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TrueBlue, Inc. (TBI)

Q3 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 conference 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]

Mr. Gafford. You may now 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. I am pleased to report, our strong revenue momentum from earlier in the year carried into the third quarter. Third quarter revenue was $577 million, an increase of 22% compared to the third quarter of the prior year. Growth was driven by businesses of all types turning to flexible workforce solutions as they grapple with worker supply challenges and a variety of uncertainties related to the Covid business environment. This dynamic combined with new client wins helped us deliver net income of $19 million in the third quarter versus $9 million in the third quarter of the prior year, and adjusted EBITDA was up $11 million year-over-year with corresponding margin up 130 basis points.

Before turning to our segments, I want to provide an update on the pace of our recovery and thoughts on key topics impacting our business. First, we are excited third quarter revenue for PeopleScout, our highest margin business, surpassed pre-pandemic levels, up 9% versus Q3 2019. Volumes across most industries are increasing due to high employee turnover, which is leading to an acceleration in demand from existing clients and new demand from first-time RPO adopters.

Our hardest hit market, travel and leisure, was up 308% during the quarter, and new business wins were up 217% year-to-date with annualized revenue of $38 million. At PeopleManagement, revenue was down only 1% versus Q3 2019. New business wins continue to be strong for this segment, which had $22 million of new wins in August, bringing the annualized total to $86 million or up 34% year-to-date.

Revenue for PeopleReady was down 16% versus Q3 2019. PeopleReady has been negatively impacted by the worker supply shortage, which I will address momentarily, and increased Covid cases from the Delta variant, which peaked in the U.S. late in the third quarter.

However, we continue to be encouraged by the demand within PeopleReady, specifically in the solar energy space. Renewable energy is a focal point for the Biden Administration to reduce U.S. carbon emissions. We expect solar energy to be an area of growth to support this directive. We have serviced this industry for 15 years and have specialized teams and processes in place to capitalize on this market expansion.

Now, I'd like to take a moment to touch on worker supply. Like many companies across the U.S., we are experiencing pressure on worker supply. The shortage is especially hitting PeopleReady due to the short notice period we receive from customers to deliver contingent workers. While fill rates have softened in recent quarters, revenue recovery has been steady as job orders have increased. It is difficult to gauge the pace and magnitude at which supply will rebound. Many workers, supported through government stimulus, were able to increase their savings, which afforded them the option to temporarily exit the labor force. Additionally, the delta variant has been a contributing factor to the labor shortages.

However, while still in the early days since enhanced federal unemployment benefits ended in early September, we are seeing signs of supply returning. For example, in PeopleReady, billable associates are up 9% in October versus the Q3 weekly average. PeopleReady weekly revenue trends in October are encouraging as well, up 17% year-over-year versus a 14% increase year-over-year in September.

We've launched programs to retain existing associates, re-engage former associates and source new candidates, including attendance bonuses and rewards to our top performers, enhanced referral programs, enhanced recruiter incentives and much more. We are closely monitoring the situation and will continue to provide updates.

Next, I want to take time to address a potential vaccine mandate. The impact on our results could have a wide-range of outcomes. There are many uncertainties including whether the mandate will survive court challenges, when the mandate could take effect, the definition of a qualified employee, and the costs associated with testing workers. We are actively communicating with national officials to understand the logistics behind the plan and are well prepared to comply with the mandate, if and when it takes effect.

On a smaller scale, we have already successfully implemented vaccine tracking measures, as some large clients have required that only vaccinated associates can be assigned to their locations. We will communicate more information as the mandate becomes more clear.

Also, as announced on September 22, due to Brannon Lacey leaving PeopleScout to accept a tech company CEO role, Taryn Owen's role is expanding as she has been named President/ COO of PeopleScout in addition to her President/COO position at PeopleReady. Taryn served as President of PeopleScout from 2013 to 2019 and led the organization through a period of substantial growth, global expansion and digital transformation. Taryn's track record of success combined with her deep knowledge in recruiting and staffing perfectly positions her to lead both brands into the future. Carl Schweihs will continue in his role as President/COO over the PeopleManagement brands.

Now let's turn to our results by segment, starting with PeopleReady. PeopleReady is our largest segment representing 58% of total trailing-twelve-month revenue and 62% 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 19% during the quarter.

PeopleManagement is our second largest segment representing 31% of total trailing-twelve-month revenue and 13% of total segment profit. PeopleManagement provides onsite 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 or driver relationships. Year-over-year PeopleManagement revenue grew by 7% in the third quarter.

Turning to our third segment, PeopleScout represents 11% of total trailing-twelve-month revenue and 25% 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. PeopleScout revenue surpassed pre-pandemic levels with year-over-year growth of 108% in the third quarter. We are very excited about the accelerated pace of recovery.

Shifting gears, I will now provide an update on our key strategies by segment, starting with PeopleReady. Our most important strategy at PeopleReady 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 our clients in 2018, associate adoption has grown to over 90% and our JobStack client user count ended the quarter at 29,100, up 11% versus Q3 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 31% in Q3 2020.

We've also seen continued growth in our digital fill rates, which have increased 3X to nearly 60% with 940,000 shifts filled via the app during the quarter. With the foundation of our digital strategy in place, we've expanded our focus on how to better serve existing clients and reach new ones more effectively. At the end of the first quarter, we launched two market pilots that utilize centralized service centers responsible for recruiting, onboarding and local delivery. 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 account managers who are responsible for growing and building client relationships. We believe we will be able to use the cost savings from reducing "non-client facing roles" to offset the cost increases from adding more "client facing" roles such as account managers. This fundamental shift in how we deliver our services requires thorough training and change management for our employees. While it is still early, we are gathering key learnings that will improve our operating model, leading to higher digital fill rates, increased productivity and higher customer satisfaction. We are excited with the progress of the pilots and we'll continue to provide updates.

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 clients, and made investments in our sales teams to enhance productivity. With these initiatives implemented, we have broadened the strategy to expand our geographic footprint by targeting more local and underserved markets. We are seeing strong results as PeopleManagement secured $22 million of new deals in August, bringing the year-to-date annualized new business wins to $86 million, up more than 40% versus the three prior year comparable average. 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. To capitalize, 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 $38 million so far this year versus the three prior year comparable average of $9 million.

In addition, many of our clients were forced to reduce their employee base during the pandemic, especially within travel and leisure, our largest industry vertical. Our ability to hire large volumes of workers quickly has us well-positioned to help our clients restaff quickly. This has led to a rapid recovery in the third quarter where revenue exceeded pre-pandemic levels by 9%.

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 Q3 2021 was $577 million, representing growth of 22%, driven by new business wins and higher existing client volumes. We posted net income of $19 million, or $0.53 per share, an increase of $10 million compared to net income of $9 million in the prior year. Revenue growth and gross margin expansion contributed to the net income growth. Adjusted net income was $21 million, or an increase of $13 million, which is greater than the increase in GAAP net income, primarily due to $4 million of government subsidies in Q3 2020 that were excluded from adjusted net income.

We delivered adjusted EBITDA of $29 million, an increase of $11 million, and adjusted EBITDA margin was up 130 basis points, again driven by revenue growth and gross margin expansion. Gross margin of 25.4% was up 210 basis points. Our staffing segments contributed 110 basis points of margin expansion comprised of 70 basis points from lower workers' compensation costs primarily due to favorable development of prior period reserves and the remaining 40 basis points largely due to increased sales mix from our PeopleReady segment which has a higher gross margin profile than PeopleManagement. PeopleScout contributed 100 basis points of expansion driven by operating leverage from higher volumes.

SG&A expense increased 32%, which was higher than our revenue growth of 22% due to the severity of the cost actions taken in Q3 last year. In Q3 2020, our cost management actions produced a decline in SG&A of 31%, which outpaced the revenue decline of 25% for that quarter. Q3 2020 also benefited from $4 million in government subsidies which were excluded from our adjusted net income and adjusted EBITDA calculations. We are running the company more efficiently today than we did prior to the COVID pandemic based on numerous changes in how we operate and leverage technology. Compared to Q3 2019, SG&A as a percentage of revenue in Q3 2021 was 20 basis points lower despite having $60 million less revenue. Our effective income tax rate was 15% in Q3.

Turning to our segments, PeopleReady revenue increased 19% while segment profit increased 32% with margin up 70 basis points. Strong recovery continued across most geographies and industries with the hospitality and service industries both above Q3 2019 levels. Construction grew sequentially but was down versus prior year as projects have been delayed due to building material shortages. Segment profit margin benefited from lower workers' compensation costs. We are encouraged by our trends as we enter the fourth quarter. PeopleReady revenue was up 17% during the first three weeks of October versus growth of 14% in September. We also saw some improvement in worker supply.

PeopleManagement revenue increased 7% while segment profit decreased 48% with 160 basis points of margin contraction. During the quarter supply chain challenges slowed the pace of our recovery, but are being offset by new business wins. PeopleManagement had $86 million of annualized new business wins through September with $9 million of new business revenue recorded this quarter and approximately $30 million expected for the full year. The decline in segment profit margin is partially due to the severity of employee-related cost reductions last year such as cuts in pay and 401K match as well as additional recruiting costs to stay ahead of the holiday surge given the tight labor market. Upfront costs associated with new business wins and a drop in same customer revenue associated with supply chain challenges are also impacting profitability.

PeopleScout revenue increased 108%, with segment profit up $9 million and nearly 1300 basis points of margin expansion. Revenue benefited from strong recovery in our hardest-hit industries, including travel and leisure, which grew over 300%. New business wins also contributed to revenue growth as PeopleScout delivered $38 million of annualized new wins through September this year versus $9 million in the prior three year comparable average. New wins generated $5 million of revenue in Q3 with $28 million expected for the full year. Operating leverage and increased recruiting staff utilization contributed to the higher year-over-year segment margin.

Now let's turn to the balance sheet and cash flows. Our balance sheet is in excellent shape. We finished the quarter with $49 million in cash and no outstanding debt. While our profitability increased compared to Q3 last year, cash flow from operations decreased largely due to a $60 million payment in Q3 this year for 2020 employer payroll taxes that were allowed to be deferred as part of the CARES Act. We also had higher levels of working capital associated with our revenue growth and an increase in days sales outstanding since the beginning of the year, which was a multi-year low. Compared to Q3 last year, days sales outstanding was down two days.

For additional details about our outlook for the fourth quarter, please see our earnings presentation filed today. We like where our business sits today. Our services are in high demand as businesses increasingly look for solutions to deal with tight labor pools, as well as a variety of uncertainties including COVID and supply chain challenges. Likewise, our technology strategies are making us increasingly relevant in today's business environment and along with changes in how we operate the business, more efficient in delivering our services.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jeff Silber with BMO Capital Markets. Your line is unmuted.

Jeffrey M. Silber Q
Analyst, BMO Capital Markets Corp.

Great. Thanks so much. Patrick, in the prepared remarks, and forgive me, I don't have the exact quote, but I think you said something about fill rates softening in recent quarters. Can we get a little bit more color on that? Where were they before the pandemic? How low did they go and where are they roughly now?

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

Yeah. Thanks for the question, Jeff. The fill rates are quite a bit different between PeopleManagement and PeopleReady. So, I'm going to distinguish between the two, of course, in PeopleManagement, we have exclusivity. And our fill rates had been running in the low to mid-90s, so call it, 93% - 94%. We saw those drop down into the high-80s, so 88% - 89% in that business. So, most of that's driven by worker supply challenges in PeopleManagement.

In PeopleReady, the situation is a little different because in many cases, we don't have exclusivity. So, in some cases, it's a jump ball where we're competing for the same positions as other staffing providers are. And we'd typically run in the high-70s, low-80s in terms of fill rates in PeopleReady. We dipped down to our low point in the high-50s. We're now running in the low-60s. So, call it a 15- to 20-point drop in PeopleReady.

I do want to point out, though, we're starting to see some of the supply of workers start to unfreeze a bit. We mentioned in the prepared remarks that our October run rates in PeopleReady were stronger than what we saw in September in Q3. Our applications are up in the high-single digits. Our worker supply is up in the high-single digits in October. And so, we're starting to see a softening. I think a lot of that has to do with the unemployment benefits that ran out in the first week in September. And we think it's going to take a couple of quarters for the situation to unfreeze more. But we certainly saw an uplift in October and as people's savings start to dwindle and people feel a little more safe coming back into the work environment, we expect a nice, steady incline for worker supply going forward.

Jeffrey M. Silber Q
Analyst, BMO Capital Markets Corp.

All right. That's great to hear. And I guess to segue off of that, we've been hearing and reading a lot about wage inflation. Can we talk a little bit about how that's running for your company? And are you able to pass that through in a timely manner in terms of increased bill rates, or is there any lag there?

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

A

Yeah. I think that'd be a good question for Derrek to take. He’s really well schooled on the details.

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

A

Hey, Jeff, it's Derrek here. One comment to Patrick's answer that he provided on the fill rates, and then I'll take the bill rate question. The fill rates have definitely dropped since we've entered this year for all of the dynamics that Patrick just mentioned. However, we also know that the fill rates have also dropped based on customer behavior. So, what we're also seeing, though, at PeopleReady, since we're not exclusive, is customers putting those same orders in across multiple companies. So, some of that drop is – the majority of it actually is because of worker shortages, but some of it is also with customer behaviors, just putting those orders in with multiple staffing companies hoping to get more fills total from more suppliers.

When it comes to bill and pay rates, pay rates and bill rates in our PeopleReady business were up – I'm going to round here – they were just about the same, about 10.5%. So, we are getting them passed through timely. We're pleased about that. There's been other periods of time where it has – we've had big minimum wage increases, we've always got them passed through. There has been some lag at points in time, but in today's environment, we're getting the bill rates increased in lockstep with the percentage increase in the pay rates.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Great. That's really helpful. And just one final question. You had a great slide on your balance sheet remaining strong, but I couldn't help noticing that the company hasn't repurchased any shares this year despite that and despite the strong cash flow. Can you talk about what's going on there, what your capital allocation strategy is?

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

A

Sure. Let's talk about both the year and the strategy going forward. So, you haven't seen any stock repurchases from us this year because we had a couple of big capital events to plan for. One was, last year, we had $60 million of payroll taxes that we were allowed to defer under the CARES Act. Half of that was due to be paid this year. We planned and did pay for all $60 million of it in Q3. We elected to pay the full amount, because under theCARES Act any losses in 2020 were allowed to be carried back to periods where the tax rate was 35%. So, we elected to pay all of that off. That's a really good return for us, paying that off and carrying it back.

Then the second piece is the growth in our accounts receivable. We've had working capital surge in accounts receivable of about $55 million. So, with well over $100 million of capital going to those two events, we didn't want to repurchase any shares till we got those behind us and saw what was going on with the operating environment. At the level that we're at right now, $49 million, we don't feel like we're overcapitalized. Takes about $30 million to run the company. So, we feel like we're in good position right now.

Looking forward, though, returning capital back to shareholders is certainly a priority for us. So, we're not going to build up an excess of cash balance here. We want to make sure we're returning that back to shareholders. And given the current tax laws that are in place today, our preference is to do that through share repurchase.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Great to hear. Thanks so much for the color. I'll jump back in the queue.

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

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

Q

Hey. Good afternoon, Patrick and Derrek. Thanks for taking my questions. Wondering with regards to the pilot programs in Chicago and Dallas, can you talk a little bit about how the revenue trends compared over there relative to the rest of the PeopleReady operations?

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

A

Thanks, Mark. This is Patrick for your question. Just a reminder for everyone what we're doing with the market service centers. The first thing we're doing is we've expanded hours from 60 hours to 85 hours. We're also adding more client-facing resources and fewer non-client-facing resources. So, we're taking those savings and we're investing them in more client-facing resources. We're also providing more consistent delivery, training, coverage, things of that sort. The pilots are still what I would describe as sort of early phased, Mark.

So, we're not handing out – or putting out revenue numbers for the pilots relative to the other locations. What I can tell you is we've learned a lot since we started the pilots at the end of Q1. We're going to continue to run those through the end of the year and early next year assuming the pilots are where we want them to be. We're going to expand out on more of a national basis. But what we're doing right now is we're not giving out local revenue numbers.

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

Q

Okay. But if – presumably, if you're going to expand out, it would suggest that the results thus far are encouraging. Is that a correct assessment?

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

A

Well, it's been mixed. We've had some areas where the results are very encouraging and then we've had some areas where they're not as encouraging. So, we're trying to work through some of those issues and learnings where the results haven't been encouraging and we're making midcourse corrections on those. So, it's been a mixed bag is how I'd describe it.

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

What are the elements that are mixed? Like, what's going better and what's going worse?

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

Well, one of the challenges we ran into was around some of the – essentially, call center software that we had. When you're running a branch where you've got three people there, everybody kind of knows everything that's going on in that branch. When you expand out into an entire market where you've got essentially a market set of clients and a market set of workers as opposed to a branch set of clients and a branch set of workers, there's a little bit that's lost in translation there. And one of the things we learned early on is we needed some better tracking software so all of our folks that are working in the market center could have better access to what's happening with our workers and our clients. And so, that was a big learning along the way that we had to make some midcourse corrections on.

In terms of what went really well is the worker supply went really well. We weren't sure what kind of a drop-off we may have by closing the branches in Chicago and Dallas and to the degree that we were dependent on those branches to find local workers. And one of the things we found is that we probably overestimated that a bit. And we feel really good about our ability to attract workers locally without a branch network. And so, that's went a little better than we expected. So, there's been some areas that went better and some areas that haven't went as well. And the areas that haven't went as well, we've made some fixes and are seeing some good trending and are encouraged by the results.

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

Q

Great. Appreciate the transparency. With regards to the JobStack, how – if somebody were to ask you, like, what percentage of revenue is now derived from JobStack, and how you would characterize the margins for JobStack revenue that is totally independent of the branch operations to the extent that there's repeat business that's been automated, how would you characterize that?

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

A

Well, from a margin perspective, it's hard to say because the pricing and the bill rates and the pay rates that we're providing are very similar, whether it goes through JobStack or whether it doesn't. Where we have clear efficiencies is when clients are placing orders, when they're approving time, when they're placing orders after hours. I'll give you an example. We had a client the other day, a logistics and delivery company that placed an order last minute late at night for 15 associates, it came in after hours, and within an hour, those jobs were filled. And the client was so impressed with that that they ended up moving all of their business to us, and today this is a $0.5 million a year client.

And so when you see things like that where we would have had to come in the next morning and have a jump ball with some other providers, the fact we were able to fill it while our branches were closed and our competitors' branches were closed, to me, the biggest value for JobStack is the revenue lift that we get from taking wallet share to our existing installed base.

The margin profile, again, bill rate, pay rate spreads don't necessarily differ between a job that's filled by JobStack versus one that's not. But clearly when you look at the cost associated with filling positions, we're able to do with fewer people. And the market service center is really going to allow us to take advantage of that because, as you know, we've only got a handful of people in our branches. So it's hard to cut a third of a person or a half of a person. But you can do that when you go to a market center concept where you've got dozens of people all working in one location. And so I think what will ultimately see are some nice cost savings that come out. It's just been difficult to extract it up to this point where we've had small numbers of people in our branches.

And can you refresh me what the first part of your question was, Mark?

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

Yeah. So just trying to think through the revenue that you would directly attribute to JobStack.

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

Well, we've got some numbers we've put out there around heavy users that essentially account for 56% of our eligible revenue. And we define eligible – by the way, we haven't rolled out JobStack in Canada or for some of our skilled trades. So if you exclude those two, heavy users account for 56%, which is where the largest chunk of our revenue through JobStack is coming from. So I think that's one measure that you might look at.

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

Okay. And then with regards to the thinking – the implications of JobStack through, as we look out towards next year and the following year, how would you envision the branch count evolving? And what sort of savings and – would you end up getting from that? And how do you think about this – the incremental revenue that if JobStack really hits, we could end up getting?

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

I think that'd be a good question for Derrek to take around some of the cost savings, and I can probably add some more color after you speak, Derrek.

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

Yeah. Hi, Mark. It's Derrek here. So a little bit of extra perspective on JobStack and the efficiencies that it's bringing. It's very hard to carve off the specific savings for JobStack. But if we stand back big picture and look at what we're running as far as revenue per employee in our PeopleReady business, we're running at – if we look back quarterly all the way to 2017, over the last five years, this quarter is our highest quarter ever in revenue per employee. And that's comparing back too, to a time when PeopleReady's annual revenue was $1.6 billion. So the technology is definitely delivering efficiencies for us.

As we take a look towards next year, and the market pilots, to give you an approximation of the amount of SG&A that's in our field operations at PeopleReady, it runs about $200 million. We haven't given out any percentages yet. But, if it was just say hypothetically 10% coming from real estate savings and some other things, I mean,that would be a very sizable amount for us. So I'm giving that hypothetically, but that gives you an SG&A base to take a look at.

I think as far as productivity and cost savings, there's even more opportunities behind us. One of the other things that we're starting to take a look at too is the proprietary technology that runs PeopleReady's operating systems, so think things like applicant tracking system, billing, payroll. When I say payroll it's less about just calculating the paychecks, it's all of the work processes that go in around that. So we think there is some technology upgrades that would also deliver a lot more efficiencies here. So we haven't given out any numbers at this point in time, but we're very optimistic that we can run this business in a more efficient manner and we'd be really disappointed if we didn't get above our EBITDA margin of the last cycle at 5.2%.

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

Great. And then I was wondering, just can you talk a little bit about just the guidance here for the fourth quarter or the lack thereof? And from a revenue perspective, what are you trying to get at in terms of – we know what the historical pattern has been, but what could be different on a plus or minus basis relative to history?And how should we think about the sequential change in SG&A?

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

Yeah. So from a revenue perspective, we've given an outlook – actually, we haven't given an outlook we've just given an average out there which you've taken a look at that excluding last year our Q4 revenue was about the same as Q3 each year. We've also provided some information that our staffing operations have accelerated by a couple of points going into October versus September. So while we haven't been giving revenue guidance really at all this year or since COVID broke out, we've been giving some sequential direction according to our history. And I think those two data points are the most important.

And what was your second part of your question, Mark?

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

Just the SG&A, how should we think about that in terms of the sequential change relative to the third quarter?

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

Yeah, we've given an SG&A outlook of $126 million to $130 million. So in that too, you can find those numbers in our outlook section.

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

Oh, I see that, I'm wondering what's driving the change?

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

A

Well, I was just kind of getting to that part. In our EBITDA adjustments, we're talking a big part about it is an extra $5 million, half of it coming from some deferred compensation sales that will be taking place in Q4 and also some SaaS software implementation costs. So there's about $5 million or close to $5 million of extra adjustments for the fourth quarter.

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

Q

Great. Thank you.

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

A

You bet.

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

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Thank you. Good afternoon, Patrick and Derrek. Thanks for taking my questions. I just wanted to build off one of Mark's questions there on the branches. Maybe just a little bit more color around potential timing, like, what do you have to see today from, like, a market dynamic and usage of your technical capabilities to feel comfortable in paring down the branch structure? And can we see this start to materialize in 2022?

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

A

Yeah. Thanks, Josh. This is Patrick. Appreciate the question. Well, we're looking at a number of metrics that we're tracking, so we're looking at client count, revenue growth, associate count, average hours per associate, average bill rate, average pay rate, margins. We're looking at a whole host of metrics that are financial as well as non-financial metrics around client acquisition, client retention, expansion rates, things of that sort. So we started the pilots right at the end of the first quarter. And we've been measuring all of these metrics throughout the pilots both in Chicago and in Dallas.

In terms of sort of green lighting, a more of a national expansion, we want to see the two pilot markets, the trending for those in Q3 and Q4, again above the pilot group that we're comparing against, which is the rest of the rest of the US branch network. So when we see that we're outperforming, then at that point we'd be in a position to green light on a much larger scale. There's a few other nuances that we're about to start running some pilots on.

As an example, we have some branches that aren't part of large metropolitan cities. So if you take Illinois as an example, Peoria, which is in the middle of the state, two and a half hours southwest of Chicago, we only have one branch there. So one of the other things that we're looking at is could we support a branch like Peoria from a market service center in Chicago. That's an open item right now that we'll be testing in Q4. And so the first order of business was could we outperform in our metro markets with a market service center versus a branch network. And then secondly, for those locations that are not metro that are secondary cities, can we deliver services more effectively and more efficiently than through a local branch. So those are the things that are being tested. And until we are outperforming, we'll continue to pilot and make tweaks and perfections before we launch on a large scale. But what we're not going to do is launch on a large scale if we're not outperforming the current situation. And so, those are some of the things that we're looking at.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Those are good insights. Thank you. You certainly had a very strong results across the three segments. I just wanted to focus a little bit on the little bit of margin compression we saw on a sequential basis. Derrek, you had some comments on it, supply chain issues. I'm just curious when we look at Q2 versus Q3, was that supply chain issues that leaned on, on the margins at PeopleManagement, and also sequentially, we saw a little bit down tick in PeopleScout. I'm just curious what drove those?

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

A

Sure. The down tick at PeopleManagement, that certainly had something to do with it, our same branch revenue for PeopleManagement went negative in the third quarter. So – and we're bringing on new clients as well at PeopleManagement. So, the same customer revenue is the most profitable and it's the one that really deleverages because we still got the same amount of resources for the most part running those sites, the revenue drops, and so all of those gross profit dollars fall to the bottom line without much offset on the SG&A side.

From a PeopleScout perspective, we gave a little bit of color on Q2. That was a really outsized margin quarter for us. But what we're turning in this quarter is probably more appropriate for the revenue side. So what we saw was just a huge surge in same customer volume. So, we were getting great leverage, maybe a little too great across our recruiting base. And so, it delivers some very, very nice margins. That business will still continue to deliver nice margins. But the Q2 margin expansion was a bit ahead of itself and not one that we can still make with the same type of service level agreements with all of our customers as far as timeliness. So, that's a little color on those two pieces of business.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Yeah, that's helpful. Thank you.

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

A

But still we're very pleased with the 130 basis points of adjusted EBITDA margin we had for the quarter versus same quarter a year ago.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Got it. Thank you. Your comments on the SG&A in Q4, I was just curious when the $5 million split between deferred comp and SaaS implementation, is that going to bleed into 2022 or is it kind of just going to hit up in Q4?

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

A

Yeah. Those costs where the SG&A is going up, those are excluded from our EBITDA calculation. So they won't be dilutive to adjusted net income or EBITDA. The deferred compensation plan will be fully transitioned this year. We've been moving everything over to some company-owned life insurance policies for tax reasons the last two or three years. And so that will complete itself. And then the system costs, the extra $2 million - $2.5 million that we'll spend there, we could do some more implementation costs and likely will next year towards some SaaS-based systems, but those too would be excluded from the SG&A. And those would not be recurring cost that would continue with us once the systems are stood up.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

All right. Great. And just a couple quick ones on – around the vaccine mandate. I know you had some commentary there, Patrick. I guess – you talked about tracking measures and stuff like that. But what's the dialogue you're having at the client level both big and small? And if this is something that does materialize, do you think it could be a net benefit for you?

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

A

Yeah, Josh. I appreciate the questions. So there's a lot of unknowns pertain to mandate that should get cleared up in the next couple of weeks. And until those get cleared up, it's difficult to say the magnitude and timing of the impact.

A couple of things to note though, from an RPO perspective, we've talked with a number of our clients, and this could be a potential tailwind for us as certain clients have indicated that they expect much higher than normal attrition, which would increase hiring volumes. And of course, we get paid a fee for each hire. And so, the more churn there is at our clients, the more revenue and volume that we run through PeopleScout. So, hard to predict, but it looks like if this ultimately gets implemented, there's the potential it could be a nice tailwind for PeopleScout.

Related to our staffing business, it's just too early to know. There's so many uncertainties. Things like, here's a complication, would you count the site as the 100-employee threshold or the staffing provider? So, as an example, we have a lot of small landscaping companies that would be fewer than 100 employees. So, would our 100-employee count matter or would it be theirs? Because it'd be odd for us to send workers to their site and our workers have to be vaccinated but theirs don't. So that's an open item. How about work-at-home people for our corporate staff? We don't really know.

The definition of an employee if we take the Obamacare definition it would have very small impact on our workforce. If it's − they work an hour for us and they count, it would have a larger impact. And so, it's hard for me to say on the staffing side of the business until we see the specifics because there's just so many unknowns that could go so many different directions that it probably would be premature for me to try to guess what OSHA is going to come up with in terms of their rules.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

No. That's helpful. Obviously, a lot of uncertainty and moving parts there. And you kind of led into my next question is, taking PeopleManagement out of the equation, looking at PeopleScout and PeopleReady – and I guess it's a question you can't really answer because of the definition of an employee, but I was curious, what percentage of those clients fall below the 100-employee threshold? But I guess you can't answer that right now.

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

A

Well, I don't have that number handy. I can tell you that if the definition for an employee was the Obamacare definition, we would be in the single-digit percentages of our employees impacted. And then you factor in the percentages of those that are already vaccinated, and all of a sudden, you're then into a very small number. If it turns out, it's – the other extreme where it's – they work one hour and they're considered an employee, then the impact would be a lot larger and we'd have to do some workarounds, for sure.

The one thing I'd like you to take away is we're well prepared for this. We've been doing this already for clients that have come to us and said, hey, only send us vaccinated employees. It's been more prevalent in PeopleManagement than in other places, but we're certainly well-prepared to operate in this environment if the mandate survives the court challenges.

I do want to just follow up on one question you asked earlier about the margins in PeopleManagement and PeopleScout. Derrek touched on this a bit, but sometimes it does go down for a good reason. We've had a lot of wins in PeopleManagement and PeopleScout that are in implementation in Q3, also some in Q4. And so, just know that the quarter-to-quarter can look kind of lumpy from time to time because of a large implementation or a couple of large implementations. And we saw some of that in Q3 for sure.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

No, I appreciate the follow up on that. I guess just one last question around the potential for vaccine mandates, another way to kind of look at it. If it is perhaps put in place in certain states but not others, can you give me a sense of your geographic exposure to, I guess, blue states versus red?

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

A

Yeah, I think that'd be a good question for Derrek to answer.

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

A

Well, Josh, I don't have it sliced that way. I'd have to check into that one and get back to you.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

No worries. I didn't mean to catch you off guard on that one.

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

A

Well we do have our revenue by state though, Derrek, don't we? That we could use as kind of a proxy to give Josh a sense of what our revenue is particularly in PeopleReady?

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Yeah. Like maybe your top five states in terms of revenue or top three states, California, Texas, New York.

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

A

Yeah. California, up 14%, Florida 13%, Texas at 9%, Illinois at 3%, and Washington at 3%. From there on out they're all 3% and 2%. I'd have to run some calculations.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

No, that's perfect. Well, thank you guys for taking my questions.

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

A

Thanks, Josh.

Operator: [Operator Instructions] There are no further questions at this time. Mr. Beharelle, I turn the call back over to you.

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

Well, thank you everyone, for joining the call today and thanks to all of our TrueBlue associates for the great work that they're doing every day. We look forward to speaking with you all again on our Q4 earnings call in early February and make sure everyone stay safe. Take care.

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