

August 6, 2019



## **BBSI Reports Second Quarter 2019 Financial Results**

- Net Income up 24% to \$13.9 Million, or \$1.81 per Diluted Share -

- Authorizes \$50 Million Share Repurchase Program and Raises Quarterly Cash Dividend by 20% to \$0.30 per Share -

VANCOUVER, Wash., Aug. 06, 2019 (GLOBE NEWSWIRE) -- Barrett Business Services, Inc. ("BBSI" or the "Company") (NASDAQ: BBSI), a leading provider of business management solutions, reported financial results for the second quarter ended June 30, 2019.

### **Second Quarter 2019 Financial Summary vs. Year-Ago Quarter**

- Gross billings up 6% to \$1.46 billion.
- Net revenues down slightly to \$231.0 million versus \$231.6 million.
- Net income improved 24% to \$13.9 million, or \$1.81 per diluted share, compared to \$11.2 million, or \$1.46 per diluted share.

"We reported strong results in the quarter, adding 419 new PEO clients while reaching new milestones as we execute to our plan," said president and CEO, Mike Elich. "I continue to be pleased with our ongoing progress as an organization and the value we are bringing to a growing number of small businesses each day."

BBSI CFO, Gary Kramer commented: "We continue to see the results from various structural moves we have been working on over the past several years, which gives us confidence in a strong long-term financial outlook. This confidence led us to implement a share buyback and raise our dividend, underscoring our commitment to driving shareholder value."

### **Second Quarter 2019 Financial Results**

Net revenues in the second quarter of 2019 decreased slightly to \$231.0 million compared to \$231.6 million in the second quarter of 2018.

Total gross billings in the second quarter increased 6% to \$1.46 billion compared to \$1.38 billion in the same year-ago quarter (see "Key Performance Metrics and Non-GAAP Financial Measures" below). The increase was primarily due to the continued build in the Company's PEO client count and same-customer sales growth, which was partially offset by a decrease in staffing revenue.

Non-GAAP gross workers' compensation expense as a percent of gross billings was 4.2% in the second quarter and benefited from lower frictional costs and a favorable one-time adjustment of prior accident year liability of \$3.0 million. This compares to 4.8% in the

second quarter of 2018.

Net income for the second quarter of 2019 improved 24% to \$13.9 million, or \$1.81 per diluted share, compared to net income of \$11.2 million, or \$1.46 per diluted share, in the year-ago quarter. Net income in the second quarter of 2019 reflected an increase in the effective tax rate to 22%, up from the previous estimate of 18%.

### **Capital Allocation**

On August 5<sup>th</sup>, BBSI's board of directors authorized a \$50 million share repurchase program over a three-year period beginning August 15, 2019.

The board also authorized a 20% increase in BBSI's quarterly cash dividend to \$0.30 per share. The cash dividend will be paid on September 6, 2019 to all stockholders of record as of August 23, 2019. BBSI has paid a dividend since 2006 without interruption and this is the 8<sup>th</sup> dividend increase.

### **Outlook**

For the full year 2019, BBSI continues to expect diluted earnings per share of \$5.40. This assumes an increase in the effective tax rate to approximately 22% from 18% prior. In addition, the Company now expects the range for workers' compensation expense as a percentage of gross billings to be 4.4% to 4.6% from 4.6% to 4.8% prior.

BBSI also continues to expect gross billings to increase approximately 8% for the next rolling 12-month period.

### **Conference Call**

BBSI will conduct a conference call on Wednesday, August 7, 2019, at 12:00 p.m. Eastern time (9:00 a.m. Pacific time) to discuss its financial results for the second quarter ended June 30, 2019.

BBSI's President and CEO Michael Elich and CFO Gary Kramer will host the conference call, followed by a question and answer period.

Date: Wednesday, August 7, 2019  
Time: 12:00 p.m. Eastern time (9:00 a.m. Pacific time)  
Toll-free dial-in number: 1-877-407-4018  
International dial-in number: 1-201-689-8471  
Conference ID: 13692801

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at 1-949-574-3860.

The conference call will be broadcast live and available for replay [here](#) and via the investor relations section of the BBSI website at [www.barrettbusiness.com](http://www.barrettbusiness.com).

A replay of the conference call will be available after 3:00 p.m. Eastern time on the same day through September 7, 2019.

Toll-free replay number: 1-844-512-2921  
International replay number: 1-412-317-6671  
Replay ID: 13692801

## Key Performance Metrics and Non-GAAP Financial Measures

We report PEO revenues net of direct payroll costs because we are not the primary obligor for wage payments to our clients' employees. However, management believes that gross billing amounts and wages are useful in understanding the volume of our business activity and serve as an important performance metric in managing our operations, including the preparation of internal operating forecasts and establishing executive compensation performance goals. We therefore present for purposes of analysis gross billing and wage information for the three and six months ended June 30, 2019 and 2018.

| (in thousands)         | (Unaudited)                 |              | (Unaudited)               |              |
|------------------------|-----------------------------|--------------|---------------------------|--------------|
|                        | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|                        | 2019                        | 2018         | 2019                      | 2018         |
| Gross billings         | \$ 1,463,962                | \$ 1,379,483 | \$ 2,824,206              | \$ 2,699,327 |
| PEO and staffing wages | \$ 1,246,576                | \$ 1,165,860 | \$ 2,402,947              | \$ 2,280,567 |

Because safety incentives represent consideration payable to PEO customers, safety incentive costs are netted against PEO revenue in our consolidated statements of operations. Management considers safety incentives to be an integral part of our workers' compensation program because they encourage client companies to maintain safe work practices and minimize workplace injuries. We therefore present below for purposes of analysis non-GAAP gross workers' compensation expense, which represents workers' compensation costs including safety incentive costs. We believe this non-GAAP measure is useful in evaluating the total costs of our workers' compensation program.

| (in thousands)                       | (Unaudited)                 |                  | (Unaudited)               |                   |
|--------------------------------------|-----------------------------|------------------|---------------------------|-------------------|
|                                      | Three Months Ended June 30, |                  | Six Months Ended June 30, |                   |
|                                      | 2019                        | 2018             | 2019                      | 2018              |
| Workers' compensation                | \$ 53,174                   | \$ 58,854        | \$ 107,403                | \$ 115,976        |
| Safety incentive costs               | 7,833                       | 8,039            | 14,536                    | 15,604            |
| Non-GAAP gross workers' compensation | <u>\$ 61,007</u>            | <u>\$ 66,893</u> | <u>\$ 121,939</u>         | <u>\$ 131,580</u> |

In monitoring and evaluating the performance of our operations, management also reviews the following ratios, which represent selected amounts as a percentage of gross billings. Management believes these ratios are useful in understanding the efficiency and profitability of our service offerings.

| (Unaudited) | (Unaudited)                  |      |
|-------------|------------------------------|------|
|             | Percentage of Gross Billings |      |
|             | Three Months Ended June 30,  |      |
|             | 2019                         | 2018 |
|             | Six Months Ended June 30,    |      |
|             | 2019                         | 2018 |

|                                      |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|
| PEO and staffing wages               | 85.2% | 84.5% | 85.1% | 84.5% |
| Payroll taxes and benefits           | 6.9%  | 7.1%  | 7.7%  | 8.2%  |
| Non-GAAP gross workers' compensation | 4.2%  | 4.8%  | 4.3%  | 4.9%  |

## About BBSI

BBSI (NASDAQ: BBSI) is a leading provider of business management solutions, combining human resource outsourcing and professional management consulting to create a unique operational platform that differentiates it from competitors. The Company's integrated platform is built upon expertise in payroll processing, employee benefits, workers' compensation coverage, risk management and workplace safety programs, and human resource administration. BBSI's partnerships help businesses of all sizes improve the efficiency of their operations. The Company works with more than 6,400 clients across all lines of business in 23 states. For more information, please visit [www.barrettbusiness.com](http://www.barrettbusiness.com).

## Forward-Looking Statements

Statements in this release about future events or performance, including expectations regarding gross billings growth, future effective tax rates, and earnings per share, are forward-looking statements which involve known and unknown risks, uncertainties and other factors that may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward-looking statements. Factors that could affect future results include economic conditions in the Company's service areas, the effect of changes in the Company's mix of services on gross margin, the Company's ability to retain current clients and attract new clients, the availability of financing or other sources of capital, the Company's relationship with its primary bank lender, the potential for material deviations from expected future workers' compensation claims experience, the workers' compensation regulatory environment in the Company's primary markets, litigation costs, the effect of governmental investigations, security breaches or failures in the Company's information technology systems, the collectability of accounts receivable, changes in executive management, the carrying value of deferred income tax assets and goodwill, and the effect of conditions in the global capital markets on the Company's investment portfolio, among others. Other important factors that may affect the Company's prospects are described in the Company's 2018 Annual Report on Form 10-K. Although forward-looking statements help to provide complete information about the Company, readers should keep in mind that forward-looking statements are less reliable than historical information. The Company undertakes no obligation to update or revise forward-looking statements in this release to reflect events or changes in circumstances that occur after the date of this release.

## Barrett Business Services, Inc. Condensed Consolidated Balance Sheets (Unaudited)

|                |               |                  |                      |
|----------------|---------------|------------------|----------------------|
| (in thousands) |               | June 30,<br>2019 | December 31,<br>2018 |
|                | <b>Assets</b> |                  |                      |

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Current assets:                       |                   |                   |
| Cash and cash equivalents             | \$ 23,693         | \$ 35,371         |
| Trade accounts receivable, net        | 163,228           | 151,597           |
| Prepaid expenses and other            | 15,720            | 13,880            |
| Investments                           | 77,271            | 416               |
| Restricted cash and investments       | 108,275           | 120,409           |
| Total current assets                  | 388,187           | 321,673           |
| Investments                           | —                 | 1,687             |
| Property, equipment and software, net | 27,999            | 24,812            |
| Operating lease right-of-use assets   | 25,005            | —                 |
| Restricted cash and investments       | 335,966           | 348,165           |
| Goodwill                              | 47,820            | 47,820            |
| Other assets                          | 3,329             | 3,474             |
| Deferred income taxes                 | 5,897             | 8,458             |
|                                       | <u>\$ 834,203</u> | <u>\$ 756,089</u> |

### **Liabilities and Stockholders' Equity**

|                                                     |                   |                   |
|-----------------------------------------------------|-------------------|-------------------|
| Current liabilities:                                |                   |                   |
| Current portion of long-term debt                   | \$ 221            | \$ 221            |
| Accounts payable                                    | 4,824             | 4,336             |
| Accrued payroll, payroll taxes and related benefits | 181,966           | 158,683           |
| Income taxes payable                                | 2,670             | 4,403             |
| Current operating lease liabilities                 | 6,381             | —                 |
| Other accrued liabilities                           | 15,908            | 20,566            |
| Workers' compensation claims liabilities            | 108,289           | 109,319           |
| Safety incentives liability                         | 27,316            | 29,210            |
| Total current liabilities                           | 347,575           | 326,738           |
| Long-term workers' compensation claims liabilities  | 322,447           | 304,078           |
| Long-term debt                                      | 3,840             | 3,951             |
| Long-term operating lease liabilities               | 19,101            | —                 |
| Customer deposits and other long-term liabilities   | 3,773             | 2,285             |
| Stockholders' equity                                | 137,467           | 119,037           |
|                                                     | <u>\$ 834,203</u> | <u>\$ 756,089</u> |

### **Barrett Business Services, Inc.** **Condensed Consolidated Statements of Operations** (Unaudited)

| (in thousands, except per share amounts) | (Unaudited)        |      | (Unaudited)      |      |
|------------------------------------------|--------------------|------|------------------|------|
|                                          | Three Months Ended |      | Six Months Ended |      |
|                                          | June 30,           |      | June 30,         |      |
|                                          | 2019               | 2018 | 2019             | 2018 |

|                                                    |                  |                  |                  |                 |
|----------------------------------------------------|------------------|------------------|------------------|-----------------|
| Revenues:                                          |                  |                  |                  |                 |
| Professional employer service fees                 | \$ 203,157       | \$ 197,277       | \$ 393,684       | \$ 386,239      |
| Staffing services                                  | 27,825           | 34,326           | 55,513           | 69,340          |
| Total revenues                                     | <u>230,982</u>   | <u>231,603</u>   | <u>449,197</u>   | <u>455,579</u>  |
| Cost of revenues:                                  |                  |                  |                  |                 |
| Direct payroll costs                               | 20,992           | 26,020           | 41,834           | 52,423          |
| Payroll taxes and benefits                         | 101,697          | 98,249           | 216,494          | 222,437         |
| Workers' compensation                              | 53,174           | 58,854           | 107,403          | 115,976         |
| Total cost of revenues                             | <u>175,863</u>   | <u>183,123</u>   | <u>365,731</u>   | <u>390,836</u>  |
| Gross margin                                       | 55,119           | 48,480           | 83,466           | 64,743          |
| Selling, general and administrative expenses       | 39,005           | 35,614           | 72,165           | 65,043          |
| Depreciation and amortization                      | 970              | 1,274            | 1,939            | 2,278           |
| Income (loss) from operations                      | 15,144           | 11,592           | 9,362            | (2,578 )        |
| Other income, net                                  | 2,851            | 2,121            | 5,458            | 4,114           |
| Income before income taxes                         | 17,995           | 13,713           | 14,820           | 1,536           |
| Provision for (benefit from) income taxes          | 4,088            | 2,473            | 3,213            | (581 )          |
| Net income                                         | <u>\$ 13,907</u> | <u>\$ 11,240</u> | <u>\$ 11,607</u> | <u>\$ 2,117</u> |
| Basic income per common share                      | <u>\$ 1.88</u>   | <u>\$ 1.54</u>   | <u>\$ 1.57</u>   | <u>\$ 0.29</u>  |
| Weighted average basic common shares outstanding   | 7,410            | 7,310            | 7,408            | 7,307           |
| Diluted income per common share                    | <u>\$ 1.81</u>   | <u>\$ 1.46</u>   | <u>\$ 1.51</u>   | <u>\$ 0.28</u>  |
| Weighted average diluted common shares outstanding | <u>7,692</u>     | <u>7,675</u>     | <u>7,674</u>     | <u>7,658</u>    |

## Investor Relations:

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Source: Barrett Business Services Inc