Barrett Business Services, Inc. First Quarter 2025 Earnings Call

Good afternoon, everyone, and thank you for participating in today's Conference Call to discuss BBSI's Financial Results for the First Quarter Year March 31, 2025.

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

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

I would like to remind everyone that this call will be available for replay through May 30, starting at 8 P.M. Eastern Time tonight and a webcast replay will also be available via the link provided in today's press release, as well as available on the company's website at www.bbsi.com.

Now, I would like to turn the call over to the President and Chief Executive Officer of BBSI, Mr. Gary Kramer. 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 record start to the year. Our new client sales, coupled with our upselling of new products plus great client retention, resulted in our revenue exceeding our expectations. We continue to execute our growth objectives and we added a record number of worksite employees.

Moving to our financial results and our worksite employees. During the quarter, our gross billings increased 9.5% over the prior year's quarter and was greater than our expectations. We continue to execute on our various strategies to increase the top of the sales funnel and we are seeing positive results. We had a very strong Q1 selling season, adding 55% more WSEs use from new client adds than prior year quarter. 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 7,900 worksite employees year-over-year from net new clients.

We mentioned previously that we began to see our clients resume hiring but below historical levels. January and February followed this fact pattern, but hiring slowed down in March and was less than we expected. Our clients' workforce still grew in Q1, but at a slightly slower pace than we planned for. The net result of strong customer adds and positive customer hiring was that we grew worksite employees by 7.6%.

Moving to our staffing operations. Our staffing business declined by 10% over the prior year quarter and was below our expectations. January and February were in line with our expectations, but we experienced the slowdown in March. We continue to execute on our strategy to recruit for our PEO clients and we placed 105 applicants in the quarter. We also experienced macroeconomic headwinds, including supply and demand imbalances, which varied by geography.

Moving to the field operational updates. We're very pleased with our entrance into new markets, with our asset light model. We have 21 total new market development managers in various stages of their development. These folks have been gaining traction and consistency and had a great first quarter by adding over 600 new WSCs and three of the markets. We hired additional folks locally to support our clients and are in the process of moving into traditional brick and mortar BBSI branches.

We expect to move into new physical locations in Chicago, Dallas and Nashville by early third quarter. We continue to see positive results from our investments in new markets and are actively recruiting additional new market development managers. Regarding product updates, we continue to execute on the sale and service of BBSI benefits our new health insurance offering.

We're off to a great start for the year. For the one month selling season, we added approximately 3000 participants to our various benefits products. I am pleased to report that through April we have approximately 640 clients on our various plans, with more than 17,500 total participants.

We're gaining traction and continue to improve the sale and servicing of BBSI benefits. Our value proposition resonates well and we're having success with small and large clients in white and blue collar industries in every state that we operate and with a diverse distribution channel.

We are pleased with the results of BBSI benefits and this product will be accretive to earnings in 2025. We are bullish on this product and will now reap the benefit of leverage through scale. Next, I'd like to shift to our 2025 IT product objectives.

I've 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've made additional investments in my BBSI to support BBSI benefits, added the learning management system and numerous integrations with third parties as we evolve and look forward to the remainder of 2025, we will be making additional investments to round out the employee lifecycle experience. We think of the employee lifecycle from the client's perspective, from when an employee is hired, when the employee retires and everywhere in between. We will be replacing or bolstering attributes of the lifecycle with additional product launches throughout the year.

In March, we launched a BBSI applicant tracking system, a cutting edge tool that allows our clients to create job postings from our centralized system, which integrates with various third-party job boards. Clients can manage the interview process in our system, and then when employees hired, they integrates seamlessly with our payroll and timekeeping system, this will help our clients with organization and create multiple efficiencies. It is still early days, but we're hearing only positive feedback. Clients appreciate the investment and appreciate the time they are saving. We are excited about this launch and the future launches as we execute on our product roadmap for 2025.

Next, I'd like to shift to our view of the remainder of the year. We had a fabulous start to the year and we have great momentum on billings growth. We have consistently achieved strong, controllable growth by focusing on the needs of our clients and by adding new clients. We have more products to sell, more folks selling them, and more referral partners recommending BBSI. But we would be remiss if we didn't acknowledge that the remainder of the year may look different in the beginning of the year. Trade negotiations and other government initiatives are creating a time of uncertainty. BBSI has minimal to no direct exposure to tariffs. However, we have indirect exposure if this causes our clients to reduce or increase their workforce. When you have a time of uncertainty, typically see hiring slow down, company investment slowed down and the demand environment and investment slow down and the demand environment can become more restrained and price sensitive. Regarding our outlook for the remainder of the year in a traditional economy and based upon our strength in Q1, we would have raised our billings outlook for the year. But with this uncertainty, we think it prudent to err on the side of caution and maintain our outlook for billings growth and WSC growth. Similarly, we would have tightened the gross margin range, but we believe the current environment has clouded our ability to appropriately update our 2025 outlook. Nevertheless, we believe BBSI is well-suited to navigate these macroeconomic dynamics. Our champion challenging times small businesses are better off in a PEO relationship and can benefit from our scale and expertise. Our consistent execution, differentiated service model, and strong client relationships position us to continue driving sustainable growth in 2025 and long-term value 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 we finished the quarter with strong results and exceeded our plan. Gross billings increased 9.5% to $2.09 billion in Q1 2025 versus $1.91 billion in Q1 2024. PEO growth billings increased 10% in the quarter to $2.07 billion, while staffing revenues declined 10% to $18 million in the quarter. Our PEO worksite employees grew by 7.6% in the quarter, which is, Gary noted was driven by a record number of WSCs added from new clients. This was coupled with ongoing strong client retention, which continued a strong trend of controllable growth. In addition, we saw continued but still subdued client hiring in the quarter. Total hours and overtime hours increased modestly year-over-year continuing to show stability. Wage rates continue to increase as well and average billing per WSE increased 2.6% in the quarter. Average billing per WSE would have been higher, but Q1 included one less business day in the prior year. Looking at the year over year PEO growth, billings growth by region for Q1, the East Coast grew by 14%, Southern California grew by 11%, Mountain grew by 9%, Northern California grew by 6% and the Pacific Northwest declined by 1%.

Southern California represents our largest region and has improved to double-digit growth through a combination of consistent client adds and customer hiring and better than expected client retention. The strong East Coast performance represents the 16th consecutive quarter of double-digit growth in that region, also driven by strong controllable growth. The Pacific Northwest region is our smallest region, comprising about 5% of our gross billings. And they had a modest reduction in net client hiring.

Turning to margin and profitability. Our workers' compensation program continues to perform well and benefit from favorable claim frequency trends and favorable claim development. This strong performance has once again resulted in favorable adjustments for prior year claims. Q1 2025, we recognized favorable prior year liability and premium adjustments of $3.8 million compared to favorable adjustment of $3 million in the first quarter of 2024.

As a reminder, our client workers' compensation exposure is now primarily covered by a fully insured program with no retained risk by any BBSI. As the past quarters, the cost savings, we recognize that workers' compensation expense has continued to offset pricing pressure in the workers’ compensation insurance market, which continued to move overall rate lower.

Looking at our payroll tax costs. Payroll taxes are typically highest in Q1 as wage caps reset. This results in lower margin than the first quarter of the year. This year has seen modestly higher effective unemployment tax rates than in recent years. These rates are reflected in our billing rates over the course of the year. Our gross margin rate remains in line with our expectation for the quarter. Our overall profitability is continued to benefit from operating cost leverage. For Q1, SG&A expense increased by approximately 6% due primarily to employee related costs, including higher profit share incentives due to the strong quarter. SG&A cost continued to grow slower than our billings growth rate.

Moving to investment income. Our investment portfolios earned $2.6 million in the first quarter, down approximately $600,000 from the prior year due to lower average interest rates. As a reminder, our investment portfolio continues to be managed conservatively an average quality of investment at AA. The combined results of these activities was a net loss per diluted share of $0.04 compared to a net loss of $0.01 per diluted share in the year ago quarter. As a reminder, due to the seasonality and payroll tax expense, we typically incurred a loss in the first quarter of the year.

Our balance sheet remains strong, with $99 million of unrestricted cash investments on 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 $75 million repurchase program, BBSI repurchased $9 million of shares in the first quarter at an average price of $39.85 per share, with $21 million remaining available under the program at quarter end. The company also paid $2.1 million in dividends in the quarter and reaffirmed its dividend for the following quarter.

Now turning to our outlook for the full year. Our Q1 results exceeded expectations, reflecting strong execution across the company. However, as Gary mentioned, we're approaching the rest of the year with measured caution, given the potential effects of economic uncertainty on our clients. And we're therefore maintaining our outlook, outlook from the beginning of the year. To recap that outlook includes a gross billings increase between 7% and 9% for the year. WSE growth between 4% and 6% for the year. Gross margin as a percent of gross billings between 2.85% and 3.1%. And an effective annual tax rate 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. One moment please for your first question. Your first question comes from the line of Chris Moore from CJS Securities. Please go ahead.

Hey. Good afternoon, guys. Congrats on a nice quarter. And thanks for taking a few. So maybe just on the tariff side, I think we talked about this a little bit last quarter, but you know, roughly what percentage of your clients would you estimate have direct tariff exposure and that that could be positive or negative?

Yeah, You know, just in general, we primarily deal with service businesses. Think of the you know, the blue grade, contractors, the trades. They're not going to have the direct. They're going to have the indirect, which is, you know, maybe some of their materials or supplies will cost more. We don't have a ton of manufacturing which would have to deal with this. You know, where we do see it is in, you know, called our southern LA or Long Beach area. We do have some trucking and logistics business, intermodal business that we've seen start to slow down. As you look at the, I think it's like 60% less ships are coming in from China to the ports. And if there's less ships coming in, there's less freight to move. We're seeing it there. But I would say in the aggregate, it's nothing that's material.

Got it, that's very helpful. So one of the obviously one of the bigger changes in the BBSI model of the last five years or so is the asset light model, you know, allows you to cost effectively to determine if a new geography makes sense. You mentioned three new physical locations. Is there an annual goal or target for the number of new physical offices?

You know, good question. It really has to do with the development in that area. You know. Some markets are difficult, -- some markets develop quicker than others. We expect all the markets to develop. We don't really have a plan for how many physical locations we're going to have in a year. You know, some of them we look at it and say, when does it make business sense to put the brick and mortar there?

And the reason we do that is just because when you get the brick and mortar, you're going to have the expense that goes with it. You want to make sure that you can justify the expense. And when we look at the first three, it's Dallas where we're doing well, Chicago where we're doing well, Nashville where we're doing well.

Chicago where we're doing well, national where we're doing well, they will come online end of Q2, early Q3 it's when we're going to have the ribbon cutting for them. And then we'll probably have one more by the end of the year with possibly two more followed next year. But we don't have a cadence of say, three years, it's really when they're ready for it. And surprisingly, the thing that has really surprised me is, I would think it'd be easier to get commercial real estate in this market. It's been a challenge in some places. We wanted to be in these locations sooner. But it's been a challenge on the real estate side, believe it or not.

Interesting. I'm just trying to understand, kind of estimate what percentage of growth, over the next, say, five years could come from geographic expansion. I mean, can that add a point or two of growth a year over time? Or is that too aggressive?

We really think of it as, I like to call them our 401(k), right. These are these are investments for the future. We know that we're going to get revenue out of them in the short-term. We know that we have a plan that they're going to get up to speed and cover their cost in the short-term. But we're really not doing this for profitability until we get out until year three and beyond. And we look at it as a profitability play, not a revenue play.

Got it. And that makes sense. Maybe just last one for me. On the healthcare side, obviously, you have two key relationships, Aetna, Kaiser Permanente, is that enough? Is there any value in a third partner at this point in time?

We have partnerships that we – that are not as large as those, we have some blues, we have some other carriers in certain states. Typically when we're in a market, we try to understand how is the Aetna network. Do we need to complement the network, Aetna network with a regional carrier? Or if we do have to complement it with a regional carrier, we add them in. So in certain states where it makes sense, I think it's like three or four states where we already have additional carriers in those states.

Got it. Now jump back in line. Thank you.

Thank you. And your next question comes from the line of Jeff Martin from ROTH Capital Markets. Please go ahead.

Thanks. Good afternoon. Kramer, I wanted to dig in a little bit more on kind of how you -- when you read the updated guidance, your maintain guidance relative to Q1 beat. What were some of the factors that you've considered and coming to your conclusion that 7% and 9% gross billings growth is a good number stick with given the uncertainty?

I mean, if you just look at where we finish for the quarter, right? So we finish above our range on gross billings. We finished above our range on WSE growth. And if you just kind of look at that and said if the year was going to play out, we would have had to increase our guide for that. So there's a, there's the puts and then the takes would really be, you know, how's the profitability of the business going and the profitability of the business is on plan for the quarter.

So, you know, as we look out to the future, you know, the thing, you know, the thing that we learned in the COVID environment is when there's these macro shifts. During COVID, we saw new business slow down and we saw that we experienced our retention going up. And then the only time businesses were moving in that time of uncertainty was if it was a cost savings or cost play. So we're looking at the future and we say all right, well we're into April already, well over in May already, but for us or for April account hasn't closed yet.

For April, we saw positive trends as well. When I think of -- yeah, we call it cash first accrual. So you work this week but you don't get paid for two weeks. So we don't actually know all of the April hours yet. But for what we know, we know for April, we've met our client add numbers. We met our benefit ad number that we have for the plan. Our WSCs for April are higher than the plan that trend continues. And just that's what we can see, right. And unfortunately, like, we don't have line of sight further out past April. And then based upon that, we looked at it and said, well, you know what, we're ahead of plan on these metrics. The macro may pull it back. There's puts and takes. So let's keep the plan works out or let's keep the forecast, or I'll look where it's up.

Okay. And then, on the benefits side, how much do you think that's driving new client growth versus existing clients adding the benefits to they're packing.

Yeah, very good question. We're now getting through the cycle of, when we rolled this product out, we had better success selling it into our existing clients, the new clients. Now we're getting more of a balance as we got through January 1. If you looked at the 1/1/2024 selling season, it was about 75% existing, 25% new. When we looked at the selling season for 1/1/2025, it shifted to about parity of 50/50. So, you know, a lot of these clients that we brought on would not have joined BBSI if we didn't have this benefits offering. So that's where we're really have the wind at our backs is, you know, we're able to get into markets where we weren't before in the distribution houses where we weren't before. And to, you know, you know, we're bringing on doctors and lawyers and, you know, businesses that we wouldn't have drawn on before. And we're getting a real tailwind in that space .

Great. That's good news. And then last one for me is when you're going out there and selling to clients, are you displacing more PEOs than the legacy PEOs than you had in the past? The reason I ask the question is, is your posting growth? That's several factors of what others in the industry are showing can in their more recent results. Anything in particular you can attribute that to outside of the benefits being an incremental value driver?

You know, we're – I can just tell you that it's a lot of little things that we've been doing to get the sales machine going. You know, the people we hire, the training we have, the technology we're using better products for bringing to market. There's a lot of things that we've changed the organization and you're seeing, you know, the benefit of all of those now. You know, predominantly the clients that we bring on are converting to PEO for the first time. We are seeing more PEO takeaways now, you know, especially in our market development managers, they typically have a strategy to do PEO takeaways. In our other markets, we do PEO takeaways too. But, you know, it's not, you know, we look at the, one of the reasons we love this industry, right? You know, there's. 85% of the business is out there and not with the PEO. Right. So there's plenty of ocean to go fish in. And, you know, we're we view it as, you know, go fish in a spot where nobody else is at. And that's the way we've been successful.

Appreciate the time. Thank you.

Thank you. And your next question comes from the line of Vincent Colicchio from Barrington Research. Please go ahead.

Yeah, Gary. Impressive net new client adds in the quarter. Is there anything that you'd want to add to, you know, what's already been mentioned in terms of how you were able to achieve that? Anything new with the marketing tools that you're using or anything of that nature?

I'm not going to give our playbook to the competitors there, Vince.

That's fine. That's fair. On the staffing side, I saw that you had some manufacturing in there. Would you answer that question differently than the overall as far as exposure to tariffs?

Yeah, we've look, you know, in the northwest, we have some of our on sites are in agriculture. You know, part of the concern was that was business that was, you know, ultimately going to go to China and was going to be rejected now, with the tariffs, the business that we have there stays US, like think of potatoes, things of that nature or onions. A lot of that gets processed into different foods that get sold into the US. Typically the raw materials of agriculture that go to China for us from the US. So when we looked at you know, when we looked at, you know, the agriculture side, we feel pretty good that that's not going to pull back in the northwest. I mean, we looked at down south southern Cal. We do have some staffing business that deals with logistics and warehousing. We haven't seen the effect there as of yet. If anything, it pulled it forward as folks tried to stock up before these tariffs went into effect. We don't know how that's going to play out in the rest of the year. Just reminder, that is a very, very small piece of our business.

And how is pricing trending? I think I may have missed your comment on that.

Are you seeing any pressure from any pockets of clients given the economic backdrop?

You know there's you know, we've said this for quarters and years now about the workers' comp pricing. You know, worker's comp pricing has. You know what I would say now moderated. It's not going up much. It's not going down much. Call it plus two, minus two. The range we're seeing and the promise we've seen is the regulatory agency of California, the WCRB has recommended an advisory rate increase of 11.2 or -- 11.2%. So you're having the rating agencies say workers comp premium prices should go up. And we view that, as you know. In the joke of the organization that I am not good at calling the bottom, but I feel like we're closer to the bottom now than we ever been.

Okay. Nice quarter. Thanks.

Thank you. And your next question comes from the line of Marc Riddick from Sidoti. Please go ahead.

Hey, good evening.

Hey, Marc.

So a lot of my questions were already covered. I was sort of wondering, though, and congratulations on a great start for the year, particularly with benefits. I was wondering if you talk a little bit about some of the. Were there any particular new service offerings or sort of new paths that that you think would resonate particularly well given the current environment? I mean -- I can imagine there, certain things that you had planned for the year. But can you sort of share with us are there any sort of things that might be maybe more of a priority now then vis-à-vis what it might have been six months ago or so, that that's helping with the new client adds or one those lines?

Yeah. I would definitely say we added Kaiser into our medical offering on seven one. This was our first 11 with selling the Kaiser products, right. So we have the Kaiser HMO side by side, the Aetna PPO, And, we had estimates with Kaiser and to add – think about how many participants are we going to add in a year. We had estimates with Kaiser in our agreement and we blew the doors off of that. We like 2.5x to what we thought we would do in a year. We did it in about seven months. So our Kaiser offering is definitely helping us in California in both north and south. So I think just having better access for folks is really working for us. So that's one and that's going to continue throughout the year. We're excited about our applicant tracking. We've got – it's still very new, right? We just launched in March. We've got less than 50 clients on there now, but we're seeing the positive of that and we're seeing that the clients appreciate the investment we're making because it makes their life easier because it makes their life more efficient. And ultimately, the more they have with us, the longer they'll stay with us.

That's great. And then between the commentary around client retention and things like this, it seems as though you're certainly moving in the right direction as far as wallet share. Are there – were there any sort of areas that have not sort of performed as you would have hoped or expected, given the headlines or was there anything that we should be thinking about that could maybe take a little longer to gain traction? Thanks.

Yeah. Just, as we – we have our IT product roadmap that we're filling out the employee you know we, we have our IT product roadmap that we're, we're filling out the employee lifecycle for, you know, we're going to have releases, you know, pretty much every quarter to get to a good employee life cycle from higher to retire. You know, that's one that, you know, just because you turn it on doesn't mean they're going to jump into it. It's going to take some time to get that thing, you know, fully integrated with our clients. Some clients may want it. Some clients, some clients will want it, right?

So, you know, that's one that we look at it and say, you know, in the white collar verticals, we know in the larger businesses, we know for the businesses that have higher turnover that they need these tech resources and we're building out those tech resources. So we look at that and say, you know, that's not really going to have a material effect on the organization in 2025. We view this, as, you know, a longer term play as we make these investments.

It's very helpful. Thank you very much.

Thank you. There are no further questions at this time. I would now hand the call back to Mr. Gary Kramer for any closing remarks.

I just want to thank all the BBSI professionals for a great quarter and thank everybody for their support. Thank you.

This concludes today's call. Thank you for participating. You may all disconnect.