

Barrett Business Services, Inc. Fourth Quarter 2025 Earnings Call

Good afternoon, everyone, and thank you for participating in today's conference call to discuss BBSI's Financial Results for the Fourth Quarter and Full Year ended December 31, 2025. Joining us today are BBSI's President and CEO, Mr. Gary Kramer; and the company's CFO, Mr. Anthony Harris. Following their remarks, we'll 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 March 25, starting at 8:00 PM Eastern tonight, and 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 would like to turn the call over to the President and Chief Executive Officer of BBSI, Mr. Gary Kramer. Please go ahead.

Thank you, Marissa. Good morning, everyone, and thank you for joining the call. I am pleased to report that we had another solid quarter capping off a year of strong results. While fourth quarter same customer sales trends moderated and revenue came in slightly below our forecast, our earnings exceeded our full year guidance. We remain optimistic about the future as we execute our short and long-term objectives, and continue to achieve record growth in our worksite employee base.

Before I speak about our financial performance, I would like to recap some of the key operational and strategic accomplishments for the year. We are successfully selling and servicing BBSI Benefits in every one of our markets. Notably, we are seeing significant wins in white collar verticals, a segment where we previously had a difficult time penetrating. Our strategic sales initiatives have been operationalized, and are resulting in greater velocity at the top of the sales funnel, resulting in record WSEs.

We have more referral partners that understand and appreciate our value proposition, and are referring more business to BBSI. We finished the year with approximately 26% more active referral partners over the prior year. We continue to invest in our asset-light model, and have successfully expanded into new geographies and continue to gain momentum.

We successfully converted two of these emerging markets to traditional branches. We continue to invest in myBBSI, and in our tech stack, which resulted in multiple product releases in 2025. We also made further advancements on our Employer of Choice initiative, and earned the Great Place to Work Designation for a fifth year in a row.

Client satisfaction continues to drive favorable retention rates. Every year, we conduct a survey of our clients to evaluate customer needs and satisfaction, and I am pleased to report that our Net Promoter Score remains in the high-60s for a third straight year.

This gives us great confidence in the value our clients place on the service and solutions we provide. Our clients love what we do, and they are ready and willing to spread the word about BBSI. 2025 was a great year with great results, and I am proud of what our teams accomplished.

Moving to our financial results and worksite employees. During the quarter, our gross billings increased 6.4% year-over-year. We continued to execute various strategies to increase the top of the sales funnel, and we achieved a record number of WSEs from new client adds. The result of all the sale and services, or what I refer to as our controllable growth, is that we added approximately 8,300 WSEs year-over-year from net new clients.

However, our growth was slightly tempered by client workforce reductions, which exceeded our expectations. Although client net hiring had been below historical norms all year due to macroeconomic uncertainties, workforce reductions accelerated in Q4. We saw reductions across all geographies, and nearly all industries, with our California clients and the construction industry having the most pronounced impact on gross billings.

To summarize, despite client workforce reductions, we achieved a 5.1% increase in worksite employees for the quarter, driven by record sales volume and strong client retention. For the year, our gross billings grew nearly 8.6%, driven by 6.7% growth in average worksite employees.

Moving to our staffing operations, our staffing business declined by 13% over the prior year quarter, and a 11% for the year, reflecting a broad reluctance from our clients to place staffing orders amid macroeconomic uncertainty. In response, we continued to leverage our recruiting expertise for our PEO clients, successfully placing 81 applicants during the quarter, and 432 for the full year.

Moving to the field operational updates. We're very pleased with our entrance in the new markets with our asset-light model. These folks continue to gain traction and consistency, and added approximately 1,600 new WSEs in 2025. As a reminder, in September, we had grand openings for our Chicago and Dallas branches, and in January, we opened our newest branch in Nashville.

In each of these locations, we have formed business teams with local professionals to support our clients, and have moved into traditional brick-and-mortar BBSI branches. We anticipate that we will convert three additional locations to traditional branches this year, and we will continue to invest in the development of additional asset-light markets.

Regarding our product updates. We continue to execute on the sale and service of BBSI Benefits, our health insurance offering. To recap, we started off the year with 575 clients on our various plans with around 16,000 total participants.

At the end of January, we have approximately 800 clients on our various plans, with more than 24,000 total participants. We had a successful 01/01/26 selling and renewal season, bringing on more than 80 new clients and renewing 93% of our book despite rising health insurance rates.

On an adjusted basis, our retention of these clients was 97%, proving that our value proposition holds firm even when clients choose to transition off of our Benefits platform, while remaining with BBSI. We are gaining traction and continue to improve the sales and servicing of BBSI Benefits. Our value proposition resonates well, and we are having success with small and large clients in white and blue collar industries in every state we operate and with a diverse distribution channel.

Next, I would like to shift to our IT product objectives. I previously mentioned that we've been investing in our tech staff on the product side to service and support our clients better. Over the last couple of years, we made additional investments in myBBSI to support our BBSI Benefits offering, learning management systems and to integrate with additional third parties.

We've also been investing in technology to better support the employee lifecycle experience, which is from when an employee is hired to when the employee retires and everywhere in between. We previously launched BBSI applicant tracking system, which addresses the front-end of the employee lifecycle and allows for job postings, interviews, and a seamless onboarding into our payroll and timekeeping system.

In January, we launched the Employee File Cabinet, which provides a secure, centralized, and fully integrated digital repository. This allows our clients and their employees to confidently manage sensitive employee data, and allows for manuscript or individualized curated forms with e-signature capability and improves compliance and efficiency.

Up next is our performance management module that is currently in beta and will be released in Q2. The model's intuitive design will allow organizations to better align employee objectives with company expectations, while tracking performance with consistency and clarity.

It empowers employers to formalize performance expectations and document performance conversations through standardized review cycles, ongoing feedback, and development planning. Our various IT folks have been working tirelessly on these new products, and it is gratifying to see it all come together. We're excited about these launches and future launches as we execute on our product roadmap in 2026.

Next, I would like to shift to my view of 2026. As we look to the upcoming year, we expect our clients to continue growing at a rate below historical norms due to broad macroeconomic headwinds. However, we have consistently achieved strong controllable growth by focusing on the needs of our clients and by adding new clients, a focus that we will maintain.

Regarding margin, as the workers' compensation market inflects, we will be laser-focused on increasing our rates with the market. We've been executing on the sale and service of BBSI Benefits, which has now become one of our core competencies.

Moving forward, we have IT product enhancements rolling out a broader suite of products to sell, more folks selling them, and a growing network of referral partners recommending BBSI. Our culture is built on taking care of our clients and executing to a plan, and I look forward to 2026.

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

Thanks, Gary. Hello, everyone. I'm pleased to report we finished the year with strong results. For the full year, gross billings increased 8.6% to \$9 billion versus \$8.3 billion in the prior year. While diluted earnings per share increased 5% to \$2.08 compared to a \$1.98 in the prior year. For the quarter, our gross billings increased 6.4% to \$2.4 billion versus \$2.25 billion in Q4 2024, while diluted earnings per share increased 2% to \$0.64 compared to \$0.63 in the prior year quarter.

Looking at the quarterly results more closely, PEO gross billings increased 6.6% in the quarter to \$2.38 billion, while staffing revenues declined 13% to \$18 million in the quarter. Our PEO worksite employees grew by 5.1% in the quarter, which, as Gary noted, was driven by record WSEs added from new clients.

This continued a strong trend of controllable growth, which was partially offset by client workforce reductions. Average billing per WSE per day increased 1.5% in the quarter, which was driven by sustained wage growth, partially offset by lower average hours per WSE.

Looking at year-over-year PEO gross billings growth by region for Q4, Southern and Northern California both grew by 5%. Our Mountain and East Coast regions grew by 10%. Pacific Northwest declined by 4%, and our asset-light markets grew by 95%. Southern and Northern California are our largest markets, and while we saw growth slow this quarter due to client hiring, the region continues to be supported by strong, controllable growth.

Our Mountain and East Coast regions continue to deliver very strong results or disciplined execution of our growth initiatives, has largely mitigated a reduction in year-over-year client hiring. The Pacific Northwest remains the region most impacted by economic conditions. Lastly, our asset-light markets continue to perform well, and build their client base at a near 100% growth rate.

Turning to margin and profitability, our workers' compensation program continues to perform well, and in Q4, we recognized favorable prior year liability and premium adjustments of \$2.2 million compared to favorable adjustments of \$2.4 million in the fourth quarter of 2024.

Our workers' compensation costs and pricing have trended downward over the last several years. We have seen a positive shift following the California Insurance Commissioners' approval of an average 8.7% premium rate increase in the latter part of 2025.

As we enter this time of market inflection, we're encouraged to see carriers having filed for similar rate increases, and we are seeing higher competitive quotes in the market. Although the market response and timing of price increases remains a key unknown variable, we'll be diligent in our commitment to managing pricing and limiting margin compression, while balancing our strategy of top line growth.

Although we're being cautious in our plan for margin for the year, we are being rigorous in our execution, and we believe our strong value proposition and integrated model uniquely position us to capitalize on these emerging market trends. As a reminder, our workers' compensation claims are primarily fully insured, and our client health benefits offering is 100% fully insured.

Moving to our operating costs and overall profitability. Our 2025 results benefited from sustained operating leverage with SG&A growing slower than both billings and gross margin for the full year. In Q4, SG&A expense decreased by approximately 2.5% year-over-year. Full year 2025 SG&A increased by a modest 2.5%, as we continue to carefully manage our operating costs.

As we head into 2026, we remain focused on maintaining a high level of operating discipline. We are mindful of the broader macroeconomic environment, and continue to proactively manage our cost structure to align with both our growth and profit objectives.

Turning to investment income. Our investment portfolios earned \$2.3 million in the fourth quarter, down approximately \$200,000 from the prior year. This reflects the impact of lower

average interest rates and lower average investment balances as we used excess cash to execute on our share buyback program during the year.

Looking ahead to 2026, we expect these trends to continue, and we anticipate that both average balances and yields will remain lower. As a reminder, our investment portfolio continues to be managed conservatively with an average quality of investment at AA. Our balance sheet remains strong with \$157 million of unrestricted cash and investments at December 31 and no debt. Our approach to capital allocation remains consistent, and that includes first making investments back into the company where we can.

In 2025, these investments included several initiatives Gary mentioned, including technology investments related to ongoing product development, as we continue to invest in and expand our value proposition, and investments in our sales teams, including our asset-light expansion in 2025.

2026, we expect to continue these investments and will launch additional IT enhancements and initiatives that will improve our product and make our internal operations more efficient, including leveraging modern systems, AI tools, and streamlined processes.

We will see a corresponding increase in depreciation expense in 2026 as these IT systems come online. After investing in our company, we continue to generate excess cash flow, and we continue to distribute excess capital to our shareholders through our dividend and stock buyback plan. Under our \$100 million August 2025 repurchase program, BBSI repurchased \$17 million of shares in the fourth quarter, with \$75 million remaining available under the program at year-end.

In total, in 2025, we repurchased nearly 4% of the company's shares outstanding through purchases of \$42 million. We also paid \$8.2 million in dividends for the year, bringing total capital returned to shareholders in 2025 to \$50 million. Looking ahead to 2026, we expect to continue to generate excess available cash and to continue these capital allocation strategies.

Now, turning to our outlook for 2026, we expect gross billings to increase between 3% and 5% and average WSEs to increase between 2% and 4%. This represents continued controllable growth, offset by weakness in client hiring trends, particularly earlier in the year.

For 2026, we expect gross margin to range between 2.7% and 2.85%. This outlook reflects the insurance pricing and cost dynamics we referenced earlier, and while this range implies a more cautious starting point, we believe it appropriately balances our strategy of driving sustainable top line growth with a disciplined commitment to protecting margin.

We are planning conservatively given the fluid nature of pricing behavior during this market inflection, and we are also closely monitoring pricing trends, and are already seeing

opportunities to increase prices as we renew contracts and onboard new clients. Finally, we expect our effective annual tax rate to range between 26% and 27%.

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

Thank you, Mr. Harris. Ladies and gentlemen, we will now begin the question-and-answer session. And your first question comes from Chris Moore with CJS Securities. Please go ahead.

Hi. This is Will on for Chris. US job growth in early 2026 has been modest, but has shown some signs of recovery after a weak 2025. What are you hearing from your clients in terms of being able to improve growth throughout 2026?

Yeah. So, it's a great question. Thank you for dialing in. I guess, I'll recap what we've seen maybe for 2025 in that trend. So, when we started 2025, we anticipated modest positive growth, which is really the trend we saw coming out of 2024. That's how we started 2025 in Q1. Q2, that decreased to more of a flat client hiring position. Q3 reported that we are negative for our client base and then Q4, that deteriorated a little bit further.

So, throughout 2025, we saw a negative hiring trend sequentially each quarter. And so, as we look ahead to 2026, we see the same data you do in terms of, there's a lot of fundamentals that look strong in the economy. For our client base, we want to plan conservatively. So, we are anticipating that negative trend to continue into 2026 and really kind of reverse pattern. So, we're seeing customer sales in early 2026 and then improving as the year goes on in line with those macro forecasts.

Thank you for the color. And just a follow-up. What are you hearing from clients in terms of being able to pay higher wages in 2026?

Wage growth is real. Okay. Once you pay somebody a certain amount, it's hard to pay them less. The only way you can kind of reset that is with your new hires. Wage growth is real. It's moderated. It's been in that 2% to 4% range is what we see. So, wage growth is real. Client hiring has, the number one complaint we still hear is finding good skilled labor. So, that hasn't changed.

And then, on the macroeconomic trends, we're hearing finding workers more and more is an issue specifically as it relates to immigration trends. So, we've seen it in some of our industries like trucking and logistics, where clients are reducing their workforce because they're like CDL drivers, transportation drivers, things of that nature that they're resetting and restructuring their employee base.

So, it's going to be interesting to see what happens with for these skilled trades and these skilled workers for what the growth is going to be in 2026. But overall, I mean we know that our clients have been in a net reduction, and the positive that we have is, we're able to sell and service

through it, right. So, we've got good sales machine. We've got a good service machine, which results in good client retention. And year-over-year, we're putting up the best controllable growth we've put up.

Thank you.

Thank you. Your next question comes from Jeff Martin with ROTH Capital Partners. Please go ahead.

Thanks. Good afternoon, Gary and Anthony. Wanted to dive in on payroll taxes a bit, and that's also hit the margin this year. Is there any improvement in sight for 2026 on the payroll tax side?

Yeah. So, those reset, that's a good call out, Jeff. We always have a frontloading of those payroll taxes in Q1, which is why we typically lose money in the first quarter and then balance for the rest of the year. For the trend in terms of the rates for unemployment tax in particular, we are seeing those modestly higher.

Again, that's logical given that the correlation to the reduced hiring trends. Not significantly different though, it's a smaller increase than last year actually. And again, we have mechanisms to price those in a little bit of a timing difference there on margin sometimes, but we're able to recapture those in our repricing pretty confidently.

Great. And then, wanted to drill down on the workers' compensation pricing environment. Sounds like first half of the year is going to be absorbing some margin with a wait-and-see approach in terms of what market rate does and how you react to that. Is that an accurate understanding? And are you expecting that margins will improve a little bit as we progress throughout the year relative to the starting point, primarily due to the workers' comp pricing environment?

Yeah. Hey, Jeff. It's Kramer. It's predominantly workers' comp California where we see this, which is a large percentage of our book. I mean, we've been talking about for years how costs have been coming down. And with the costs coming down, they've really been passed through as a rate decrease in the market. And we're at the point in the market cycle now that costs aren't coming down anymore.

So, the only way to inflect is to get more rate. And for us, you've seen California raise rates, our trading partners are telling us that the – everybody's renewals are more expensive. We're watching the rate filings go up with our competitors. We're looking at schedule credits decreasing as well. So, we're seeing the market conduct behave in an inflection mode. We've been trying to force the market or raise rates for a couple of years now, and some months are good.

Like if I go back into 2025, right, some months are good and we get positive rate on our renewals and some months are bad where we get negative rate. Typically, those, I'll call it,

choppy, right. It was choppy and inconsistent. Typically, on those bad months, it was because we had larger accounts that the market was competitive on and we had to match competitive pricing. So, we had puts and takes all throughout 2025 good months, bad months.

The positive trend that we're seeing now is that when we go and look at the, call it, the last four months of our renewals, those last four months, we've been able to increase the aggregate markup or the aggregate per portfolio rate. So, we're able to see and if you, say, you have a good 01/01, you get that for a whole 12 months, right, because you build that every month. When you get a 02/01, which we have a positive 02/01, you get that for 11 months, and that's kind of how the shape of the curve earns out.

But when we look at kind of the forecast for this, right, there's two unknowns and they're all within a band, right? So, the unknown is same customer sales, which we have a good gut on. And then, there's the workers' comp market on the pricing. So, when we did our gross margin, you can look at the last couple of years, our gross margin, as a percentage of billings, has been coming down as these costs have come down and pricing has come down.

As we look at the last, call it, four to six months, we're seeing positive, consistent trends. What we don't know is, if the market's going to be dumb, it's hard to fight stupid, stupid is, stupid does, it's out there. But when we look at this and we say, all right, based upon what happened these last three and four months, if this continues throughout the year, we could easily be at the high end of that range or above that range.

But we don't know it's market conduct, it's market forces.

So, if I think of, if it persists, if it persists, we're going to be at the high end, but you just don't know. And if you look at the sector, our industry has kind of done a reset right now. And we thought prudent to go out with a conservative guide on this one.

Okay. And then, one more, if I could. In terms of the adjustments to your workers' comp claims and the benefits that brings down through your P&L, are you expecting much change from the last two years? I think it was about \$18 million in aggregate for the year that you brought back.

Just in general, if you look at that trend, that trend will predominantly persist, right? It's never going to go to zero. If anything, it goes to a slightly lower or slightly higher drip. But it's going to be set up, so that knock on wood, all things go well, that that is consistent.

Thank you.

Thank you. And your next question comes from Vincent Colicchio with Barrington. Please go ahead.

Yeah, Gary. Curious, the new client pipeline of qualified leads, how does that look currently versus what you've seen in previous, in recent quarters?

The pipeline's still strong. We've got strong controllable growth. The interesting part was, if I look at 01/01 specifically for what we brought on, we had a better Benefits selling season last year. And that was predominantly because we brought Kaiser into our offering for the first time. So, we sold into our install base.

But as I think of the benefit season from 01/01, we brought on 80-some clients, which was a really good add. We brought on a lot of clients with no workers' comp or with no benefits as well. We're seeing, it's not a top of the pipeline issue.

We're getting good volume in the top of the pipeline, good consistency through the pipeline. So, we've got more people selling our product, we've got better product to sell. We've got more referral partners recommending BBSI.

We've got a lot of focus and attention on the controllable. And then, when we get the client on, we got all service plans and service procedures that we have. So, we feel really strong. If you just go and look at our track record over the last three years, right, we've got a very strong track record of controllable growth, and we don't foresee that slowing down.

The one thing I would say is the, as a market is trying to push rate, you do play a game of chicken, right as far as pricing, as far as the price, the risk and if somebody is willing to do it for cheaper. You do run the risk of higher runoff. But we're modeling in slightly higher runoff because of the moving of the market forces. But it's nothing that gives us any concern. It's what I would say is prudent action at the market timing.

Thanks for all that color. Related to the hiring trending better this year, is that broad-based or some of the more weak, weaker areas like construction continuing to not see any good signs?

Yeah. I'd say the deterioration we saw broadly was across the country and across industries. And so we look at that recovery or we really look at that at the macro level. Certainly, we've said that construction over a kind of multi-year period has been depressed for us as interest rates were not there. We just didn't really see that rebound, particularly in California. So, we are still optimistic, really bullish of the long-term trajectory...

Okay. Thanks.

...a lot of homes that need to be built and infrastructure out there.

Thank you.

Thank you. Your next question comes from Marc Riddick with Sidoti. Please go ahead.

Hey, good evening.

Good evening.

Hey, Marc.

Hey there. So, I wanted to just sort of maybe touch on the – so the question of the day, if you will. Just wondering if you could talk a little bit about what you're seeing or anticipating as far as impact of artificial intelligence on the business and whether that's from the customer-end or from yours? And how you sort of see that playing out there currently?

Well, if you thought my rate answer was long, you'd better buckle up for this one. We are very, very thoughtful, and very mindful of AI, and we spend a lot of energy on it internally. Anthony can geek out for hours if you allow him. Trust me, I try to avoid him. When we spend a lot of time with the board, it's just been – it's on the top of everybody's list, right? As a businessperson, you got to be well aware of what's going on in the world.

I think this is really kind of the four legs of the stool, right? So, first and foremost, how are you going to use this internally, right? So, internally, we've been adopters, we bought models, we bought agents. We're using it within most of the disciplines of the organization to make us more efficient. So, IT to accounting, to marketing to HR, really, what that allows us to do is to moderate our SG&A growth, right? So, we're using it to be more efficient internally.

The overarching question for the macro, which is, will this create joblessness or better efficiency? I think that this is going to be very industry-specific and will vary. For the industries that we're in, the most of which is the blue collar, I think that this is going to be less impactful. Plumbers still have the plumb and carpenters need to bang nails, and I don't see that going away.

We talk to a lot of clients and I've not heard from any of our clients that any of their reductions in the last six months are AI-related. They are typically referring to a cooling macroeconomic economy, as it's related to immigration tariffs, trade uncertainty, interest rates. So, for us, I don't see it specifically hitting our clients. I'm not trying to say we're immune to it, but I don't think it's going to specifically hit our clients, especially anytime soon.

And then, the next thing we look at is the industry. So, for the PEO industry, as far as co-employment and polling for insurances, if you do it well, then I think the model is durable, and it creates a moat that I don't think AI impacts.

And then, really, the fourth leg is, how is it going to evolve for our product? So, for that, we've been making these investments into our tech stack. The investments in our tech stack are all with the most modern technology that we have the plans to bring AI into it at a later time to make our clients more efficient and independent.

I don't think this replaces our service model. I think it will help augment it. I don't think our service model goes away because running a business is hard and HR is complicated and regulations are complicated. And I don't see AI replacing the human need on complicated issues.

I think we're in a – I'm not trying to be Pollyannaish with this view. I'm just trying to be realistic. I think we're in a fortunate spot for us, and we're in a time where all of the facts are not yet known, but I feel like for what I do know, we are positioned well.

Thank you so much for that. I do appreciate it. I know it's kind of a tricky time to answer that question. I guess one of the other things I sort of would want to talk on, is if you could talk a little bit about as far as general demand trend wise, if you're seeing much in the way of as far as market share gain opportunities, maybe where you're seeing that coming from?

And how much you're seeing that coming from competitors as opposed to little less, a little more outsourcing of what had been done internally up to this point? Are you seeing much of a shift in the way of that demand driver or has that changed much over the last couple of quarters?

We get this question a lot of – we see it more now than we ever have as far as PEO takeaways, because we have the health insurance offering that we didn't have previously. But I would say, in general, there's just so much ocean out there to fish in our space that we don't have to have this whole PEO takeaway strategy.

So, I can tell you that we saw more benefit deal flow for 01/01, right? A, we're getting better at doing Benefits, the word's out. And then, B, health insurance rates were up, and they're up for everybody, not just PEO. So, when rates go up, there is more shopping.

We did have PEO takeaways, but I would say it's a little more than last year, but not a measurable piece of the book at this point. It's still converting businesses over to the PEO model for the first time. That's our lion's share of our client acquisitions.

Great. Thank you very much.

Thank you. There are no further questions at this time. I would like to turn the call back over to Mr. Kramer for closing remarks.

Sure. Thanks, everybody, for dialing in. And I just want to say thanks to all the BBSI professionals for a great Q4 and a great year, and we are all looking forward to 2026. Thank you, everybody.

This concludes today's conference call. We thank you so much for your participation. You may now disconnect.