthony with respect to payroll, payroll taxes, pseudo rates, things that fall into the cost of revenue line. Are you seeing any movement there? My understanding is pseudo rates are determined by states and those often don't come out prior to you booking the business for the year, renewing the business for the year. So just curious what you're seeing, if anything, in terms of trends, specifically on pseudo rates, and then also anything else within the payroll tax line that's moving around?

It's a great question. And we've seen a multiyear trend now of our cost of sales decreasing, right, over time. And we've seen that in our overall market going down. Seeing that again this year as well. So we continue to see our workers' comp costs go down. Our pseudo rates have come in flat or down overall across our various states. So once again, seeing favorable tax rate.

The one piece that did go up, it was obviously in the news was there was pseudo credit reduction for a handful of states in the country, including California, but that was an incremental tax that we've negotiated with our clients to passthrough in our rates real time. So no impact to margins from that. But overall, favorable cost trends.

And then you bought back a considerable amount of stock in the last -- well, since your $75 million authorization was approved by the Board. You got $20 million left. What's your propensity to continue to pursue share repurchases, particularly with the stock trading where it is?

Well, again, the stock trading where it is, there's a lot of value there, and that's something we definitely look at. So as Gary noted, our fundamentals and our controllable growth have really never been better. And we've never been more optimistic about the company. So from our perspective, it's a great opportunity to continue the share repurchase program.

And then, Kramer, on the M&A side, are you still looking at potential acquisitions or does the BBSI benefits offering negate the need to continue to look out there?

Good question. I would say we are still in an active of the market. What we're looking for has shifted some. We were looking for a PEO that had a health insurance offering now that we built our own out. We don't need to look for that specific profile. But we are still -- if it makes sense, we're still looking for PEOs and geographies? We're not. We're still looking at IT products that can support our tech platform. I can tell you that the market is getting a little more rational now as part of -- in respect to valuations. And we're actively looking. We're seeing the market come down.

We're seeing the market come down to where we think it's reasonable to be a buyer before it was -- when we were looking at these a year or 2 ago, it was kind of irrational what these valuations were, and that's why we were apprehensive to do it. But we got some dry powder that's ready to deploy if we find something that lines up right.

Okay. And then since we have some time here, I wanted to ask, if we look out 5 years from a geography standpoint, from a client mix standpoint, blue-collar versus gray and white collar, geographic footprint, where do you see BBSI in 5 years with respect to being more of a nationwide player in a lot more markets and competing more for the white collar side of the PEO market?

Yes. I would say let's just talk organic and leave the inorganic off the table, right? Because the inorganic can really skew how your profile looks, right, just depending upon if we require somebody what they would look like. We have been investing heavily in our market development managers, right? So we had 14 that are currently selling. We've got 5 that are in training now. So that's 19 markets that we were not selling in 2 years ago.

And there's a lot of white space out there. And if you think of 5 years from now, 5 years from now, we realistically could have people in every -- I don't want to say every state because I don't know if ever going to go to Alaska or North Dakota, but we could be in the majority of the states where there's a heavy population of small businesses that can use the BBSI support.

So we've really demonstrated that our product can be successful in any geography, just the core BBSI product. And then we're also with these new market development managers, right? So I want to say that half of the businesses we're bringing on now in these new markets are typically white collar, and they're also buying the benefits product. So we're selling more benefits in the new markets. We're selling more white collar in the new markets. And it's just going to be a matter of time to figure out how that balance shifts over 5 years.

Okay. And then one more if I could. In terms of the technology platform, my understanding is a lot of the white-collar market is more demanding of an enhanced technology platform. What -- is that part of the longer-term plan to enhance -- continue to enhance that platform? I know you just upgraded it and it was a meaningful upgrade, but curious to know your thoughts there.

Yes. That's every -- I don't care if you're a white, blue, gray. Everybody wants better tech, right? And we are committed to building out better tech. We've got a very good IT team. We use a very good offshore partner that does our development for us. For lack of a better term, we have become a software shop, right? And we have a monthly cadence. We have a quarterly cadence, and then we have a longer-term cadence for when we have larger projects that we have to ingest. So we have a product road map, and we -- I would say, for the next year, we're pretty clear on what's on our product and the road map. We're not sharing that externally, but we do have folks that are -- that know where we're going and have the plan to get there.

The next question is from Bill Dezellem of Tieton Capital.

Great quarter. And first question is relative to wage growth, would you please talk about the pace of wage gains that you are seeing? And really, the spirit of the question comes to kind of the whole economy and the Fed wanting to -- raising rates and concerned about inflation and ultimately, how -- what you're seeing at the wage level, please?

Yes. Bill, we've seen consistent wage growth now for some time, and that really hasn't [Technical Difficulty]. So it's actually been very resilient. And if you look at the national statistics, you're seeing average wage rates this last quarter, a little over 5% year-over-year, and our internal statistics usually are ahead or higher than those national statistics, and that continues to be the case even through Q1.

So we're seeing that the wages are resilient. Really the softness that we talked about on the same customer sales component was in those hours worked. So that was really offset by that the 5% lower hours worked that we talked about in Q1. But again, the hours worked are more temporary and that comes back, but those wages are resilient will continue to be a driver of growth.

And the hours worked, did you see any trends that were interesting or useful outside of the weather hampered West Coast?

So a lot of concentration in Northern California. That's what I said in terms of the -- where the statistics are focused. That said, we did see reduced overtime in all regions. So that really was a little bit of a leading indicator, something others in the industry have seen as well that there is definitely macroeconomic softening or a little bit of caution out there. So that is, I guess, the one data point there that will be relevant.

And then relative to staffing, I know you talked a bit to it in the opening remarks. Would you step back and just talk about strategy relative to staffing and how you see it just philosophically fitting into the business over the course of time.

Yes. I would say we have more focus and attention on staffing now than we ever have. We have folks that are dedicated in leading the product line. We have been investing in IT to support the onboarding and the applicant tracking on the app on the staffing side. So we're committed to the business.

The new product that we have is we do recruiting for our PEOs. We had another good quarter of that this year so far, and we continue to expect that to grow as well. I mean it's probably still the #1 thing we hear from clients is that they can't find employees to hire, right?

Everybody reads the journal. Everybody knows that this is the most advertised recession in history. But fundamentally, everybody is still trying to hire. There's still more job openings, twice as many job openings is unemployed people now, right, still in this economy. So folks are having trouble finding good people. That has not subsided at all. And I think of staffing, right, our staffing is down, and it's down for a couple of different reasons, right? And Anthony mentioned it by geography. But really, what we've done is taken a hard look at our staffing as we modified our strategy. We started the call businesses that we weren't making our profitable ROI returns on.

So we made decisions to get off a certain accounts so that we can deploy our recruiters on other business that's more profitable. We know that we're going to have profitability in the recruiting for our PEO clients. So we've been making choices and diverting resources. And some of the top line is intentional, and we've been going through this intentional for about the last 6 months, and you're starting to see more in Q1 because it's going against the Q1 of '22, which is harder to compare. But we look at this saying, every branch that does staffing is profitable now, and we're driving better profitability in every staffing branch.

Would you please maybe reconcile one thing, which is that the overtime is down, but yet the #1 issue you hear from clients is they can't hire enough people. Those 2 seem like they could be in a little bit of conflict with each other.

I think folks in general, if they have a choice to not pay overtime, we would prefer to not pay the overtime, right, because you're typically doing the time and half depending upon where the wages are. So they always try to manage through what's best for their business. And it's better to have more folks on regular time than to be paying excessive wages on overtime. So just in general, we're seeing over time down. We're seeing a little bit of pullback on those, but we're also -- we gave the stat of over time down, but our outside of California, our clients still hired Southern Calgary what it was, they still hired 2,000 employees, right? So it's -- we're still growing. It's just growing at a lower rate than it was compared to '22, right? Think of '22, you had a ton of pent-up demand still coming at you from COVID. And it's not as -- I'll say it's not as voluminous now as it was then, but we're still -- our clients are still growing.

That's helpful. And so given that #1 problem is still not able to hire, but there is hiring taking place. Does that imply that the level of pain in terms of the ability to hire has maybe improved slightly. And so they are getting more of the employees that they would like, just not that they're not fully there.

It's a tough one to answer. It's going to vary by state, by geography, right, like our Utah markets. I think Utah may have the lowest unemployment in the country still. I'll have to use our staffing business, for example. We have a real tough time filling in those markets just because there's nobody -- there's no available workforce. So it's hard to paint a brush for the whole country, depending upon what the real industry or what the real geography is.

Great. That's a very fair point. One additional question then. You had mentioned that April was a very good month for you. The weather has certainly been better on the West Coast. So presumably, we should see an acceleration in the second quarter relative to the first quarter in terms of your underlying business strength, in terms of how it's viewed or reported externally?

Yes. I mean we feel that we're going to get some workers coming back in Northern Cal, right, which is going to be a positive. And then as we look through our unit counts, clients, we added and the worksite employees they added in April and clients we retained. It's -- our April is not closed yet, but April was a very strong month for us. So we feel -- this is where we get back to the controllable and what we feel optimistic about. I mean we feel really optimistic about the future and about what we can control. And we think April is going to be better than March.

That's helpful. I'm going to actually sneak in one more, which I believe in your opening remarks, you referenced that persistency was better than it was last year. Would you walk through what is leading to that persistency improvement and ultimately, the implications that has on your profitability?

Yes. Our client retention, I gave the stat that our client retention this quarter was better than -- we got a bigger client base, and we had less runoff in Q1 '23 than we did in Q1 '22. So we had less clients run off, less WSEs runoff than we did against the prior year, and that's on a bigger base. So we feel real good about that.

And that has to do with the service and the value we bring to our clients, right? We're out there every day in the field with our clients practicing our core discipline, making sure that we're visiting the clients, making sure that we're out there helping out. And hopefully, our clients have a long memory of how well we did and how much we help them through the pandemic. That's what -- we were there when they needed us and we're still there today. And we're there and we got new products for them to hopefully help run their business. So I feel like we've got a real viable, valuable product for them, and that's why they stay with us.

Congratulations again on a great quarter.

Thank you. Ladies and gentlemen, that concludes our conversation on this session. And I would now like to turn the call back over to Mr. Kramer for some closing remarks.

I feel like I used all my words on this one, but I just want to thank all the BBSI professionals for a great quarter, and thank you, everybody, for dialing in for your support, and that concludes our call.