

Barrett Business Services, Inc. First Quarter 2026 Earnings Call

Good afternoon, everyone, and thank you for participating in today's conference call to discuss BBSI's financial results for the first quarter ended March 31, 2026. 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 the information presented that does not reflect historical fact, are subject to a number of risks and uncertainties. Actual results may differ materially from those implied by these forward-looking statements. Please refer to the company's recent earnings release and to the company's quarterly and annual reports filed with the Securities and Exchange Commission for more information about the risks and uncertainties that could cause actual results to differ from those expressed or implied by the forward-looking statements.

I would like to remind everyone that this call will be available for replay through June 6, starting at 8:00 PM Eastern Time tonight. A webcast replay will also be available via the link provided in today's press release, as well as available on the company's website at www.bbsi.com.

Now I would like to turn the call over to the President and Chief Executive Officer of BBSI, Mr. Gary Kramer. Sir, please go ahead.

Thank you and good afternoon, everyone, and thank you for joining the call. I am pleased to report that we had a solid start to the year and our Q1 results were in line with our expectations. We're a company that executes to a plan and we continue to grow our client base while delivering additional product across our tech stack.

Moving to our financial results and worksite employees, during the quarter, our gross billings increased 3.5% over the prior year's quarter and was in line with our expectations. We continue to execute on our strategies to increase the top of the sales funnel and we continue to see positive results. While Q1 new client additions were strong, they trailed Q1 2025, which benefited from an inaugural selling season with Kaiser. Additionally, our client retention continues to trend better than our historical levels. I like to attribute that to the work we do with our clients and the value our teams provide. The result of all these efforts, or what I refer to as controllable growth, is that we added approximately 5,300 worksite employees year-over-year from net new clients. However, our overall growth was tempered by broader client workforce reductions. As a reminder, macroeconomic uncertainty has led many of our clients to reduce head count through the back half of 2025, a trend that impacts our year-over-year comparisons. While we saw further workforce reductions in Q1, the rate of decline has begun to moderate compared to the back half of 2025. To summarize, despite client workforce reductions, we achieved a 2% increase in total worksite employee growth for the quarter, driven by strong sales volume and strong client retention.

Moving to our staffing operations. Our staffing business declined 21% over the prior year quarter, reflecting a broad reluctance among clients to place staffing orders amid macroeconomic uncertainty. In response, we continued to leverage our recruiting expertise for PEO clients, successfully placing 90 applicants during the quarter.

Moving to the field operational updates, we're very pleased with our entrance into new markets with our asset-light model. These folks continue to gain traction and consistency and added approximately 550 new WSEs in the quarter. As a reminder, we opened our newest branch in Nashville in January following last year's openings in Dallas and Chicago. 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 converting three additional locations to traditional branches this year as we continue to invest in the development of our asset-light markets.

Regarding product updates, we continue to execute on the sale and service of BBSI Benefits, our health insurance offering. We're off to a great start of the year. As a reminder, we had a successful 01/01/2026 season renewing 93% of our book despite rising health insurance rates. On an adjusted basis, we retained 97% of these clients proving that our value proposition holds firm even when clients choose to transition off of our benefits platform while remaining with BBSI.

We have achieved operational consistency and added nearly 140 clients and 3,500 participants to our various health plans during the quarter. We continue to invest and improve the sale and servicing of BBSI Benefits. Our value proposition resonates well. We're 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'd like to shift to our 2026 IT product objectives. I previously mentioned that we've been investing in our tech stack 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, added a learning management system and added numerous integrations with third parties. We've also been investing in our 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 seamless onboarding into our payroll and timekeeping systems.

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, which improves compliance and efficiency.

In April, we officially launched our Performance Management module. This module'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 beta clients were very complementary of the overall offering as well as the ease of use of our system. We think that ultimately these products will result in increased sales and better client retention and we are excited to offer these products to existing clients as well as new prospects.

Next, I'd like to shift to our view of the remainder of the year. As we look to the remainder of the year, our outlook remains unchanged. We expect our clients to continue growing at a rate below historical norms. However, we expect that rate of impact from low client hiring to moderate in the second half of the year. We believe BBSI is well-suited to navigate macroeconomic and geopolitical uncertainties. In challenging times, small businesses are better off in a PEO relationship and can benefit from our scale and our expertise. 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. We have more products to sell and more folks selling. Consistent execution, differentiated service model and strong relationships position us to continue driving sustainable growth through 2026 and beyond.

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

Thanks, Gary. And hello, everyone. I'm pleased to report that we finished the quarter with results in line with our plan and are reaffirming our outlook for the remainder of the year. Gross billings increased 3.5% to \$2.16 billion in Q1 2026 versus \$2.09 billion in Q1 2025. PEO gross billings increased 3.7% in the quarter to \$2.15 billion, while staffing revenues declined 21% to \$14 million in the quarter. Our PEO worksite employees grew by 2% in the quarter, which as Gary noted, was driven by strong controllable growth tempered by year-over-year client workforce reductions. Average billing per WSE per day increased 1.7% in the quarter, which was driven by increasing wages partially offset by lower overtime and hours worked.

Looking at year-over-year PEO gross billings growth by region for Q1, Southern California grew by 2%, Northern California declined by 2%, Mountain grew by 6%, East Coast grew by 17%, Pacific Northwest grew by 1% and our asset-light markets grew by 85%.

A few comments on our regional performance. Southern and Northern California, our two largest markets, both experienced slower growth in the quarter primarily due to year-over-year client workforce reductions. New client adds in both regions were in line with expectations. However, Northern California also had slightly elevated run off in the quarter and was more impacted by the negative client hiring trends. The East Coast continued to stand out, delivering its 20th consecutive quarter of double-digit growth, supported by strong controllable growth and positive client hiring. The Pacific Northwest region returned to growth as solid net client adds more than offset softer client hiring activity.

Turning to margin and profitability, our workers' compensation program continues to perform well, resulting in favorable adjustments for prior year claims. In Q1 2026, we recognized favorable prior year liability and premium adjustments of \$1.1 million compared to favorable adjustments of \$3.8 million in the first quarter of 2025. We've previously discussed the market inflection in workers' compensation pricing and the positive momentum that followed the California Insurance Commissioner's approval of an average 8.7% premium rate increase in

2025. In the first quarter of 2026, we were able to increase our pricing each month and have now established a five-month trend of increased pricing. Reinforcing this broader market trend, the WCIRB has recommended an additional 10% increase in California advisory rates for 2026.

As a reminder, the previous period of declining workers' compensation pricing has resulted in margin compression in recent years. And while we expect cost trends to continue to increase as well, we expect the improved pricing environment to stabilize margins and support margin expansion over time. We continue to prioritize thoughtful risk management and to that end, our workers' compensation claims are primarily fully insured and our health insurance product is 100% fully insured.

Looking at our payroll tax costs, payroll taxes are typically highest in Q1 as taxable wage caps reset, which results in lower margins in the first quarter of the year and a typical net operating loss. Payroll tax rates were in line with expectations for the quarter. You will also see that we have separated benefits costs into a discrete financial statement line item representing the direct costs of our client benefits offering. As a fully insured product, these costs primarily represent the pass through premiums for our client health plans and are directly correlated to the related client billings included in PEO revenue. We expect benefits volumes to continue growing with first quarter benefits costs up 56% year-over-year, broadly consistent with BBSI benefits billings growth. Overall, our gross margin rate was in line with our expectation and reflected stronger pricing trends and increased benefit sales with some headwind from lower staffing revenues.

Moving to our operating costs and overall profitability. In Q1, SG&A increased approximately 6% due primarily to the timing of certain employee-related expenses. We continue to expect full year SG&A trends lower than gross billings growth and more in line with prior year SG&A growth.

Moving to investment income. Our investment portfolios earned \$2 million in the first quarter, down approximately \$600,000 from the prior year due to lower average interest rates and lower average investment balances as we continue to use excess cash in our stock buyback program. Our investment portfolio continues to be managed conservatively with an average quality of investment at AA.

Looking at our net results for the quarter. As a reminder, on March 31, we announced the company had recorded a one-time tax charge related to credits from tax years 2017 through 2022, which were disallowed by the IRS and their related tax court decision. The amount of this charge was \$11.6 million or \$0.46 per share. We continue to evaluate our available legal options, including our right to appeal. As a result of this charge, our GAAP net loss per diluted share was \$0.59 for the quarter. Excluding the one-time charge, our adjusted net loss per diluted share was \$0.13, compared to a net loss of \$0.04 per diluted share in the year ago quarter.

Turning to our balance sheet, we're in a strong position with \$92 million of unrestricted cash and investments at March 31 and no debt. We continued our consistent approach to capital allocation, making investments back into the company through product enhancement and geographic expansion, and distributing excess capital to our shareholders through our dividend and stock buyback plan. Under our \$100 million August 2025 repurchase program, BBSI repurchased \$20

million of shares in the first quarter at an average price of \$28.68 per share, with \$55 million remaining available under the program at quarter end. The company also paid \$2 million in dividends in the quarter and reaffirmed its dividend for the following quarter. This brings total capital returned to shareholders in the last six months to over \$40 million.

Now turning to our outlook for the full year. Our Q1 operating results aligned with our expectations, reflecting continued strong execution of our fundamentals across the company. Accordingly, we are reiterating our full year outlook. We expect gross billings growth between 3% and 5% for the year, WSE growth between 2% and 4% for the year, gross margin as a percentage of gross billings between 2.7% and 2.85% and an effective annual tax rate normalized for the one-time tax charge of between 26% and 27%.

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

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. And we have our first question from Chris Moore with CJS Securities.

Hey, good afternoon, guys. Thanks for taking a couple. Maybe we will start on the workers' comp pricing, obviously encouraging the five months straight increased pricing. I assume pricing still hasn't caught up to the State of California increase it at this point in time. That's fair? There is still lots of room there?

Yeah. I mean, the rates went up last year by about 9%. The market was a little slow to start to go out and reflect that immediately. We started to see rates going up, as far as charge rates for what we're able to get in the market, we started to see that it was choppy in the back half of the year. So we have two good months, one bad month kind of thing. But from December until April, we had positive rate increases on all of our renewals and our new business. So we're seeing it in the market as far as rates going it up. It varies by market, as far as – this is predominantly California, but it varies by location. But just in the aggregate, the tide is coming in.

Got it. And what would it take to raise the upper end? I guess, is that is that more of a 2027 really kind of situation? I know there's a lag between the time you raise pricing. You've got different contracts that are renewing at different periods, just trying to understand if you had another three or four months, would that have a meaningful impact on that 2.7% to 2.85% range?

Yeah, Chris, I'll jump in on that. So, it's obviously early in the year, now, and we're encouraged by the trend we've seen in pricing. But remember, we finished 2025 lower than we started 2025. So really as we kind of build that back, we're going to kind of work back towards where we were and see sequential improvement. But we also only renew about a 12th of our book each month. And so really that will continue to build and build profitability towards the second half of the year. And to your point, really where you'll see that on a year-over-year basis on a gross margin rate is going to be in 2027.

Got it. That makes sense. And maybe just the last one for me. In terms of the technology that features that Gary was talking about, how does that work from a pricing standpoint or is it more just about retention really?

Good question. We're not we're not going to get rich on these products. What it's going to do is it's going to get us to the table with every competitor out there. Right. So, there's not going to be something that knocks us out because our tech can do what everybody else's tech does. And at anything it gets you in the door, number one. And then number two, these products, we're not charging a lot. If we have variable costs on them, we try to push the variable cost through. We're not doing this to get rich. We're doing this to, really the more SKUs you sell someone or the more products you have, the longer they're going to stay with you, the more products you have, the more it appeals to the white collar business and the more it appeals to the larger clients. So, we think of this as it gets us to the table, it gets us to the table with white collar, it gets us to the table with larger clients. So, we're optimistic. The tech is good. We're optimistic that it's going to be received well by our clients and new prospects.

Got it. Sounds good. I will leave it there. Thanks, guys.

Thank you. We have our next question from Jeff Martin with ROTH Capital Partners.

Thanks. Good afternoon, guys. Wanted to start by diving in on the healthcare benefits side. How are you feeling about the take rate and the renewal rate on that? And are you seeing a relatively material size of amount of your new clients coming on as a result of the benefits offering?
Thanks.

So when we launched benefits, we did more upsell than new sell. Now we're at the point that we do more new sell than upsell. So for Q1, it was about 60% of the clients that we put onto the benefits were new to BBSI. So we're getting better at our craft, we're getting better positioning, we're getting better at selling it. So that's one. As far as the volume and the conversions, we have a really good conversion rate on benefits, better than just PEO. So when we actually present a benefits quote, we have a higher close rate, so math just says do more of it, right. So, that's what we're trying to do. The interesting part for 01/01 was everybody's rates went up double digits. Someone up more. So you had a lot of shopping. And when you have the shopping, you have somebody come in and they were getting a, call it, a 40% or 50% rate increase on the renewal. And then they came to us and we looked at it and there was a reason why they were getting that 40% to 50% rate increase. So we did see more business flowing, more opportunities came across our desk end of Q4, Q1. But some of these, we got to protect. We don't take the risk on the underwriting, but we got to protect the pool and there was a lot of business that we had to decline to quote.

Make sense. Okay. And then just curious what else you can tell us about the Northern and Southern California markets, your two biggest markets in terms of maybe what you're seeing or hearing from that client base with respect to their reluctance to hire or even cutting back on their head count?

Yeah, just in general on a WSE basis, Southern California had more reductions, but on a proportion basis, Northern California had a bigger proportion, if that makes sense. So that was broad based for Northern California and for Southern California and was broad based pretty much for all industries. We saw it from the cookie stores to the construction companies and we

saw them pullback. I get out and visit clients and some of the themes that I heard in Northern California were, the Bay Area construction has slowed down. So the contractors are pushing out of the Bay, right. Because they got to work, they got to find business and they got to go out as far as Fresno and places like that. So it's interesting that they shrunk. They've got their base. But you're not seeing robust housing starts, you're not seeing any of those things yet. I don't think interest rates are helping the industry at this point.

Right. Right. Okay. And then with respect to the asset-light markets and you've got three at critical mass, sounds like you're rolling out three additional branches this year. Can you refresh our memory on how many new markets you're starting in greenfield on the asset-light this year?

The reason we didn't give that is because it gets complicated, right. Do I call Chicago or Dallas a new market anymore? But in total, if you include Chicago, Dallas, Nashville, we're at like I think it's 22.

Okay.

22 and we started to go into states that we haven't been in. So we started to hire some folks and they're selling in Florida and some other places that we aren't in.

Thank you.

To confirm, Jeff, was that your final question?

It is. Thank you.

Thank you. We have our next question from Vince Colicchio with Barrington Research.

Yes. Curious, the new client pipeline, how does it look in comparison to recent quarters?

Pipeline is strong. Pipeline continues to be strong. We've got a lot of focus and attention on our direct efforts. We got a lot of focus and attention on active referral, acquiring new referral partners. We've got more referral partners referring to us now than we've ever had. And that piece is working very well as far as the top of the funnel. The conversion could be a little higher. You're seeing a reluctance right now unless there is a cost savings. I think it's got to do with the macroeconomic. But, unless you can – unless you can show a cost savings or explain the value, that's how you're going to get to the conversion rates up.

And how are the healthcare brokers performing in terms of providing the lead or referrals?

You know that's a new channel for us, typically because of our workers' comp product, we aligned with the P&C brokers. But now that we have the employee benefits re-aligned better with the health insurance brokers. With those, we're doing well. We have some national partner, some big some big brokers that we work with. We're doing well with them on the benefits side. I would like to do better with the smaller health agencies. We have some that are referring to us, but I'd like to have more of those.

Okay. I'll go back in the queue. Thanks.

And thank you. We have our next question from Marc Riddick with Sidoti.

Hey, good evening, everyone.

Good evening.

Wanted to touch a little bit on – a lot of my questions have been covered, but I did want to touch a little bit on cash usage during the quarter and maybe just share some around the share repurchase activity in the quarter. And if that sort of continued into April there and then I have a quick follow-up after that.

Yeah, absolutely. So we generate a lot of cash. As you know, we're not a capital intensive business. So we talk about our capital allocation strategy, we do look at opportunities to invest in our business. The most clear way is through our IT investments we've been talking about there and obviously investing in our sales teams and asset-light expansion. But we are going to have excess cash generated through operations and we have consistently shown that we want to deploy that back to shareholders. And in particular, right now there's a lot of, we believe, intrinsic value in our stock. And so we look at where we can invest. That's something we've increased our share purchasing both in Q4 2025 and through Q1.

Okay, great. And then I wanted to circle back on you touched on the client vertical behaviors that you're seeing out there. I was just sort of wondering if there was much in the way of change or differentiation in certain areas, particularly, whether it's retail or construction – residential construction or the like. And whether you've seen any impact or change that was more directly tied to the geopolitical and the war and the like, or if that was just sort of consistent across the board through the quarter? Thank you.

Good question. If you think of how the last, call it, four quarters or how 2025 progressed, right. In Q1 of 2025, our customers grew, which makes this a harder compare, right, for Q1 of 2026, right. We're going against growth.

Right.

Q1, our clients grew; Q2, they moderated back to flat; Q3, they reduced; Q4, they reduced more. So, a lot of the negative effects we're feeling are from reductions that happened in the back. Our clients reduced further in Q1 but at a much lower rate than they did in Q3 and Q4. So we're not seeing bad numbers. We're not seeing as bad a number in Q1 as we saw in Q3 and Q4. But in general, it's – East Coast – there's a couple of regions that have growth. East Coast is one. But just if you think of these industries, in California it was pretty it was pretty much down in every industry with construction being the most. And then when you look at it by region, it kind of you have some puts and takes. Some regions are growing; some regions are shrinking. But, for the aggregation of our clients in California, just in general, all industries reduced their workforce.

Okay, great. Thank you for the feedback.

Thank you. At this time, this concludes our question-and-answer session. I will now turn the call back over to Mr. Kramer for closing remarks.

I just want to thank everybody for dialing in and thank all of our BBSI employees for another great quarter. Thank you, everybody.

And thank you, ladies and gentlemen. This concludes today's conference call. Thank you for your participation. You may now disconnect.